Strong recurring revenue growth and significant progress in strategic execution

Overview

- Strong growth in high quality recurring revenue, underpinned by over £1bn of software subscription revenue;
- Strong underlying cash conversion;
- Organic operating margin in line with expectations;
- Capital return of £250m today announced, following announcement of disposal of Sage Pay;
- Significant progress in strategic execution in FY19 with further momentum into FY20;
- FY20 guidance reflects continuing focus on recurring revenue and Sage Business Cloud.

Alternative Performance Measures (APMs)[1]	**FY19**	**FY18**[2]	**Change**
Organic Financial APMs (excluding assets held for sale)			
Organic Total Revenue	£1,822m	£1,725m	5.6%
Organic Recurring Revenue	£1,559m	£1,406m	10.8%
Organic Operating Profit	£432m	£496m	(13.0%)
% Organic Operating Profit Margin	*23.7%*	*28.8%*	*(5.1% pts)*
Underlying Financial APMs			
Underlying Total Revenue	£1,936m	£1,878m	3.1%
Underlying Recurring Revenue	£1,612m	£1,465m	10.0%
Underlying Operating Profit	£448m	£509m	(12.1%)
% Underlying Operating Profit Margin	*23.1%*	27.1%	(4.0% pts)
Underlying Basic EPS	28.40p	32.85p	(13.5%)
KPIs			
Annualised recurring revenue	£1,685m	£1,496m	12.6%
Renewal Rate by Value	101%	101%	-
% Subscription Penetration	55%	45%	10% pts
% Sage Business Cloud Penetration	48%	29%	19% pts
Underlying Cash Conversion	129%	96%	33% pts
Statutory Measures	**FY19**	**FY18**	**% Change**
Revenue	£1,936m	£1,846m	4.9%
Operating Profit	£382m	£427m	(10.5%)
% Operating Profit Margin	*19.7%*	*23.2%*	*(3.4% pts)*
Basic EPS (p)	24.49p	27.21p	(10.0%)
Dividend Per Share (p)	16.91p	16.50p	2.5%

As a result of rounding throughout this document, it is possible that tables may not cast and change percentages may not calculate precisely.

[1] Please see Appendix 1 for guidance of the usage and definitions of the Alternative Performance Measures.

[2] Organic revenue and operating profit for FY18 is restated to aid comparability with FY19. The definition of organic measures and the basis for the FY18 proforma IFRS 15 adjustments can be found in Appendix 1 with a full reconciliation of organic, underlying and statutory measures on page 11. Unless otherwise specified, all references to revenue, profit and margins are on an organic basis.

FY19 Financial Performance

- Organic total revenue (excluding Sage Pay and Brazil, now held for sale) delivered growth of 5.6% to £1,822m, reflecting growth in recurring revenue of 10.8% to £1,559m, underpinned by software subscription revenue growth of 29.4% to £1,004m, offset by a 17.9% decline in SSRS revenue to £255m and a 3.0% decline in processing revenue to £8m;
- Including the impact of Sage Pay and Brazil, the business delivered total revenue growth of 5.2% to £1,915m[3], recurring revenue growth of 10.7% to £1,611m, software subscription revenue growth of 28.1% to £1,041m, offset by an 18.8% decline in SSRS revenue to £260m and slight decline in processing revenue of 0.5% to £45m;
- Strong growth in recurring revenue of 10.8% and ARR growth of 12.6% reflects the continued focus on attracting new customers and migrating existing customers to subscription and the cloud. Particular strength in recurring revenue growth in Northern Europe and North America at 16% and 12% respectively, and in the Future Sage Business Cloud Opportunity at 13%;
- Decline in SSRS reflects the on-going transition to subscription revenue and a strong SSRS comparator in the prior year;
- Organic operating profit of £432m, a margin of 23.7% (£448m, margin of 23.4% including Sage Pay and Brazil), down from 28.8% in FY18, reflects the increased investment to accelerate strategic execution, combined with increased colleague variable compensation in line with strong business performance and the commitment to colleague success;
- Non-recurring gain of £28m, largely reflecting the disposal of US Payroll Processing, offset by non-recurring charges for property restructuring costs of £28m and £14m for the impairment of the Brazilian asset held for sale;
- Underlying cash conversion of 129%, reflecting an improvement in trade receivables and lower levels of FY18 bonus payout in FY19. Free cash flow of £443m and net debt to EBITDA ratio of 0.8x[4];
- An increase in full year dividend of 2.5% to 16.91p, in line with the policy of maintaining the dividend in real terms;
- Capital return of £250m today announced, reflecting the expected proceeds from Sage Pay and strong cash generation. Further details to be announced on completion of disposal of Sage Pay.

Progress in strategic execution

Sage's vision is to become a great SaaS company for customers and colleagues alike. Investment in FY19 has resulted in significant progress in strategic execution to optimise the cloud portfolio and to improve engagement and customer-centric mindset amongst colleagues, as follows:

- Sage Intacct, the leading solution for cloud native in the medium segment, has been launched in Australia and the UK in 2019 with further plans to launch in South Africa in 2020;
- Sage has invested in Sage Accounting in FY19 and will launch a more functionally rich tier of this solution for Professional Users in 2020, starting in the UK. Together, they provide the small business solution for cloud native accounts, to acquire new customers and, over time, offer a migration path for existing Sage 50 customers;
- Sage has also announced the acquisitions of AutoEntry, a provider of data entry automation, and Allocate.AI, technology that enables automation of time tracking, project planning and resource allocation, to enhance Sage Business Cloud;
- Disposal of US Payroll Processing completed February 2019, and disposal of Sage Pay announced November 2019 with agreed proceeds of £232m. Brazilian business classified as held for sale at year end FY19. Both Sage Pay and the Brazilian business were largely held within the 'Other' portfolio, outside of Sage's core strategic focus. Further portfolio optimisation expected in FY20;
- Sage's organisational design has been re-shaped to provide the business with a more customer-centric view to better serve the small and medium segments of the market, with Executive Committee internal promotions to support this design.

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[3] Underlying revenue of £1,936m also reflects disposals of US Payroll processing revenue (£16m) and South African payments business (£5m). Full reconciliation on page 11.

[4] IFRS 16 impact on net debt to EBITDA ratio explained on page 18.

Continuing progress in strategic execution has resulted in:

- Strong annualised recurring revenue[5] (ARR) growth of 12.6% to £1,685m reflecting growing momentum in the recurring revenue of the business;
- Recurring revenue now represents 86% of total revenue (FY18: 82%) with 55% software subscription penetration (FY18: 45%);
- Future Sage Business Cloud opportunity (Sage Business Cloud and products with potential to migrate) recurring revenue growth of 13%. Sage Business Cloud penetration of 48%[6] (FY18: 29%), reflecting continuing progress in the shift towards cloud connected and cloud native solutions;
- Renewal by value[7] remains strong at 101% (FY18: 101%), demonstrating the strength of the existing customer base.

Steve Hare, CEO, said:

"We're very encouraged by the acceleration in recurring revenue in FY19. We entered the year with momentum and added sequential ARR every month in the year, putting us further ahead in our transition to Sage Business Cloud than anticipated. We've also made significant progress in our strategic execution, particularly in the development and roll out of our cloud offerings and the reshaping of our portfolio. We will continue to prioritise high quality recurring revenue growth over SSRS, and whilst we do not expect a linear progression in financial performance during this multi-year transition, our recent strong performance and continued progress towards becoming a great SaaS company means that we look forward with confidence."

Outlook

Building on the significant ARR created in FY19, we expect recurring revenue growth of 8-9%, driven by strong on-going performance in the Future Sage Business Cloud Opportunity, as we continue to focus on attracting and migrating customers to Sage Business Cloud. Other revenue (SSRS and processing) is expected to decline by high single digits in line with this focus, and organic operating margin is expected to be around 23%, as Sage continues to invest in the transition to SaaS.

About Sage

Sage (FTSE: SGE) is a global market leader for technology that helps small and medium businesses perform at their best. Sage is trusted by millions of customers worldwide to deliver the best cloud technology and support, with our partners, to manage finances, operations, and people. We believe in doing everything we can to help people be the best they can be, so the combined efforts of 13,000 Sage colleagues working with businesses and communities make a real difference to the world. Sage. Perform at your Best.

For more information, visit www.sage.com

Enquiries:

The Sage Group plc
+44 (0) 191 294 3457
Lauren Wholley, Investor Relations
Amy Lawson, Corporate PR

FTI Consulting
+44 (0) 20 3727 1000
Charles Palmer
Dwight Burden

An analyst presentation will be held at 8.30am today at London Stock Exchange plc, 10 Paternoster Square, London, EC4M 7LS. A live webcast of the presentation will be hosted on www.sage.com/investors, dial-in number +44 (0) 207 1928 338, pin code: 6092757#. A replay of the call will also be available for one week after the event: Tel: +44 (0) 333 300 9785, pin code: 6092757#

[5] Defined as the normalised reported recurring revenue in the last month of the reporting period, adjusted consistently period to period, multiplied by twelve.

[6] Defined as organic recurring revenue from the Sage Business Cloud as a proportion of the organic recurring revenue of the Future Sage Business Cloud Opportunity.

[7] Defined as the annualised recurring revenue from renewals, migrations, upsell and cross-sell of active customers at the start of the year, divided by the opening annualised recurring revenue for the year.

CEO Review

Sage's vision is to become a great SaaS company for customers and colleagues alike. In order to do this, the business continues to focus on driving high quality recurring revenue growth, migrating existing customers, and attracting new customers, to subscription and the cloud. In FY19, Sage has shown strong performance in driving recurring revenue growth and significant progress in strategic execution.

FY19 Results

In FY19 the Group delivered recurring revenue growth of 11% to £1,559m with organic total revenue increasing by 6% to £1,822m. Strong recurring revenue growth is underpinned by software subscription revenue growth of 29% as the business continues to focus on migrating existing customers and attracting new customers to subscription and the cloud.

Regionally in FY19, North America delivered recurring revenue growth of 12% to £573m, reflecting strong performance across the US, Canada and Sage Intacct, driven by cloud connected and cloud native solutions. Northern Europe delivered recurring revenue growth of 16% to £340m. Performance in this region reflects strength in cloud connected solutions from the on-going migration of existing customers, supplemented by significant reactivation and new customer acquisition, as new regulations on tax submissions attract customers to the latest version of software. France delivered recurring revenue growth of 5% to £239m, driven by growth in cloud connected migrations.

The SSRS decline of 18% to £255m reflects the on-going transition to subscription revenue and a strong SSRS comparator in the prior year. Looking at sequential quarterly performance in the year, Q4 19 SSRS revenue was just 4% lower than Q1 19.

Portfolio View of Revenue

Revenue by Portfolio[8]	Recurring			Total		
	FY19	FY18	Growth	FY19	FY18	Growth
	£m	£m	%	£m	£m	%
Cloud native	£170m	£133m	*27%*	£182m	£145m	*26%*
Cloud connected[9]	£482m	£222m	*117%*	£499m	£235m	*113%*
Sage Business Cloud	**£652m**	**£355m**	***83%***	**£682m**	**£380m**	***79%***
Products with potential to migrate	£713m	£857m	*(17%)*	£889m	£1,085m	*(18%)*
Future Sage Business Cloud Opportunity[10]	**£1,365m**	**£1,212m**	***13%***	**£1,571m**	**£1,465m**	***7%***
Other[11]	£193m	£194m	*0%*	£251m	£260m	*(4%)*
Organic Total Revenue	**£1,559m**	**£1,406m**	***11%***	**£1,822m**	**£1,725m**	***6%***
Sage Business Cloud Penetration	***48%***	***29%***				

Within the portfolio view of revenue, the Future Sage Business Cloud Opportunity represents products in, or with a clear pathway to, Sage Business Cloud. Management's primary operational focus is to migrate desktop customers and attract new customers to Sage Business Cloud and to grow the lifetime value of these customers.

The Future Sage Business Cloud Opportunity continues to show strong performance, with recurring revenue growth of 13% and total revenue growth of 7%. Cloud native solutions have delivered recurring revenue growth of 27%, with Sage Intacct delivering recurring revenue growth of 29%.

The growth in cloud connected revenue of 117% to £482m reflects the migration of existing customers, predominantly from North America, Northern Europe and France, as well as new customer acquisition and reactivation of customers in Northern Europe. Growth also reflects an additional £94m into this portfolio from the migration of products new to Sage Business Cloud[12]. The focus on driving revenue to cloud solutions has resulted in Sage Business Cloud penetration of 48%, up from 29% in the prior year.

The revenue in the 'Other' portfolio comprises products for which management does not envisage a path to Sage Business Cloud, predominantly because the product addresses a segment outside Sage's core focus. The flat recurring revenue and decline of 4% of total revenue in the 'other' portfolio is in line with expectations and reflects the strategy to focus on solutions with a direct pathway to Sage Business Cloud.

[8] The revenue portfolio breakdown is provided as supplementary information to illustrate the differences in the evolution and composition of key parts of our product portfolio. These portfolios do not represent Operating Segments as defined under IFRS8.

[9] Revenue from subscription customers using products that are part of Sage's strategic future product portfolio, where that product is based on an originally on-premise offering for which a substantial part of the customer value proposition is now linked to functionality delivered in, or through the cloud.

[10] Revenue from customers using products that are currently part of, or that management currently believe have a clear pathway to, Sage Business Cloud.

[11] Revenue from customers using products for which management does not currently envisage a path to Sage Business Cloud, either because the product addresses a segment outside Sage's core focus, or due to the complexity and expense involved in a migration.

[12] Excluding this impact, cloud connected solutions have delivered growth of 73%.

Further to the disposal of the US Payroll Processing business in February 2019, Sage has announced the agreement to dispose of Sage Pay and that the Brazilian business is now held for sale, with both assets' products largely formerly within the 'Other' portfolio. Whilst payments and banking continues to be an important part of Sage's value proposition, Sage will instead continue to partner with best in class providers in this industry. Management decided to exit Brazil after a strategic review, as the region largely sells solutions which have no path to Sage Business Cloud.

Strategy – working towards the vision to become a great SaaS company

Sage's vision is to become a great SaaS company, for customers and colleagues alike.

During this transition, Sage will migrate the vast majority of its revenue, and attract new customers, to subscription and the cloud. This on-going transition will enable Sage to continue to embrace a closer relationship with customers, better understanding their needs and how best to serve them, which improves the ability to sustainably increase cross-sell and up-sell levels. By delighting customers, retention rates will also continue to rise and reputation and advocacy are enhanced, increasing the ability to acquire new customers. This also reduces the cost to acquire and the cost to serve our customers over time. Put together, lifetime value of customers is significantly enhanced.

In order to achieve Sage's vision, the business continues to focus on the strategic lenses of customer success, colleague success and innovation, with investments in the year yielding significant progress against each lens and with further progress outlined for FY20.

Customer Success

Customer success is driven by a customer-centric approach to everything the organisation does to create enduring subscription relationships.

During FY19, the business has re-shaped the organisational design to allow a more customer-centric view of the market. This includes organising the business and reporting lines into 'small' and 'medium' segments and giving more decision-making autonomy on customers to the regions to understand and serve our customers more closely.

Investments in the business in FY19 have also continued into systems, tools and processes:

- The business has continued the roll out of the single CRM system, which is now complete in Northern Europe with the US expected to complete in H1 20. This process will improve the quality of data, allowing Sage more customer insight; over time, this is expected to improve renewal rates, lead generation and conversion which results in a sustainable increase in ARR at a more efficient level.
- The continued digitisation of the customer services function is also on-going, supplementing phone conversations with web chat, AI and online forums and communities and providing 24/7 customer support, leveraging Sage's global presence. Over time, this investment will increase levels of customer interaction, reducing wait times and resolving issues faster, leading to improvements in NPS and renewal by value.

In FY20, the focus will be to continue the roll out of systems, tools and processes, as well as embedding the more customer-centric view of the market through the new organisational design.

Colleague success

Management is committed to building a culture that fosters collaboration, open honest dialogue and where colleagues feel connected to Sage's vision, putting customers at the heart of everything they do. Supporting motivated colleagues in turn further supports the success of Sage's customers.

Focus in FY19 has been on both leadership and colleagues:

Leadership

Sage has invested in the 40 most senior leaders, who have been enrolled in an executive development programme, which included nine days face-to-face, one-to-one coaching and peer support through the entire year, with specific focus on the purpose, vision, strategy and leadership behaviours. This has resulted in a closer-knit leadership team, fully aligned behind the transition to a SaaS model.

In order to reinforce the focus on a customer-centric mindset and innovation, Sage has made several appointments to the executive committee throughout 2019:

- To boost the innovation agenda, Lee Perkins was promoted to Chief Product Officer, Aaron Harris (former Intacct CTO) has been promoted to Sage CTO and Marc Linden (former Intacct CFO) has been promoted to EVP and General Manager of Medium Segment Native Cloud Solutions, joining their Intacct peer Rob Reid on the executive committee;
- To continue to drive a more customer-centric mindset in the business, Sue Goble (formerly EVP Business Operations) has been promoted to Chief Customer Success Officer;
- And in line with the focus on driving the accelerated transformation of Sage's product portfolio to create a more focused and high-growth SaaS company, Derk Bleeker (former EVP Commercial Finance) has been promoted to Chief Corporate Development Officer, responsible for portfolio simplification, M&A and business planning.

Colleagues

Sage has also invested in improving colleague engagement and experience:

- The business continues to carry out regular pulse surveys with an 84% response rate on the latest survey, up from 52% in Q4 18 and with 14,000 comments left;
- During FY19 Sage held the 'Big Conversation', a three day online forum to engage with colleagues and understand their key priorities. There were over 3,700 participants and 9,000 comments from colleagues across 23 countries and the feedback has helped shape decision-making and culture of the company, including setting the new Sage values which launched at the start of FY20;
- Sage Foundation continues to be a great tool to attract and retain talent, with 31,250 Foundation days taken by colleagues in FY19 (FY18: 24,000).

The result of investing in colleague engagement is more invigorated, engaged colleagues. The most recent colleague NPS scores show a 22 point improvement on the prior year. And the business will continue to focus on colleagues and leaders throughout FY20, as well as embedding the new values as disclosed above.

Innovation

Innovation at Sage means developing solutions that deliver real customer value and solve real customer problems by doing things differently, using incremental, emerging and experimental innovation.

In order to achieve this, management continues to invest in Sage Business Cloud. The vision for Sage Business Cloud is a digital environment of cloud platforms, applications and services across Accounting and Financials, People & Payroll and Payments & Banking for Sage's existing and new, small and medium-sized customers, supported by a thriving partner marketplace. This also includes providing cloud connected customers with real value, allowing them to access the Sage Business Cloud network and consume cloud services as they require.

FY19 has been a significant year for investing in the cloud native portfolio, both in terms of solution development and geographic availability:

- Sage Intacct, the leading cloud native solution for the medium segment, has been launched in Australia in August 2019 and the UK in November 2019, with both regions gaining their first customers, as well as launching in South Africa in 2020;
- Sage has selected Sage Accounting as the small business platform for cloud native accounting and has invested in the development of the solution, both in the underlying architecture and delivering enhanced functionality to both accountants and our small business customers;
- Sage has also built on this platform to create a further, more functionally rich tier of the platform for professional users (those users with a deeper understanding of accounting functionality and compliance). The Sage Accounting Professional solution will be launched in the UK first in FY20, followed by other key geographies. The solution will be used to attract new customers, both direct and through accountant referrals, and over time, will be used to offer a migration path for Sage 50 customers that choose to move to a native cloud solution;
- Sage has also completed the acquisitions of small but strategically significant assets:
    - AutoEntry, a leading provider of data entry automation through artificial intelligence (AI) and optical character recognition (OCR), for accountants, bookkeepers and businesses; and
    - Allocate.AI, technology that enables businesses to automate time tracking, project planning and resource allocation.

Sage has also continued to invest in cloud services and the latest technology in its cloud native and cloud connected solutions:

- Sage Payroll Cloud now has over a million activated users accessing cloud services including timesheets and payslips;
- Sage Intacct has launched innovative AI and machine learning capabilities including contract renewal forecasting, AI-powered timesheets (using Allocate.AI technology) and transaction anomaly detection;
- Service fabric, the architectural 'glue' of Sage Business Cloud, allows the business to move fast and leverage its scale by building functionality once and deploying to many cloud native and cloud connected solutions. This allowed Sage to be first to market supporting customer compliance with Making Tax Digital functionality and accelerated the internationalisation of Sage Intacct.

In FY20, Sage will continue to invest in the development and the geographic availability of Sage Business Cloud solutions, as well as continuing to drive adoption of cloud services amongst customers.

Strategic KPIs

The strategic KPIs show the impact and progress of strategic execution and the focus on customer success, colleague success and innovation. First introduced in April 2019, the KPIs will be disclosed every six months to demonstrate Sage's progress in the transition to a SaaS company with FY19 progress as follows:

- Growth in ARR of 13% to £1,685m reflecting growing momentum in high quality recurring revenue at the end of the year with the business continuing to show sequential progression in recurring revenue over time;
- Software subscription penetration of 55% (FY18: 45%) as the business continues to transition existing customers and attract new customers to subscription and the cloud;
- Sage Business Cloud penetration of 48% (FY18: 29%) as the business continues to focus on core solutions which have a direct pathway to Sage Business Cloud;
- Renewal by value remains strong at 101% (FY18: 101%) demonstrating the strength of the existing customer base.

Financial Review

This financial review provides a brief summary of financial results on an organic basis, before moving to the underlying and statutory performance of the business. Organic measures (as used throughout the earlier part of this release) allow management and investors to understand the like-for-like revenue and current period margin performance of the continuing business.

Organic Financial Results

In FY19, Sage delivered recurring revenue growth of 11% to £1,559m and total revenue growth of 6% to £1,822m. Recurring revenue growth is underpinned by the 29% increase in software subscription revenue as the business continues to migrate existing customers and attract new customers to subscription and the cloud. Strength in recurring revenue has also, in part, been assisted by tailwinds from the weaker comparator in the prior year and as new regulations on digital tax submissions attract new and existing customers to the latest version of software.

Group SSRS decline of 18% to £255m reflects the on-going transition to subscription revenue and a strong SSRS comparator in the prior year. Looking at sequential quarterly performance in the year, Q4 19 SSRS revenue was just 4% lower than Q1 19.

The Group delivered an organic operating profit of £432m and an organic operating margin of 23.7% in FY19. This margin reflects the increased investment to accelerate strategic execution, combined with increased colleague variable compensation in line with the improved business performance and the commitment to colleague success.

The Group also delivered underlying basic EPS of 28.40p, free cash flow of £443m and underlying cash conversion of 129%.

Statutory and Underlying Financial Results

Financial Results	Statutory			Underlying[13]		
	FY19	FY18	Change	FY19	FY18	Change
North America	£657m	£574m	15%	£657m	£611m	7%
Northern Europe	£406m	£380m	7%	£406m	£381m	7%
Central & Southern Europe	£608m	£625m	(3%)	£608m	£626m	(3%)
International	£265m	£267m	(1%)	£265m	£260m	2%
Group Revenue	**£1,936m**	**£1,846m**	**5%**	**£1,936m**	**£1,878m**	**3%**
Operating Profit	£382m	£427m	(11%)	£448m	£509m	(12%)
% Operating Profit Margin	*19.7%*	*23.2%*	*(3.5% pts)*	*23.1%*	*27.1%*	*(4.0% pts)*
Profit Before Tax	£361m	£398m	(9%)	£425m	£481m	(12%)
Net Profit	£266m	£295m	(10%)	£309m	£356m	(13%)
Basic EPS	24.49p	27.21p	(10%)	28.40p	32.85p	(14%)

13 Revenue and profit measures are defined in Appendix 1.

The Group delivered statutory revenue of £1,936m, a 5% increase on the prior year. Statutory revenue of £1,936m in FY19 is in line with underlying revenue, with the prior year difference largely being in North America, reflecting the deferred income unwind on the acquisition of Intacct and FX.

The Group delivered underlying revenue of £1,936m, an increase of 3% on the prior period. Underlying revenue reflects organic performance, excluding the impact of the adjustments made for assets held for sale and disposals and, for prior year, the impact of the proforma IFRS 15 adjustments.

The Group delivered a decrease in statutory operating profit of 11% to £382m, reflecting underlying performance and recurring and non-recurring items as per the reconciliation in the table below.

Underlying basic EPS decline of 14% is in line with the underlying operating profit of the business, net of taxation.

Underlying & Organic Reconciliations to Statutory

	FY19			FY18		
	Revenue	**Operating Profit**	**Operating Margin %**	**Revenue**	**Operating Profit**	**Operating Margin %**
Statutory	**£1,936m**	**£382m**	**19.7%**	**£1,846m**	**£427m**	**23.2%**
Recurring Items[14]	-	£52m	-	£11m	£67m	-
Non-recurring items:						
- (Gain)/loss on disposal of subsidiaries	-	(£28m)	-	-	£1m	-
- *Impairment of assets held for sale*	-	£14m	-	-	-	-
- *Litigation items*	-	-	-	-	£4m	-
- *Restructuring costs*	-	-	-		£5m	-
- *Property restructuring costs*	-	£16m	-	-	-	-
- *Office relocation*	-	£12m	-	-	-	-
Impact of FX[15]	-	-	-	£21m	£5m	-
Underlying	**£1,936m**	**£448m**	**23.1%**	**£1,878m**	**£509m**	**27.1%**
Disposals	(£21m)	-	-	(£48m)	£3m	-
Held for sale	(£93m)	(£16m)	-	(£95m)	(£8m)	-
Impact of IFRS 15[16]	-	-	-	(£9m)	(£8m)	-
Organic	**£1,822m**	**£432m**	**23.7%**	**£1,725m**	**£496m**	**28.8%**

Revenue

The Group delivered statutory and underlying revenue of £1,936m in FY19. The difference between statutory and underlying revenue in FY18 reflects a £21m FX adjustment relating to retranslation of

[14] Recurring and non-recurring items are detailed in the paragraph below and in note 3 of the financial statements.

[15] Impact of retranslating FY18 results at FY19 average rates.

[16] Organic numbers for FY18 are restated on a pro-forma IFRS 15 basis. The definition of organic measures and the basis for the FY18 pro-forma IFRS 15 adjustments can be found in Appendix 1.

the FY18 results at FY19 average rates and £11m in the prior year from the deferred income unwind on the Sage Intacct acquisition.

The difference between underlying and organic revenue reflects the adjustment of £21m of disposals, comprising £16m revenue from the disposal of the US Payroll Processing business in February 2019 (FY18: £40m) and £5m revenue from the disposal of the South African payments business in July 2019 (FY18: £9m). There is a further adjustment for assets held for sale of £93m comprising £40m of revenue from Sage Pay in Northern Europe (FY18: £41m) and £53m of revenue from the Brazilian business (FY18: £54m), and a £9m adjustment to restate FY18 organic revenue on a pro-forma IFRS 15 basis.

Margin

The Group delivered a statutory operating profit of £382m. Adjustments between statutory and underlying operating profit in FY19 reflect £52m of recurring items (FY18: £67m), comprising £31m amortisation of acquisition related intangibles (FY18: £35m) and £21m of M&A related charges (FY18: £21m).

Adjustments between statutory and underlying profit in FY19 also include non-recurring items reflecting a £28m gain on disposals, of which £27m relates to the US Payroll Processing business (FY18: £1m charge), offset by the non-cash impairment of the Brazilian asset held for sale of £14m; property restructuring costs of £16m; and non-cash accelerated depreciation on North Park of £12m. Management expects a further non-cash, non-recurring accelerated depreciation charge on North Park in the region of £50m during FY20 and a further property restructuring cost of around £15m during FY20. The prior year also had a non-recurring charge of £4m relating to litigation items, £5m relating to restructuring costs and a £5m FX adjustment.

Adjustments between underlying and organic operating profit in FY19 relate to assets held for sale reflecting £14m operating profit attributable to Sage Pay (FY18: £15m), with a further £2m attributable to the Brazilian business (FY18: loss of £7m). The prior year also had an £8m adjustment to restate FY18 organic operating profit on a pro-forma IFRS 15 basis and £3m relating to net operating losses from disposals reflecting £5m in the US Payroll Processing business, offset by operating profits of £2m attributable to the South African payments business (net neutral impact in FY19).

Organic Revenue Overview

Organic revenue for FY18 shows all measures of revenue and growth of revenue on an organic basis, compared on a pro-forma IFRS 15 basis. Revenue definitions are included in Appendix 1 and further detail on IFRS 15 can be found in note 12 to the accounts.

Organic Revenue Mix	**FY19**		**FY18**		**Revenue % Change**
	£m	**% of Total**	**£m**	**% of Total**	
Software Subscription Revenue	£1,004m	55%	£776m	45%	29%
Other Recurring Revenue	£554m	31%	£630m	36%	(12%)
Organic Recurring Revenue	**£1,559m**	**86%**	**£1,406m**	**81%**	**11%**
SSRS Revenue	£255m	14%	£310m	18%	(18%)
Processing Revenue	£8m	0%	£9m	1%	(3%)
Organic Total Revenue	**£1,822m**	**100%**	**£1,725m**	**100%**	**6%**

Total revenue has increased by 6% in FY19 to £1,822m. Recurring revenue has increased by 11% to £1,559m, underpinned by the 29% increase in software subscription revenue to £1,004m as the business continues to transition existing customers and attract new customers to subscription and the cloud. The decline in other recurring revenue of 12% to £554m reflects the substitution effect as customers migrate to subscription contracts. SSRS decline of 18% to £255m reflects the on-going transition to subscription revenue and a strong SSRS comparator in the prior year.

In the portfolio view of revenue, the Future Sage Business Cloud Opportunity delivered recurring revenue growth of 13% to £1,365m and total revenue growth of 7% to £1,571m, driven by transitioning existing customers and attracting new customers to Sage Business Cloud. The 'Other' portfolio delivered flat recurring revenue performance at £193m and total revenue decline of 4% to £251m.

North America

Organic Revenue by Category	**FY19**	**FY18**	**% Change**
Organic Total Revenue	£641m	£589m	9%
Organic Recurring Revenue	£573m	£512m	12%
% Subscription Penetration	56%	46%	10% pts
% Sage Business Cloud Penetration	66%	54%	12% pts
Organic Total Revenue	**FY19**	**FY18**	**% Change**
US (excluding Intacct)	£425m	£407m	4%
Canada	£97m	£89m	8%
Intacct	£119m	£93m	28%

North America delivered recurring revenue growth of 12% to £573m and total revenue growth of 9% to £641m. Subscription penetration is now 56%, up from 46% in the prior year and Sage Business Cloud penetration is now 66%, up from 54% in the prior year, driven by both cloud connected and cloud native solutions.

The US (excluding Intacct) delivered recurring revenue growth of 7% to £371m and total revenue growth of 4% to £425m. The US has continued to show strong progress in the migration to cloud connected solutions with Sage 50 nearly at full penetration on cloud connected and well over half of Sage 200 customers now on a cloud connected solution.

Canada has also continued to deliver strong performance, with recurring revenue growth of 13% to £88m and total revenue growth of 8% to £97m, with cloud connected solutions also driving a significant part of the business's growth and over half of revenue from the 50 and 200 base now on a cloud connected solution.

Sage Intacct recurring revenue growth of 29% to £114m reflects continuing momentum in the US, driving growth through both existing customers and new customer acquisition.

Northern Europe

Organic Revenue by Category	FY19	FY18	% Change
Organic Total Revenue	£366m	£334m	10%
Organic Recurring Revenue	£340m	£292m	16%
% Subscription Penetration	70%	52%	18% pts
% Sage Business Cloud Penetration	67%	28%	39% pts

Northern Europe (UK & Ireland) delivered recurring revenue growth of 16% to £340m and total revenue growth of 10% to £366m. Subscription penetration is 70%, up from 52% in the prior year and Sage Business Cloud penetration is now 67%, up significantly from 28% in the prior year, as customers continue to migrate to Sage Business Cloud and as new products enter Sage Business Cloud that were previously only available on desktop. This is supplemented by growth in cloud native solutions of Sage People and Sage Accounting.

Strength in recurring revenue is driven largely by success in cloud connected solutions with well over half of Sage 50 and Sage 200 contracts now cloud connected in the region. Revenue on Sage 50 cloud connected in Northern Europe increased significantly, migrating new customers from 50 desktop, but also acquiring significant numbers of new customers and reactivations, in part due to new regulations on tax submissions attracting customers to the latest version of software. The region now has well over half of its 50 and 200 base on a cloud connected solution. Recurring revenue has also benefitted from a weak comparator in the prior year, but performance is strong even allowing for this impact.

The region saw a steep decline of 37% in SSRS revenue in FY19 to £25m, as the business continues to focus on subscription and the cloud, further impacted by large value licence and services sales in FY18 which drove an increase in SSRS at the expense of recurring revenue.

Central & Southern Europe

Organic Revenue by Category	FY19	FY18	% Change
Organic Total Revenue	£608m	£604m	1%
Organic Recurring Revenue	£490m	£458m	7%
% Subscription Penetration	45%	37%	8% pts
% Sage Business Cloud Penetration	25%	10%	15% pts
Organic Total Revenue	**FY19**	**FY18**	**% Change**
France	£277m	£271m	2%
Central Europe	£178m	£179m	(1%)
Iberia	£153m	£153m	0%

Central and Southern Europe delivered recurring revenue growth of 7% to £490m and total revenue growth of 1% to £608m. Subscription penetration is now 45%, up from 37% in the prior year and there is now 25% Sage Business Cloud penetration in the region, up from 10% in the prior year. This is largely driven by cloud connected solutions, supplemented by a small amount of revenue from cloud native solutions.

France delivered recurring revenue growth of 5% to £239m and total revenue growth of 2% to £277m. Recurring revenue growth is driven by Sage 50 and Sage 200 cloud connected solutions as customers migrate from desktop, although the recurring revenue growth of these solutions (cloud connected and desktop) in total has not been as strong in this region as others. The region now has around half of its 50 and 200 base on a cloud connected solution. X3 SSRS declined as the region focused more on solutions which drive subscription revenue.

Central Europe delivered recurring revenue growth of 8% to £131m whilst total revenue declined by 1% to £178m. Growth in the region is mainly driven by local products.

Iberia delivered recurring revenue growth of 9% to £120m with total revenue flat at £153m. Growth in recurring revenue has been driven by the migration of customers to Sage 50 and Sage 200 cloud connected solutions, which are at an earlier stage than other regions, but are showing good traction.

International

Organic Revenue by Category	**FY19**	**FY18**	**% Change**
Organic Total Revenue	£207m	£198m	4%
Organic Recurring Revenue	£156m	£144m	8%
% Subscription Penetration	57%	54%	3% pts
% Sage Business Cloud Penetration	9%	7%	2% pts
Organic Total Revenue	**FY19**	**FY18**	**% Change**
Africa & Middle East	£137m	£127m	8%
Australia & Asia	£70m	£71m	(2%)

International delivered recurring revenue growth of 8% to £156m and total revenue growth of 4% to £207m. Subscription penetration is now 57%, up from 54% in the prior year and Sage Business Cloud penetration in the region is 9%, up from 7% in the prior year. This excludes the revenues of the Brazilian business, which is held for sale as at the year-end.

Africa & Middle East, which now represents two-thirds of the International region's revenue, delivered recurring revenue growth of 12% to £102m and total revenue growth of 8% to £137m. Growth in the region is driven by local products and cloud native solutions, with a strong performance in Sage Accounting. Over the course of the year, the region has seen a slight decline in SSRS, driven by professional services.

Australia & Asia delivered recurring revenue growth of 3% to £54m and a total revenue decline of 2% to £70m, with Asia continuing to be a drag on growth. Australia delivered total revenue growth of 2% to £53m, reflecting slight growth from local products with a small element of revenue from cloud native solutions. Sage Intacct launched in Australia at the end of August 2019.

Operating Profit

The Group delivered an organic operating profit of £432m and an organic operating margin of 23.7% in FY19. This margin reflects the increased investment to accelerate strategic execution, combined with increased colleague variable compensation in line with the improved business performance and the commitment to colleague success.

On an underlying basis, the operating profit is £448m (a 23.1% margin). The difference between organic and underlying operating profit reflects the operating profit from assets held for sale of Sage Pay and the Brazilian business, combined with adjustments in FY18 being the pro-forma IFRS 15 adjustment and the net operating losses from assets disposed of (US Payroll Processing and the South African payments business).

FY19 EBITDA is £509m, yielding an EBITDA margin of 26.3%.

	FY19	FY18	FY19 Margin %
Organic Operating Profit	**£432m**	**£496m**	**23.7%**
Impact of IFRS 15	-	£8m	
Impact of disposals	-	(£3m)	
Impact of assets held for sale	£16m	£8m	
Underlying Operating Profit	**£448m**	**£509m**	**23.1%**
Depreciation & amortisation	£35m	£34m	
Share based payments	£26m	£5m	
EBITDA	**£509m**	**£548m**	**26.3%**

Net Finance Cost

The statutory net finance cost for the period was £21m (FY18: £29m) and the underlying net finance cost was £23m (FY18: £29m), with minor differences between statutory and underlying net finance costs reflecting FX movements. Net underlying financing costs have reduced due to a reduction in the Group's average debt balance during the year.

Taxation

The statutory income tax expense for FY19 was £95m (FY18: £103m), yielding a statutory tax rate of 26% (FY18: 26%). The underlying tax expense for FY19 was £116m (FY18: £123m), yielding an underlying tax rate of 27% (FY18: 26%).

The difference between the underlying and statutory rate in FY19 primarily reflects non-taxable accounting gains on the disposal of the US Payroll Processing business and the South African payments business, offset by the non-tax deductible impairment charge of the Brazilian business asset held for sale.

Earnings per Share

	FY19	FY18	% Change
Statutory Basic EPS	24.49	27.21	(10.0%)
Recurring Items	3.67	4.73	
Non-Recurring Items	0.24	0.58	
Impact of Foreign Exchange	-	0.34	
Underlying Basic EPS	28.40	32.85	(13.5%)

Underlying basic earnings per share decreased by 14% to 28.40p (FY18: 32.85p), in line with the 12% decline in underlying operating profit, net of taxation.

Statutory basic earnings per share decreased by 10%. Recurring and non-recurring items arising from property restructuring and M&A costs are lower than prior year, contributing to a decrease in statutory basic EPS.

Cash Flow

The Group remains highly cash generative with underlying cash flows from operating activities of £577m, which represents underlying cash conversion of 129%, increasing from 96% in FY18.

Cash Flow APMs	**FY19**	**FY18 (as reported)**
Underlying Operating Profit	£448m	£504m
Depreciation, amortisation and non-cash items in profit	£33m	£28m
Share based payments	£26m	£5m
Net changes in working capital	£108m	(£10m)
Net capital expenditure	(£38m)	(£45m)
Underlying Cash Flow from Operating Activities	£577m	£482m
Underlying cash conversion %	*129%*	*96%*
Non-recurring cash items	(£24m)	(£35m)
Net interest paid	(£21m)	(£26m)
Income tax paid	(£88m)	(£64m)
Profit and loss foreign exchange movements	(£1m)	(£1m)
Free Cash Flow	£443m	£356m

Statutory Reconciliation of Cash Flow from Operating Activities	**FY19**	**FY18 (as reported)**
Statutory Cash Flow from Operating Activities	£586m	£487m
Recurring and non-recurring items	£29m	£37m
Net capital expenditure	(£38m)	(£45m)
Other adjustment including foreign exchange translations	-	£3m
Underlying Cash Flow from Operating Activities	**£577m**	**£482m**

The improvement in underlying cash conversion to 129% and the £87m improvement in free cash flow to £443m largely reflects an improvement in the collection of trade receivables and lower levels of FY18 bonus payout in FY19.

Net debt was £393m at 30 September 2019 (30 September 2018: £668m). The decrease in the year is attributable to strong free cash flow of £443m and proceeds from the disposal of the US Payroll Processing Business (£68m), offset by the full year dividend of £181m paid in the year.

Debt facilities

The Group's debt is sourced from a syndicated multi-currency Revolving Credit Facility ("RCF"), a syndicated Term Loan and US private placement ("USPP"). The Term Loan of £200m was put in place in September 2019 and expires in September 2021. The Group's RCF expires in February 2024 (with a one-year extension option to February 2025) with facility levels of £720m (split between US$719m and £135m tranches). At 30 September 2019, £45m (FY18: £418m) of the multi-currency revolving debt facility was drawn and the Term Loan was fully drawn (FY18: nil).

The Group's total USPP loan notes at 30 September 2019 were £523m (US$550m and EUR€85m) (FY18: £497m, US$550m and EUR€85m). The USPP loan notes have a range of maturities between May 2020 and May 2025.

Capital allocation

Sage's primary capital allocation focus remains on organic investment in order to accelerate the execution of the strategy as outlined above.

The Group will consider bolt-on acquisitions of complementary technology and partnerships that will further accelerate the strategy and enhance Sage Business Cloud, and has made several small but strategically significant acquisitions in the year. In line with focusing on core competences within the business, management is also evaluating the disposal of certain non-core assets, as it has recently done with Sage Pay, which Sage has now reached an agreement to dispose of, and the Brazilian business, which is held for sale at the end of FY19. Acquisitions and disposals are always subject to stringent financial criteria.

Sage will continue to maintain the dividend in real terms going forward and the FY19 full year dividend has increased by 2.5% to 16.91p.

The Group is committed to maintaining good financial discipline and delivering strong shareholder returns and will consider additional capital returns to shareholders if appropriate. Sage today announced that it will make a capital return of £250m, reflecting expected proceeds on Sage Pay and strong cash generation. Further details will be announced on the completion of the Sage Pay disposal.

Group net debt as at 30 September 2019 was £393m and reported EBITDA over the last 12 months was £509m, resulting in a net debt to EBITDA ratio of 0.8x. Sage will adopt IFRS 16 Leases accounting standard with effect from 1 October 2019, which will result in the recognition of financial liabilities of £135m-145m. As a result, a 0.3x increase in the net debt to EBITDA ratio in FY20 is expected. However, IFRS 16 will have no material impact on our overall financial results.

Group return on capital employed (ROCE) for FY19 is 21% (FY18: 23%).

	FY19	FY18 (as reported)
Net Debt	£393m	£668m
EBITDA (Last Twelve Months)	£509m	£548m
Net Debt/EBITDA Ratio	**0.8x**	**1.2x**

Sage plans to operate in a broad range of 1-2x net debt to EBITDA over the medium term (on an IFRS 16 basis), with flexibility to move slightly outside this range as the business needs require.

Foreign exchange

The Group does not hedge foreign currency profit and loss translation exposures and the statutory results are therefore impacted by movements in exchange rates.

The average rates used to translate the consolidated income statement and to neutralise foreign exchange in prior year underlying and organic figures are as follows:

AVERAGE EXCHANGE RATES (EQUAL TO GBP)	FY19	FY18	Change
Euro (€)	1.13	1.13	0%
US Dollar ($)	1.28	1.35	(5%)
South African Rand (ZAR)	18.30	17.56	4%
Australian Dollar (A$)	1.81	1.77	3%
Brazilian Real (R$)	4.93	4.72	5%

Appendix 1 – Alternative Performance Measures

Alternative Performance measures are used by the company to understand and manage performance. These are not defined under IFRS and are not intended to be a substitute for any IFRS measures of performance but have been included as management considers them to be important measures, alongside the comparable GAAP financial measures, in assessing the underlying performance. Wherever appropriate and practical, we provide reconciliations to relevant GAAP measures. For changes to Alternative Performance Measures, please refer to the RNS regarding the Update and simplification of financial reporting and disclosure on 2 April 2019. The table below sets out the basis of calculation of the Alternative Performance Measures and the rationale for their use.

MEASURE	DESCRIPTION	RATIONALE
Underlying (revenue and profit) measures	Underlying measures are adjusted to exclude items which would distort the understanding of the performance for the year or comparability between periods: - Recurring items include purchase price adjustments including amortisation of acquired intangible assets and adjustments made to reduce deferred income arising on acquisitions, acquisition-related items, FX on intercompany balances and fair value adjustments; and - Non-recurring items that management judge to be one-off or non-operational such as gains and losses on the disposal of assets, impairment charges and reversals, and restructuring related costs. All prior period underlying measures (revenue and profit) are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations.	Underlying measures allow management and investors to compare performance without the potentially distorting effects of foreign exchange movements, one-off or non-operational items. By including part-period contributions from acquisitions, discontinued operations, disposals and assets held for sale of standalone businesses in the current and/or prior periods, the impact of M&A decisions on earnings per share growth can be evaluated.
Organic (revenue and profit) measures	In addition to the adjustments made for Underlying measures, Organic measures: - Exclude the contribution from discontinued operations, disposals and assets held for sale of standalone businesses in the current and prior period; and - Exclude the contribution from acquired businesses until the year following the year of acquisition, at which point they are included for the full current and prior period; and For FY19 this includes the impact of IFRS15. FY18 is restated to reflect proforma adjustments for the areas of impact of IFRS 15 adoption assuming the same contractual basis as FY19. Acquisitions and disposals which occurred close to the start of the opening comparative period where the contribution impact would be immaterial are not adjusted. Please note that organic operating profit margin as reported is not necessarily comparable from period to period.	Organic measures allow management and investors to understand the like-for-like revenue and current period margin performance of the continuing business. During FY19, the organic measure adjusts the prior period (FY18) for IFRS15 to enable like-for-like comparison across the periods.
Underlying Cash Flow from Operating Activities	Underlying Cash Flow from Operating Activities is Underlying Operating Profit adjusted for non-cash items, net capex	To show the cashflow generated by the operating activities and calculate underlying cash conversion.

	(excluding business combinations and similar items) and changes in working capital.	
Underlying Cash Conversion	Underlying Cash Flow from Operating Activities divided by Underlying Operating Profit.	Cash conversion informs management and investors about the cash operating cycle of the business and how efficiently operating profit is converted into cash.
EBITDA	EBITDA is Underlying Operating Profit excluding depreciation, amortisation and share based payments.	To calculate the Net Debt to EBITDA leverage ratio and to show profitability before the impact of major non-cash charges.
Annualised recurring revenue	Annualised recurring revenue ("ARR") is the normalised reported organic recurring revenue in the last month of the reporting period, adjusted consistently period to period, multiplied by twelve. Adjustments to normalise reported recurring revenue include those components that management has assessed should be excluded in order to ensure the measure reflects that part of the contracted revenue base which (subject to ongoing use and renewal) can reasonably be expected to repeat in future periods (such as non-refundable contract sign-up fees).	ARR represents the annualised value of the recurring revenue base that is expected to be carried into future periods, and its growth is a forward-looking indicator of reporting recurring revenue growth.
Renewal Rate by Value	The ARR from renewals, migrations, upsell and cross-sell of active customers at the start of the year, divided by the opening ARR for the year.	As an indicator of our ability to retain and generate additional revenue from our existing customer base through up and cross sell.
Free Cash Flow	Free Cash Flow is Cash Flow from Operating Activities minus non-recurring cash items, interest paid, tax paid and adjusted for profit and loss foreign exchange movements.	To measure the cash generated by the operating activities during the period that is available to repay debt, undertake acquisitions or distribute to shareholders.
% Subscription Penetration	Organic software subscription revenue as a percentage of organic total revenue	To measure the progress of migrating our customer base from licence and maintenance to a subscription relationship
% Sage Business Cloud Penetration	Organic recurring revenue from the Sage Business Cloud (native and connected cloud) as a percentage of the organic recurring revenue of the Future Sage Business Cloud	To measure the progress in the migration of our revenue base to the Sage Business Cloud by connecting our solutions to the cloud and/or migrating our customers to cloud connected and cloud native solutions.
Return on Capital Employed (ROCE)	ROCE is calculated as: - Underlying Operating Profit; minus - Amortisation of acquired intangibles; the result being divided by - The average (of the opening and closing balance for the period) total net assets excluding net debt, provisions for non-recurring costs and tax assets or liabilities (i.e. capital employed).	As an indicator of the current period financial return on the capital invested in the company. ROCE is used as an underpin in the FY19 PSP awards.

Consolidated income statement
For the year ended 30 September 2019

	Note	**Underlying 2019 £m**	**Adjustments (note 3) 2019 £m**	**Statutory 2019 £m**	Underlying as reported* 2018 £m	Adjustments (note 3) 2018 £m	Statutory 2018 £m
Revenue	2	**1,936**	**–**	**1,936**	1,857	(11)	1,846
Cost of sales		**(138)**	**–**	**(138)**	(130)	–	(130)
Gross profit		**1,798**	**–**	**1,798**	1,727	(11)	1,716
Selling and administrative expenses		**(1,350)**	**(66)**	**(1,416)**	(1,223)	(66)	(1,289)
Operating profit	2	**448**	**(66)**	**382**	504	(77)	427
Finance income		**6**	**2**	**8**	4	1	5
Finance costs		**(29)**	**–**	**(29)**	(33)	(1)	(34)
Profit before income tax		**425**	**(64)**	**361**	475	(77)	398
Income tax expense	4	**(116)**	**21**	**(95)**	(123)	20	(103)
Profit for the year		**309**	**(43)**	**266**	352	(57)	295

Earnings per share attributable to the owners of the parent (pence)							
Basic	6	**28.40p**		**24.49p**	32.51p		27.21p
Diluted	6	**28.17p**		**24.29p**	32.35p		27.07p

All operations in the year relate to continuing operations.

Note:

* Underlying as reported is at 2018 reported exchange rates.

Consolidated statement of comprehensive income
For the year ended 30 September 2019

	2019 £m	2018 £m
Profit for the year	**266**	295
Other comprehensive (expense)/income:		
Items that will not be reclassified to profit or loss		
Actuarial loss on post-employment benefit obligations	**(1)**	–
Deferred tax charge on actuarial loss on post-employment benefit obligations	**–**	–
	(1)	–
Items that may be reclassified to profit or loss		
Gain on available-for-sale fixed asset investment*	**–**	1
Exchange differences on translating foreign operations	**42**	15
Exchange differences recycled through income statement on sale of foreign operations	**(4)**	–
	38	16
Other comprehensive income for the year, net of tax	**37**	16
Total comprehensive income for the year	**303**	311

* See note 1 for detail on transition to IFRS 9 and the disposal of the available-for-sale fixed asset investment during the year ended 30 September 2019.

The notes on pages 27 to 51 form an integral part of this condensed consolidated yearly report.

Consolidated balance sheet
As at 30 September 2019

	Note	2019 £m	2018 £m
Non-current assets			
Goodwill	7	**2,098**	2,008
Other intangible assets	7	**228**	260
Property, plant and equipment	7	**117**	129
Fixed asset investment		**–**	17
Other financial assets		**4**	1
Trade and other receivables		**73**	2
Deferred income tax assets		**31**	51
		2,551	2,468
Current assets			
Trade and other receivables		**364**	460
Current income tax asset		**3**	4
Cash and cash equivalents (excluding bank overdrafts)	10	**371**	272
Assets classified as held for sale	11	**63**	113
		801	849
Total assets		**3,352**	3,317
Current liabilities			
Trade and other payables		**(291)**	(249)
Current income tax liabilities		**(32)**	(39)
Borrowings		**(122)**	(8)
Provisions		**(11)**	(26)
Deferred income		**(637)**	(620)
Liabilities classified as held for sale	11	**(33)**	(63)
		(1,126)	(1,005)
Non-current liabilities			
Borrowings		**(643)**	(913)
Post-employment benefits		**(25)**	(22)
Deferred income tax liabilities		**(24)**	(25)
Provisions		**(15)**	(11)
Trade and other payables		**(7)**	(8)
Deferred income		**(8)**	(6)
		(722)	(985)
Total liabilities		**(1,848)**	(1,990)
Net assets		**1,504**	1,327
Equity attributable to owners of the parent			
Ordinary shares	9	**12**	12
Share premium	9	**548**	548
Other reserves		**184**	146
Retained earnings		**760**	621
Total equity		**1,504**	1,327

Consolidated statement of changes in equity
For the year ended 30 September 2019

	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
	Attributable to owners of the parent				
At 1 October 2018 as originally presented	**12**	**548**	**146**	**621**	**1,327**
Adjustment on initial application of IFRS 15 net of tax	**–**	**–**	**–**	**24**	**24**
Adjustment on initial application of IFRS 9 net of tax	**–**	**–**	**–**	**(5)**	**(5)**
At 1 October 2018 as adjusted	**12**	**548**	**146**	**640**	**1,346**
Profit for the year	**–**	**–**	**–**	**266**	**266**
Other comprehensive income/(expense)					
Exchange differences on translating foreign operations	**–**	**–**	**42**	**–**	**42**
Exchange differences recycled through income statement on sale of foreign operations	**–**	**–**	**(4)**	**–**	**(4)**
Actuarial loss on post-employment benefit obligations	**–**	**–**	**–**	**(1)**	**(1)**
Total comprehensive income for the year ended 30 September 2019	**–**	**–**	**38**	**(1)**	**37**
Transactions with owners					
Employee share option scheme:					
- Value of employee services including deferred tax	**–**	**–**	**–**	**33**	**33**
Proceeds from issuance of treasury shares	**–**	**–**	**–**	**3**	**3**
Dividends paid to owners of the parent	**–**	**–**	**–**	**(181)**	**(181)**
Total transactions with owners for the year ended 30 September 2019	**–**	**–**	**–**	**(145)**	**(145)**
At 30 September 2019	**12**	**548**	**184**	**760**	**1,504**

	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
	Attributable to owners of the parent				
At 1 October 2017	12	548	131	477	1,168
Profit for the year	–	–	–	295	295
Other comprehensive income/(expense)					
Exchange differences on translating foreign operations	–	–	15	–	15
Gain on available-for-sale fixed asset investment	–	–	–	1	1
Total comprehensive income for the year ended 30 September 2018	–	–	15	296	311
Transactions with owners					
Employee share option scheme:					
- Value of employee services, net of deferred tax	–	–	–	16	16
- Proceeds from issuance of treasury shares	–	–	–	3	3
- Dividends paid to owners of the parent	–	–	–	(171)	(171)
Total transactions with owners for the year ended 30 September 2018	–	–	–	(152)	(152)
At 30 September 2018	12	548	146	621	1,327

Consolidated statement of cash flows
For the year ended 30 September 2019

	Note	2019 £m	2018 £m
Cash flows from operating activities			
Cash generated from continuing operations		**586**	487
Interest paid		**(26)**	(30)
Income tax paid		**(88)**	(64)
Net cash generated from operating activities		**472**	393
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash acquired	11	**(41)**	(8)
Investment in non-current asset		**(3)**	–
Disposal of subsidiaries, net of cash disposed	11	**70**	–
Proceeds on settlement of equity investment		**17**	–
Purchases of intangible assets	7	**(15)**	(36)
Purchases of property, plant and equipment	7	**(27)**	(20)
Proceeds from sale of property, plant and equipment		**–**	2
Interest received		**6**	4
Net cash generated from/(used in) investing activities		**7**	(58)
Cash flows from financing activities			
Proceeds from issuance of treasury shares		**3**	3
Proceeds from borrowings		**414**	330
Repayments of borrowings		**(594)**	(389)
Movements in cash held on behalf of customers		**(78)**	2
Borrowing costs		**(1)**	(3)
Dividends paid to owners of the parent	5	**(181)**	(171)
Net cash used in financing activities		**(437)**	(228)
Net increase in cash, cash equivalents and bank overdrafts (before exchange rate movement)		**42**	107
Effects of exchange rate movement	10	**8**	2
Net increase in cash, cash equivalents and bank overdrafts		**50**	109
Cash, cash equivalents and bank overdrafts at 1 October	10	**322**	213
Cash, cash equivalents and bank overdrafts at 30 September	10	**372**	322

Notes to the financial information
For the year ended 30 September 2019

1 Group accounting policies

General information

The Sage Group plc ("the Company") and its subsidiaries (together "the Group") is a leading global supplier of business management software to Small & Medium Businesses.

The financial information set out above does not constitute the Company's Statutory Accounts for the year ended 30 September 2019 or 2018, but is derived from those accounts. Statutory Accounts for the year ended 30 September 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered in December 2019. The auditors have reported on both sets of accounts; their reports were unqualified and did not contain statements under section 498 (2), (3) or (4) of the Companies Act 2006.

Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and IFRS as issued by the International Accounting Standards Board ("IASB"), this announcement does not in itself contain sufficient information to comply with IFRSs. The financial information has been prepared on the basis of the accounting policies and critical accounting estimates and judgements as set out in the Annual Report & Accounts for 2019.

The Company is a limited liability company incorporated and domiciled in the UK. The address of its registered office is North Park, Newcastle upon Tyne, NE13 9AA. The Company is listed on the London Stock Exchange.

Basis of preparation

The consolidated financial statements of The Sage Group plc have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and IFRS as issued by the International Accounting Standards Board ("IASB"). IFRS as adopted by the EU differ in certain respects from IFRS as issued by the IASB. The differences have no impact on the Group's consolidated financial statements for the years presented. The consolidated financial statements have been prepared under the historical cost convention, except where adopted IFRS require an alternative treatment. The principal variations from the historical cost convention relate to derivative financial instruments which are measured at fair value through profit or loss. The financial statements of the Group comprise the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared at the end of the reporting period. The accounting policies have been consistently applied across the Group. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity, which is usually from date of acquisition.

All figures presented are rounded to the nearest £m, unless otherwise stated.

Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 September 2019 as described in those annual financial statements.

New or amended accounting standards

There are no IFRS, IAS amendments or IFRIC interpretations effective for the first time this financial year that have had a material impact on the Group with the exception of the adoption of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers", the impact of which has been detailed below.

IFRS 9

The Group has adopted IFRS 9 "Financial Instruments" from 1 October 2018 and applied the modified retrospective approach. Comparatives for 2018 have not been restated and the cumulative impact of adoption has been recognised as a decrease to retained earnings with a corresponding decrease in net assets as at 1 October 2018 as follows:

	1 October 2018 £m
Retained earnings	
Provision for losses against trade debtors	(6)
Tax impact	1
Total impact at 1 October 2018	(5)
Non-current assets	
Deferred income tax asset	1
Current assets	–
Trade and other receivables	(6)
Total impact at 1 October 2018	(5)

The adjustment above arises from adoption of IFRS 9's simplified approach to providing for lifetime expected credit losses at the date of initial recognition of trade receivables. Previously under IAS 39 an impairment allowance for credit losses was not recognised until there was an indicator of impairment. Under IFRS 9, the Group uses a matrix approach to determine the credit loss provisions, with default rates assessed for each country in which the Group operates.

The Group continues to apply the hedge accounting requirements of IAS 39 instead of those in IFRS 9. IFRS 9 made changes to the classification and measurement requirements for financial assets compared to IAS 39. These did not have any significant impact on the balances reported by the Group. The changes applicable to the Group are:

Trade receivables and other financial assets were classified as loans and receivables under IAS 39. Under IFRS 9, they are classified and measured as financial assets held at amortised cost because they are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. This did not result in any change in the carrying amount or presentation of these balances.

On transition to IFRS 9, the Group elected to classify its unquoted equity investment, which is presented in the balance sheet as a fixed asset investment, as at fair value through other comprehensive income. The investment has since been derecognised on its redemption in the year ended 30 September 2019. The investment had previously been classified as an available-for-sale financial asset under IAS 39. The investment is carried at its fair value under both IAS 39 and IFRS 9 and as a result of the election made under IFRS 9, changes in the fair value of the investment prior to its derecognition continued to be recognised in the statement of other comprehensive income when they arose. However, in a change to the previous treatment, under IFRS 9 the cumulative gain was not reclassified to profit for the period when the investment was derecognised.

The following table summarises these reclassifications:

As at 1 October 2018	Total balance under IAS 39 £m	IFRS 9 measurement category Amortised cost £m	Fair value through OCI £m
IAS 39 measurement category			
Loans and receivables			
Trade receivables*	370	364	–
Other financial assets	3	3	–
Available for sale			
Fixed asset investment	17	–	17
	390	367	17

The change in the closing balance of allowances for impairment losses under IAS 39 to the opening loss allowances on adoption of IFRS 9 is as follows:

As at 1 October 2018	Allowance for impairment under IAS 39 £m	Remeasurement £m	Expected credit losses under IFRS 9 £m
Loans and receivables *under IAS 39 /* financial assets held at amortised cost under IFRS 9	20	6	26

IFRS 15

As disclosed in our Annual Report 2018, the Group has adopted IFRS 15 retrospectively with the cumulative effect of initially applying the standard recognised on the date of initial application, being 1 October 2018 for the Group (the "cumulative catch up" approach) and the practical expedient to apply the standard only to contracts in progress but not completed at the date of initial application. Prior year comparatives are not restated and retained earnings at 1 October 2018 have been restated for the full cumulative impact of adopting the standard.

Information on the changes resulting from the adoption of IFRS 15, quantitative information on their impact at 1 October 2018 and a reconciliation for the year ending 30 September 2019 between the primary financial statements under IFRS 15 and the financial position and performance that would have been reported in accordance with IAS 18 are set out in note 12.

Future Accounting Standards

The Directors also considered the impact on the Group of new and revised accounting standards, interpretations or amendments which have been issued but were not effective for the Group for the year ended 30 September 2019. The most significant of these is IFRS 16, "Leases", which has been endorsed for use in the EU and has been adopted by the Group with effect from 1 October 2019. IFRS 16 will have a significant effect on the Group's financial reporting and its impact is discussed below. Other new and revised accounting standards, interpretations or amendments that have been issued but are not yet effective for the Group are not expected to have a material impact on the consolidated financial statements when first applied.

IFRS 16

IFRS 16 is effective for the Group for the financial year commencing on 1 October 2019, replacing the existing lease accounting standard IAS 17. The new standard will impact the accounting for leases in which the Group is the lessee. The Group currently accounts for these leases as operating leases, with rentals payable charged to the income statement on a straight-line basis as an operating expense. Under the new standard, the Group will recognise additional lease assets and lease liabilities on the balance sheet to account for the right to use the leased items and the obligation to make future lease payments. The right of use asset will be presented within property, plant and equipment and the lease liabilities within current and non-current borrowings. The costs of leases will be recognised in the income statement split between depreciation of the lease asset and a finance charge on the lease liability. Depreciation will be presented within selling and administrative expenses and finance charges within finance costs.

The Group will apply the modified retrospective approach to transition to IFRS 16 with the cumulative impact recognised in equity on 1 October 2019 and no restatement of the financial statements for the prior year. Under this approach, lease liabilities are measured at the present value of future lease payments discounted using the Group's incremental borrowing rate applicable to the currency and remaining term of each lease. Right of use assets are measured either as if IFRS 16 had been in place since the commencement of the lease or at an amount equal to the lease liability at adoption, adjusted for any existing prepaid or accrued lease payments. Measurement as if IFRS 16 had been in place since commencement of the lease is applied to the Group's property leases.

The Group's implementation of the new standard is substantially complete and data has been collected on all the leases to which the standard applies. The Group has elected to apply the exemptions available for short-term leases with a lease term of 12 months or less and leases of low value items. The leases to which these exemptions apply will be accounted for in the same way as current operating leases, with no lease assets or liabilities recognised. The low value exemption is expected to apply to most of the Group's leases of IT and other office equipment. On transition, the Group will make use of the following practical expedients available under the modified retrospective approach:

- For leases other than property leases, the Group will measure the right of use assets at an amount equal to the lease liability at adoption, adjusted for any existing prepaid or accrued lease payments, and will also apply a single discount rate to a portfolio of those leases with reasonably similar characteristics;
- For all leases, the Group will exclude from the measurement of the right of use asset initial direct costs incurred when obtaining the lease; and
- The Group will rely on its existing onerous lease assessments under IAS 37 to impair right of use assets instead of performing a new impairment assessment for those assets.

The Group currently estimates that on transition it will recognise right of use assets of between approximately £120m and £130m and lease liabilities of between approximately £135m and £145m. Taking accounting of the elimination of the Group's existing assets and liabilities for prepaid and accrued lease payments, net assets will decrease by approximately £5m, with a corresponding adjustment recognised in equity. The Group's total undiscounted operating lease commitment at 30 September 2019 as disclosed under existing reporting requirements was £162m. The Group's most significant leases by value are those for office buildings which comprise over 95% of existing current lease commitments. For the year ending 30 September 2020 and subsequent years, there will be a reduction in lease expenses charged to operating profit and an increase in finance costs in the income statement compared to the current treatment. The impact will depend on the future make-up of the Group's lease portfolio but, assuming the existing portfolio remains unchanged, the previous operating expense is estimated to reduce by approximately £5m and finance costs to increase by approximately £5m. The Group's total rental expense for the year ended 30 September 2019 under existing reporting requirements was £30m. The standard will not impact net cash flow, but cash flows from most lease payments will be reclassified from cash flows from operating activities to cash flows from financing activities, as the payments will represent the repayment of lease liabilities.

Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates and assumptions by management. It also requires management to exercise its judgement in the process of applying the accounting policies. We continually evaluate our estimates, assumptions and judgements based on available information. The areas involving a higher degree of judgement or complexity are described below.

Revenue recognition

Approximately 35% of the Company's revenue is generated from sales to partners rather than end users. The key judgement is determining whether the business partner is a customer of the Group. The key criteria in this determination is whether the business partner has taken control of the product, which is usually assessed based on whether the business partner has responsibility for payment and takes on the risks and rewards of the product from Sage.

Where the business partner is a customer of Sage, discounts are recognised as a deduction from revenue. Where the business partner is not a customer of Sage and their part in the sale has simply been in the form of a referral, they are remunerated in the form of a commission payment. These payments are treated as contract acquisition costs.

An additional area of judgement is the recognition and deferral of revenue on on-premise subscription offerings, for example the sale of a term licence with an annual maintenance and support contract as part of a subscription contract. In such instances, the transaction price is allocated between the constituent performance obligations on the basis of standalone selling prices (SSPs). Judgement is required when estimating SSPs. The Group has established a hierarchy to identify the SSPs that are used to allocate the transaction price of a customer contract to the performance obligations in the contract. Where SSPs for on-premise offerings are observable and consistent across the customer base, SSP estimates are derived from pricing history. Where there are no directly observable estimates available, comparable products are utilised as a basis of assessment or residual approach is used. Under the residual approach, the SSP for the offering is estimated to be the total transaction price less the sum of the observable SSPs of other goods or services in the contract. The Group uses this technique in particular for its on-premise subscription offerings.

Goodwill impairment

A key judgement is the ongoing appropriateness of the cash-generating units ("CGUs") for the purpose of impairment testing.
In the current year CGUs were assessed in the context of the Group's evolving business model, the Sage strategy and the shift to global product development. Management continues to monitor goodwill at a regional level, thus it was determined that the use of CGUs based on geographical area of operation remains appropriate.

The assumptions applied in calculating the value in use of the CGUs being tested for impairment is a source of estimation uncertainty. The key assumptions applied in the calculation relate to the future performance expectations of the business – average medium-term revenue growth and long-term growth rate – as well as the discount rate to be applied in the calculation.

The carrying value of goodwill and the key assumptions used in performing the annual impairment assessment are disclosed in the 30 September 2019 financial statements.

Classification and measurement of businesses held for sale

The Group's Brazilian and Sage Pay businesses have been classified as businesses held for sale. Classification as held for sale requires judgements to be made on whether the qualifying criteria have been met. The Group considers these businesses to meet the criteria to be classified as held for sale for the following reasons:

- Management has approved the plans to sell these businesses;
- The businesses are available for immediate sale and can be sold to a buyer in their current condition;
- The sales are expected to be completed within one year from the date of initial classification; and
- Potential buyers have been identified and negotiations are ongoing as at the reporting date.

The assets of businesses held for sale are measured at the lower of their carrying amount and their fair value less costs to sell. Determination of fair value less costs to sell requires estimates to be made of the selling price that might be obtained for the business and the costs to be incurred on completing the transaction. Management has reached its conclusions based on the bids received from potential buyers to date, the status of negotiations and its past experience of similar transactions.

Website

This condensed consolidated annual financial report for the year ended 30 September 2019 can also be found on our website : www.sage.com/investors/investor-downloads

2 Segment information

In accordance with IFRS 8, "Operating Segments", information for the Group's operating segments has been derived using the information used by the chief operating decision maker. The Group's Executive Committee has been identified as the chief operating decision maker in accordance with their designated responsibility for the allocation of resources to operating segments and assessment of their performance, through the Quarterly Business Reviews chaired by the President of Sage and Chief Financial Officer. The Executive Committee uses organic and underlying data to monitor business performance. Operating segments are reported in a manner which is consistent with the operating segments produced for internal management reporting.

The Group is organised into nine key operating segments: North America (excluding Intacct) (US and Canada), North America Intacct, Northern Europe (UK and Ireland), Central Europe (Germany, Austria and Switzerland), France, Iberia (Spain and Portugal), Africa and the Middle East, Asia (including Australia) and Latin America. For reporting under IFRS 8, the Group is divided into three reportable segments. These segments are as follows:

- North America (North America (excluding Intacct) and North America Intacct)
- Northern Europe
- Central and Southern Europe (Central Europe, France and Iberia)

The remaining operating segments of Africa and the Middle East, Asia (including Australia) and Latin America do not meet the quantitative thresholds for presentation as separate reportable segments under IFRS 8, and so are presented together and described as International. They include the Group's operations in South Africa, UAE, Australia, Singapore, Malaysia and Brazil.

The reportable segments reflect the aggregation of the operating segments for Central Europe, France and Iberia, and also of those for North America (excluding Intacct) and North America Intacct. In each case, the aggregated operating segments are considered to share similar economic characteristics because they have similar long-term gross margins and operate in similar markets. Central Europe, France and Iberia operate principally within the EU and the majority of their businesses are in countries within the Euro area. North America (excluding Intacct) and North America Intacct share the same North American geographical market and therefore share the same economic characteristics. The UK is the home country of the parent.

The revenue analysis in the table below is based on the location of the customer, which is not materially different from the location where the order is received and where the assets are located.

Revenue by segment

	Year ended 30 September 2019					
	Statutory and Underlying £m	**Organic adjustments* £m**	**Organic £m**	Change Statutory %	Change Underlying %	Change Organic %
Recurring revenue by segment						
North America	**574**	**(1)**	**573**	23.0%	14.9%	11.8%
Northern Europe	**341**	**(1)**	**340**	14.4%	14.2%	16.4%
Central and Southern Europe	**490**	**–**	**490**	3.1%	3.1%	6.9%
International	**207**	**(51)**	**156**	4.7%	8.2%	8.5%
Recurring revenue	**1,612**	**(53)**	**1,559**	11.3%	10.0%	10.8%
Software and software related services (“SSRS”) revenue by segment						
North America	**68**	**–**	**68**	(8.4%)	(13.5%)	(11.5%)
Northern Europe	**27**	**(2)**	**25**	(37.5%)	(37.9%)	(37.2%)
Central and Southern Europe	**118**	**–**	**118**	(21.7%)	(21.7%)	(19.2%)
International	**47**	**(3)**	**44**	(14.6%)	(13.0%)	(8.0%)
SSRS revenue	**260**	**(5)**	**255**	(18.5%)	(20.5%)	(17.9%)
Processing revenue by segment						
North America	**15**	**(15)**	**–**	(52.8%)	(55.2%)	(8.7%)
Northern Europe	**38**	**(37)**	**1**	(1.4%)	(1.4%)	(30.3%)
Central and Southern Europe	**–**	**–**	**–**	–	–	–
International	**11**	**(4)**	**7**	(26.4%)	(23.5%)	6.3%
Processing revenue	**64**	**(56)**	**8**	(24.7%)	(25.7%)	(3.0%)
Total revenue by segment						
North America	**657**	**(16)**	**641**	14.8%	7.5%	8.8%
Northern Europe	**406**	**(40)**	**366**	6.8%	6.6%	9.7%
Central and Southern Europe	**608**	**–**	**608**	(2.8%)	(2.9%)	0.6%
International	**265**	**(58)**	**207**	(1.0%)	2.0%	4.4%
Total revenue	**1,936**	**(114)**	**1,822**	4.9%	3.1%	5.6%

Revenue by segment (continued)

							Year ended 30 September 2018
	Statutory £m	Underlying adjustments £m	Underlying as reported £m	Impact on foreign exchange £m	Underlying £m	Organic adjustments* £m	Organic £m
Recurring revenue by segment							
North America	468	10	478	22	500	12	512
Northern Europe	297	1	298	–	298	(6)	292
Central and Southern Europe	475	–	475	1	476	(18)	458
International	197	–	197	(6)	191	(47)	144
Recurring revenue	1,437	11	1,448	17	1,465	(59)	1,406
Software and software related services ("SSRS") revenue by segment							
North America	75	–	75	3	78	(1)	77
Northern Europe	44	–	44	–	44	(4)	40
Central and Southern Europe	150	–	150	–	150	(4)	146
International	55	–	55	(1)	54	(6)	48
SSRS revenue	324	–	324	2	326	(15)	311
Processing revenue by segment							
North America	31	–	31	2	33	(33)	–
Northern Europe	39	–	39	–	39	(37)	2
Central and Southern Europe	–	–	–	–	–	–	–
International	15	–	15	–	15	(9)	6
Processing revenue	85	–	85	2	87	(79)	8
Total revenue by segment							
North America	574	10	584	27	611	(22)	589
Northern Europe	380	1	381	–	381	(47)	334
Central and Southern Europe	625	–	625	1	626	(22)	604
International	267	–	267	(7)	260	(62)	198
Total revenue	1,846	11	1,857	21	1,878	(153)	1,725

* Adjustments relate to the disposal of Sage Payroll Solutions and assets held for sale in the current year (note 11). Adjustments to the prior year comparatives include proforma adjustments for the areas of impact of IFRS 15 adoption assuming the same contractual basis as the current year. This is to enable like-for-like comparison across the periods.

Operating profit by segment

	Year ended 30 September 2019							
	Statutory £m	**Underlying adjustments £m**	**Underlying £m**	**Organic adjustments £m**	**Organic £m**	Change Statutory %	Change Underlying %	Change Organic %
Operating profit by segment								
North America	**128**	**5**	**133**	**–**	**133**	36.6%	(15.1%)	(22.9%)
Northern Europe	**134**	**23**	**157**	**(14)**	**143**	3.1%	10.9%	13.7%
Central and Southern Europe	**120**	**9**	**129**	**–**	**129**	(31.4%)	(29.5%)	(25.5%)
International	**–**	**29**	**29**	**(2)**	**27**	(98.7%)	1.7%	4.9%
Total operating profit	**382**	**66**	**448**	**(16)**	**432**	(10.5%)	(12.1%)	(13.0%)

	Year ended 30 September 2018						
	Statutory £m	Underlying adjustments £m	Underlying as reported £m	Impact of foreign exchange £m	Underlying £m	Organic adjustments £m	Organic £m
Operating profit by segment							
North America	94	55	149	8	157	15	172
Northern Europe	130	11	141	–	141	(15)	126
Central and Southern Europe	174	10	184	(1)	183	(11)	172
International	29	1	30	(2)	28	(2)	26
Total operating Profit	427	77	504	5	509	(13)	496

Reconciliation of underlying operating profit to statutory operating profit

	2019 £m	2018 £m
North America	**133**	157
Northern Europe	**157**	141
Central and Southern Europe	**129**	183
Total reportable segments	**419**	481
International	**29**	28
Underlying operating profit	**448**	509
Impact of movement in foreign currency exchange rates	**–**	(5)
Underlying operating profit (as reported)	**448**	504
Amortisation of acquired intangible assets	**(31)**	(35)
Other M&A activity-related items	**(21)**	(32)
Non-recurring items	**(14)**	(10)
Statutory operating profit	**382**	427

3 Adjustments between underlying profit and statutory profit

	2019 Recurring £m	2019 Non-recurring £m	2019 Total £m	2018 Recurring £m	2018 Non-recurring £m	2018 Total £m
M&A activity-related items						
Amortisation of acquired intangibles	31	–	31	35	–	35
(Gain)/loss on disposal of subsidiary	–	(28)	(28)	–	1	1
Impairment of assets held for sale	–	14	14	–	–	–
Adjustment to acquired deferred income	–	–	–	11	–	11
Other M&A activity-related items	21	–	21	21	–	21
Other items						
Litigation items	–	–	–	–	4	4
Restructuring costs	–	–	–	–	5	5
Property restructuring costs	–	16	16	–	–	–
Office relocation	–	12	12	–	–	–
Total adjustments made to operating profit	52	14	66	67	10	77
Fair value adjustments	–	–	–	1	–	1
Foreign currency movements on intercompany balances	(2)	–	(2)	(1)	–	(1)
Total adjustments made to profit before income tax	50	14	64	67	10	77

Recurring items

Acquired intangibles are assets which have previously been recognised as part of business combinations or similar transactions. These assets are predominantly brands, customer relationships and technology rights.

Other M&A activity-related items relate to completed transaction costs and include advisory, legal, accounting, valuation and other professional or consulting services as well as acquisition-related remuneration and directly attributable integration costs. This includes a provision for future selling costs for assets held for sale. Further details can be found in note 11.

Foreign currency movements on intercompany balances of £2m (2018: credit of £1m) occur due to retranslation of intercompany balances other than those where settlement is not planned or likely in the foreseeable future. The balance arises in the current year due to fluctuation in exchange rates, predominantly the movement in Euro and US Dollar compared to sterling.

The adjustment made in the prior year to acquired deferred income represents the additional revenue that would have been recorded in the year had deferred income not been reduced as part of the purchase price allocation adjustment made for business combinations.

The prior year fair value adjustment was in relation to an embedded derivative asset which relates to contractual terms agreed as part of the US private placement debt.

Non-recurring items

Net charges in respect of non-recurring items amounted to £14m (2018: £10m).

Property restructuring costs of £16m (2018: £nil) relate to the reorganisation of the Group's properties and consist of net lease exit costs following consolidation of office space and impairment of leasehold and other related assets that are no longer in use.

The prior year restructuring costs relate to costs arising from the restructure of parts of the senior leadership team.

Office relocation costs relate to the incremental depreciation charge resulting from accelerated depreciation following the announced UK office move.

The adjustment relating to litigation costs of £4m in the prior year related to two specific employment related matters that, based on the Group's experience, are one-off in nature. Both cases were settled during the year. All other litigation costs which have been incurred through the normal course of business are included within underlying operating profit.

Details of gain on disposal of subsidiary and impairment of assets held for sale can be found in note 11.

In the prior year, the loss on disposal of subsidiary related to the sale of Sage XRT Brasil Ltda.

4 Income tax expense

The effective tax rate on statutory profit before tax was 26% (2018: 26%), whilst the effective tax rate on underlying profit before tax on continuing operations was 27% (2018: 26%).

5 Dividends

	2019 £m	2018 £m
Final dividend paid for the year ended 30 September 2018 of 10.85p per share	**118**	–
(2018: final dividend paid for the year ended 30 September 2017 of 10.20p per share)	**–**	110
Interim dividend paid for the year ended 30 September 2019 of 5.79p per share	**63**	–
(2018: interim dividend paid for the year ended 30 September 2018 of 5.65p per share)	**–**	61
	181	171

In addition, the directors are proposing a final dividend in respect of the financial year ended 30 September 2019 of 11.12p per share which will absorb an estimated £121m of shareholders' funds. If approved by the AGM, it will be paid on 2 March 2020 to shareholders who are on the register of members on 7 February 2020. These financial statements do not reflect this proposed dividend payable.

6 Earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the parent by the weighted average number of ordinary shares in issue during the year, excluding those held as treasury shares, which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares, exercisable at the end of the year. The Group has one class of dilutive potential ordinary shares. They are share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

	Underlying 2019	Underlying as reported 2018	Underlying 2018	**Statutory 2019**	Statutory 2018
Earnings attributable to owners of the parent – Continuing operations (£m)					
Profit for the year	**309**	352	356	**266**	295
Number of shares (millions)					
Weighted average number of shares	**1,086**	1,083	1,083	**1,086**	1,083
Dilutive effects of shares	**9**	6	6	**9**	6
	1,095	1,089	1,089	**1,095**	1,089
Earnings per share attributable to owners of the parent – Continuing operations (pence)					
Basic earnings per share	**28.40**	32.51	32.85	**24.49**	27.21
Diluted earnings per share	**28.17**	32.35	32.68	**24.29**	27.07

Reconciliation of earnings – Continuing operations	**2019 £m**	2018 £m
Underlying earnings attributable to owners of the parent (after exchange movement)	**309**	356
Impact of movement in foreign currency exchange rates, net of taxation	**–**	(4)
Underlying earnings attributable to owners of the parent (as reported)	**309**	352
Amortisation of acquired intangible assets and adjustment to acquired deferred income	**(31)**	(46)
Fair value adjustments to debt-related financial instruments	**–**	(1)
Gain/(loss) on disposal of subsidiary	**28**	(1)
Foreign currency movements on intercompany balances	**2**	1
Other M&A activity-related items	**(21)**	(21)
Impairment of assets held for sale	**(14)**	–
Restructuring costs and litigation related items	**(16)**	(9)
Office relocation	**(12)**	–
Taxation on adjustments between underlying and statutory profit before tax	**21**	20
Net adjustments	**(43)**	(57)
Earnings: statutory profit for the year	**266**	295

7 Non-current assets

	Goodwill £m	**Other intangible assets £m**	**Property, plant and equipment £m**	**Total £m**
Opening net book amount at 1 October 2018	**2,008**	**260**	**129**	**2,397**
Additions	**41**	**15**	**27**	**83**
Acquisition	**–**	**–**	**–**	**–**
Disposals*	**3**	**(5)**	**–**	**(2)**
Transfer to held for sale	**(26)**	**(6)**	**(3)**	**(35)**
Depreciation, amortisation and other movements	**–**	**(44)**	**(37)**	**(81)**
Exchange movement	**72**	**8**	**1**	**81**
Closing net book amount at 30 September 2019	**2,098**	**228**	**117**	**2,443**

*Includes finalisation of the sale of Sage Payroll Solutions. See note 11.

	Goodwill £m	Other intangible assets £m	Property, plant and equipment £m	Total £m
Opening net book amount at 1 October 2017	2,002	274	133	2,409
Additions	–	39	20	59
Acquisition	–	11	–	11
Disposals of subsidiaries	–	(1)	(3)	(4)
Transfer to held for sale	(32)	(20)	–	(52)
Depreciation, amortisation and other movements	–	(48)	(20)	(68)
Exchange movement	38	5	(1)	42
Closing net book amount at 30 September 2018	2,008	260	129	2,397

Goodwill is not subject to amortisation, but is tested for impairment annually at the year-end or upon any indication of impairment. At 30 September 2019, there were no indicators of impairment to goodwill. Full details of the outcome of the 2019 goodwill impairment review are provided in the 2019 financial statements.

Detail of the current period acquisitions and disposals has been provided in note 11.

8 Financial instruments

For financial assets and liabilities, the carrying amount approximates the fair value of the instruments, with the exception of US senior loan notes due to these bearing interest at fixed rates. The fair value of borrowings is determined by reference to interest rate movements on the US $ private placement market and therefore can be considered as a level 2 fair value as defined within IFRS 13 with the respective book and fair values included in the table below.

	At 30 September 2019		At 30 September 2018	
	Book Value £m	**Fair Value £m**	Book Value £m	Fair Value £m
Long-term borrowing	**(643)**	**(660)**	(913)	(906)
Short-term borrowing	**(122)**	**(122)**	(8)	(8)

9 Ordinary shares and share premium

	Number of shares	**Ordinary Shares £m**	**Share premium £m**	**Total £m**
At 1 October 2018	**1,120,789,295**	**12**	**548**	**560**
Shares issued/proceeds	**–**	**–**	**–**	**–**
At 30 September 2019	**1,120,789,295**	**12**	**548**	**560**

	Number of Shares	Ordinary Shares £m	Share Premium £m	Total £m
At 1 October 2017	1,120,638,121	12	548	560
Shares issued/proceeds	151,174	–	–	–
At 30 September 2018	1,120,789,295	12	548	560

During the year the Group agreed to satisfy the vesting of certain share awards, utilising a total of 3,781,720 (2018: 3,022,375) treasury shares.

During the year, the Employee Share Trust agreed to satisfy the vesting of certain share awards, utilising a total of 368,733 (2018: 707,190) shares held in the Trust. The Trust received £2m (2018: £nil) additional funds for future purchase of shares in the market (2018: nil funds received).

10 Cash flow and net debt

	2019 £m	2018 £m
Statutory operating profit – continuing operations	**382**	427
Recurring and non-recurring items	**66**	77
Underlying operating profit – as reported	**448**	504
Depreciation/amortisation/impairment/profit on disposal of non-current assets/non-cash items	**33**	28
Share-based payments	**26**	5
Net changes in working capital	**108**	(10)
Net capital expenditure	**(38)**	(45)
Underlying cash flow from operating activities	**577**	482
Non-recurring cash items	**(24)**	(35)
Net interest paid	**(21)**	(26)
Income tax paid	**(88)**	(64)
Profit and loss foreign exchange movements	**(1)**	(1)
Free cash flow	**443**	356
Net debt at 1 October	**(668)**	(813)
Acquisitions and disposals of subsidiaries and similar transactions, net of cash and related items	**35**	(21)
Dividends paid to owners of the parent	**(181)**	(171)
Share issue	**3**	3
Exchange movement	**(24)**	(20)
Other	**(1)**	(2)
Net debt at 30 September	**(393)**	(668)

	2019 £m	2018 £m
Underlying cash flow from operating activities	**577**	482
Recurring and non-recurring cash items	**(29)**	(37)
Net capital expenditure	**38**	45
Other adjustments including foreign exchange translations	**–**	(3)
Statutory cash flow from operating activities	**586**	487

Analysis of change in net debt	At 1 October 2017 £m	At 1 October 2018 £m	Cash flow £m	Acquisitions £m	Reclassification as held for sale £m	Disposal of subsidiary £m	Non-cash movements £m	Exchange movement £m	At 30 September 2019 £m
Cash and cash equivalents	231	272	**120**	**1**	**(4)**	**(26)**	**–**	**8**	**371**
Bank overdrafts	(18)	(8)	**5**	**–**	**3**	**–**	**–**	**–**	**–**
Cash amounts included in held for sale	–	58	**33**	**–**	**1**	**(91)**	**–**	**–**	**1**
Cash, cash equivalents and bank overdrafts including cash as held for sale	213	322	**158**	**1**	**–**	**(117)**	**–**	**8**	**372**
Liabilities arising from financing activities									
Loans due within one year	(37)	–	**–**	**–**	**–**	**–**	**(115)**	**(7)**	**(122)**
Loans due after more than one year	(914)	(913)	**181**	**–**	**–**	**–**	**113**	**(24)**	**(643)**
Cash held on behalf of customers	(75)	(19)	**(6)**	**–**	**–**	**26**	**–**	**(1)**	**–**
Cash held on behalf of customers included in held for sale	–	(58)	**(33)**	**–**	**–**	**91**	**–**	**–**	**–**
	(1,026)	(990)	**142**	**–**	**–**	**117**	**(2)**	**(32)**	**(765)**
Total	(813)	(668)	**300**	**1**	**–**	**–**	**(2)**	**(24)**	**(393)**

Included in cash above is £nil (2018: £77m) relating to cash held on behalf of customers. The reduction in the year is due to the disposals made in the current year, see note 11.

11 Acquisitions and disposals

Acquisitions made during the current year

On 27 September 2019, the Group acquired 100% of the equity capital of Ocrex Limited ("Ocrex") for total consideration of £42m paid in cash. Ocrex is a leading provider of data entry automation for accountants, bookkeepers and businesses through its main product, AutoEntry. The acquisition of Ocrex and AutoEntry allows the Group to accelerate its vision to become a software as a service (SaaS) company.

Summary of acquisition	Provisional fair values £m
Purchase consideration	
Cash	**42**
Provisional fair value of identifiable net assets	**1**
Goodwill	**41**

The provisional fair value of identifiable net assets comprises cash and cash equivalents of £1m. Provisional fair values have been determined as the purchase price allocation exercise is incomplete because of the short period between the acquisition date and the approval of the Annual Report. Pending completion of the fair value exercise, the residual excess of consideration over the net assets acquired has been provisionally recognised entirely as goodwill. Goodwill is expected to reflect benefits from the assembled workforce and growth opportunities. No goodwill is expected to be deductible for tax purposes.

The outflow of cash and cash equivalents on the acquisition is as follows:	£m
Cash consideration	**(42)**
Cash and cash equivalents acquired	**1**
Net cash outflow	**(41)**

Costs of £2m directly relating to the completion of the business combination have been included in selling and administrative expenses in the consolidated income statement as other M&A activity-related items and relate to advisory, legal and other professional services. Arrangements have been put in place for retention payments to remunerate employees of Ocrex for future services. The costs of these arrangements will be recognised in future periods over the retention period. No amounts have been recognised to date in respect of these arrangements. The consolidated income statement does not include any revenue or profit or loss reported by Ocrex for the period due to the acquisition date being close to the year end date. The revenue and profit of the Group for the year ended 30 September 2019 would not have been materially different if Ocrex had been included in the Group for the whole of the year.

Disposals made during the current year

On 21 February 2019, the Group completed the sale of the Sage Payroll Solutions, the US-based payroll outsourcing business ("SPR") for total consideration of £76m. On 18 July 2019, the Group completed the sale of its South African payments business for £5m. The gain on disposal is calculated as follows:

Gain on disposal	SPR £m	South African payments £m	Total £m
Cash consideration	71	3	74
Deferred consideration	–	2	2
Contingent consideration	5	–	5
Gross consideration	76	5	81
Transaction costs	(4)	–	(4)
Net consideration	**72**	**5**	**77**
Net assets disposed	(51)	(2)	(53)
Cumulative foreign exchange differences reclassified from other comprehensive income to the income statement	6	(2)	4
Gain on disposal	**27**	**1**	**28**

Net assets disposed comprise:

	SPR £m	South African payments £m	Total £m
Goodwill	28	1	29
Other intangible assets	25	–	25
Trade and other receivables	1	1	2
Cash and cash equivalents	91	26	117
Total assets	**145**	**28**	**173**
Trade and other payables	(93)	(26)	(119)
Deferred income tax liabilities	(1)	–	(1)
Total liabilities	**(94)**	**(26)**	**(120)**
Net assets	**51**	**2**	**53**

The gain is reported within continuing operations, as an adjustment between underlying and statutory results. The contingent consideration is measured at its fair value determined using a discounted cash flow valuation technique. The main inputs to the calculation for which assumptions have been made are the discount rate and the period over which the consideration will be received. This is a level 3 fair value under IFRS 13.

Prior to the disposals, SPR formed part of the Group's North America reporting segment and South African payments part of the International segment. The inflow of cash and cash equivalents on the disposal is calculated as follows:

Inflow of cash and cash equivalents on disposal	SPR £m	South African payments £m	Total £m
Cash consideration	71	3	74
Transaction costs	(4)	–	(4)
Net consideration received	**67**	**3**	**70**

Discontinued operations and assets and liabilities held for sale

The Group had no discontinued operations during the years ended 30 September 2019 or 30 September 2018. Assets and liabilities held for sale at 30 September 2019 relate to the subsidiaries forming the Group's Sage Pay and Brazilian businesses, which were classified as held for sale during the year. The sale of the Group's Brazilian businesses is expected to be finalised during the year ending 30 September 2020. An agreement was signed on 18 November 2019, for the sale of the Sage Pay business to Elavon Inc., a subsidiary of U.S. Bancorp (as disclosed in note 14). The transaction is subject to regulatory approval with completion and loss of control expected to occur in Q2 FY20. The Sage Pay business forms part of the Group's Northern Europe reportable segment, and the Brazilian business is part of the International segment.

On classification of the Brazilian business as held for sale, the Group recognised a write down of net assets of £19m, comprising of £14m impairment of assets and £5m provision for future selling costs, to reduce the carrying value of the businesses to their fair value less costs to sell. This is included within selling and administrative expenses in the income statement as an adjustment between underlying and statutory operating profit. Note that the fair value less costs of sale of the disposal groups held for sale was determined using observable inputs that required some adjustments using unobservable data, leading to level 3 classification when considering the fair value hierarchy under IFRS 13.

Upon disposal, the income in relation to cumulative foreign exchange differences that have been recognised in other comprehensive income relating to the assets and liabilities of these businesses from the date of their acquisition to the date of disposal will be recycled to the income statement. Assets and liabilities held for sale at 30 September 2018 relate to the Group's subsidiary Sage Payroll Solutions which was sold on 21 February 2019.

Assets and liabilities held for sale comprise:

	Brazil 2019 £m	**Sage Pay 2019 £m**	**Total 2019 £m**	Total 2018 £m
Goodwill	**–**	**26**	**26**	32
Other intangible assets	**–**	**1**	**1**	20
Property, plant and equipment	**–**	**2**	**2**	–
Deferred income tax asset	**7**	**–**	**7**	–
Inventory	**–**	**1**	**1**	–
Trade and other receivables	**16**	**6**	**22**	3
Cash and cash equivalents	**–**	**4**	**4**	58
Total assets	**23**	**40**	**63**	113
Trade and other payables	**(8)**	**(4)**	**(12)**	(62)
Borrowings	**(3)**	**–**	**(3)**	–
Current income tax liabilities	**(1)**	**–**	**(1)**	–
Provisions	**(6)**	**–**	**(6)**	–
Deferred income	**(10)**	**(1)**	**(11)**	(1)
Total liabilities	**(28)**	**(5)**	**(33)**	(63)
Net (liabilities)/assets	**(5)**	**35**	**30**	50

12 IFRS 15

Differences between IFRS 15 and previous accounting policies

There are several differences between the Group's accounting policies under IFRS 15 and its previous accounting policies under IAS 18. The most significant of these are as follows.

- *Unbundling of subscription software and related maintenance and support contracts for on-premise Products*

IFRS 15 introduces a new concept of performance obligations. This requires changes to the way the transaction price is allocated to separately identifiable components of a bundle within a contract, which can impact the timing of recognising revenue. As a result, the revenue recognition pattern changes for certain on-premise subscription contracts, which combine the delivery of software and support services and the obligation to deliver, in the future, unspecified software upgrades under a maintenance contract. Under IAS 18 policies, the Group recognised the entire price as revenue on a straight-line basis over the subscription term. Under IFRS 15, a portion of the transaction price is recognised upon delivery of the initial software at the outset of the arrangement with the remainder recognised over the term of the contract due to the fact that these are deemed to be separate performance obligations.

- *Non-refundable contract sign up fees*

In some cases, customers pay a non-refundable contract sign-up fee when they enter into a new initial contract for a software product, and no equivalent fee is payable on subsequent renewals. As a result of paying the contract sign-up fee, the customer has an option to renew the contract and to pay a lower price on renewal than would have been the case had the contract sign-up fee not been paid. Under IFRS 15, the fee is considered to provide the customer with a material right that the customer would not receive without having entered into the initial contract. Therefore, the upfront fee is recognised as revenue over the anticipated period of benefit to the customer, which range from four to seven years and takes account of the likelihood of the customer renewing the contract. Under IAS 18 policies, the full amount of the contract sign-up fee was recognised as revenue on a straight-line basis over the initial contract term.

- Costs of obtaining customer contracts

Under IFRS 15, all incremental costs of obtaining a contract with a customer, including commission to internal sales employees, are recognised as an asset on the balance sheet, within trade and other receivables, if the Group expects to recover those costs. The costs are amortised over the period during which the related revenue is recognised, which may extend beyond the initial contract term where the Group expects to benefit from future renewals as a result of incurring the costs. The amortisation periods range from one year to ten years depending on the type of offering. Amortisation is reported within selling and administrative expenses. Under previous policies, costs to obtain a contract were recognised as assets, within trade and other receivables, and amortised only if they were payable to a third-party agent and related to a contract where revenue was recognised over time. As a result, compared to previous policies the amount recognised as an asset under IFRS 15 increases and the recognition of costs is deferred.

- Business Partner Arrangements

Under IFRS 15, the Group is required to assess whether it controls a good or service before it is transferred to the end customer to determine whether it is principal or agent in that transaction. This is in contrast to the previous guidance which was focused on assessing whether the Group had the risks and rewards of a principal. For Sage, the application of IFRS 15 results in a change in principal versus agent assessment for a number of business partner arrangements. The Group has therefore identified an increase in the number of business partner arrangements where Sage is considered to be the principal under IFRS 15 with respect to the end customer. As a result, there is an increase in the gross revenue recognised for these arrangements as the amounts payable to business partners are classified as a cost of sale rather than a deduction from revenue. On the balance sheet, the unamortised amounts payable to business partners which were previously netted within deferred income are now presented as part of customer acquisition costs.

- **Timing of recognizing a receivable**

Under IFRS 15, a receivable is recognised when the right to consideration is unconditional. Typically, for a non-cancellable contract this happens when the Group starts providing the service. Under IAS 18 receivables were recognised based on the billing arrangement agreed under the contract, even where the contract was not unconditional or the group had not started providing services under the contract. As a result, compared to previous policies the amount recognised as a receivable decreased with a corresponding decrease in deferred income.

Quantitative impact of policy changes on consolidated balance sheet at 1 October 2018

The financial impact of the policy changes explained above on the Group's consolidated balance sheet on initial application is as follows:

								As at 1 October 2018
	Unbundling of subscription software £m	Non-refundable contract sign-up fees £m	Costs of obtaining customer contracts £m	Business partner arrangements £m	Timing of recognising a receivable £m	Other adjustments £m	Tax impact £m	Total Impact £m
Non-current Assets								
Trade and other receivables	–	–	34	–	–	–	–	34
Deferred income tax assets	–	–	–	–	–	–	(4)	(4)
Current assets								
Trade and other receivables	–	–	4	16	(43)	–	–	(23)
Current Liabilities								
Deferred income	21	(21)	–	(16)	43	(6)	–	21
Non-current Liabilities								
Deferred income tax liabilities	–	–	–	–	–	–	(4)	(4)
Net assets	21	(21)	38	–	–	(6)	(8)	24
Total equity	21	(21)	38	–	–	(6)	(8)	24

Primary statements under IAS 18

The Group's consolidated financial statements for the year ended 30 September 2019 are prepared in accordance with IFRS 15; comparative periods have not been restated. Where there are differences between the primary consolidated financial statements presented in accordance with IFRS 15 and comparable presentation under the Group's previous revenue accounting policy (in accordance with IAS 18 "Revenue"), the effects are disclosed below. The Group's consolidated statement of cash flows is not affected by the implementation of IFRS 15 and so is not re-presented.

Consolidated income statement (reconciliation to IAS 18)

Year ended 30 September 2019	IFRS 15 basis £m	Adjustments £m	IAS 18 basis £m
Revenue	1,936	(8)	1,928
Cost of sales	(138)	(6)	(144)
Gross profit	1,798	(14)	1,784
Selling and administrative expenses	(1,416)	7	(1,409)
Operating profit	382	(7)	375
Finance income	8	–	8
Finance costs	(29)	–	(29)
Profit before income tax	361	(7)	354
Income tax expense	(95)	2	(93)
Profit for the year	266	(5)	261

Earnings per share attributable to the owners of the parent (pence)			
Basic	24.49p		24.03p
Diluted	24.29p		23.83p

Under IFRS 15 basis revenue from software licence and support showed a net increase of £8m, with most of the difference resulting from an increase in the number of business partner arrangements where the end user is considered to be the customer for the Group and by upfront recognition of software for certain on-premise subscription contracts. This is mitigated by a revised revenue pattern for non-refundable contract sign up fees which are spread over the anticipated period of benefit to the customer.

Cost of sales showed a net decrease of £6m, with most of the difference resulting from business partner arrangements where there is a change in principal versus agent assessment for third party products.

Selling and administrative expenses showed a net increase of £7m, with most of the difference resulting from an increase in the number of business partner arrangements where the end user is considered to be the customer under IFRS 15. This is mitigated by higher capitalisation of sales commissions offset by the related amortisation charge.

Consolidated balance sheet (reconciliation to IAS 18)

30 September 2019	IFRS 15 basis £m	Adjustments £m	IAS 18 basis £m
Non-current assets			
Goodwill	2,098	–	2,098
Other intangible assets	228	–	228
Property, plant and equipment	117	–	117
Fixed asset investment	–	–	–
Other financial assets	4	–	4
Trade and other receivables	73	(65)	8
Deferred income tax assets	31	1	32
	2,551	(64)	2,487
Current assets			
Trade and other receivables	364	11	375
Current income tax asset	3	–	3
Cash and cash equivalents (excluding bank overdrafts)	371	–	371
Assets classified as held for sale	63	(1)	62
	801	10	811
Total assets	3,352	(54)	3,298
Current liabilities			
Trade and other payables	(291)	–	(291)
Current income tax liabilities	(32)	2	(30)
Borrowings	(122)	–	(122)
Provisions	(11)	–	(11)
Deferred income	(637)	16	(621)
Liabilities classified as held for sale	(33)	–	(33)
	(1,126)	18	(1,108)
Non-current liabilities			
Borrowings	(643)	–	(643)
Post-employment benefits	(25)	–	(25)
Deferred income tax liabilities	(24)	7	(17)
Provisions	(15)	–	(15)
Trade and other payables	(7)	–	(7)
Deferred income	(8)	–	(8)
	(722)	7	(715)
Total liabilities	(1,848)	25	(1,823)
Net assets	1,504	(29)	1,475
Equity attributable to owners of the parent			
Ordinary shares	12	–	12
Share premium	548	–	548
Other reserves	184	–	184
Retained earnings	760	(29)	731
Total equity	1,504	(29)	1,475

Under IFRS 15 basis non-current trade and other receivables are higher by £65m (FY18: higher by £34m) due to the higher capitalisation of sales commissions.

Current trade and other receivables are lower by £11m (FY18: £23m), resulting from changes in the timing of and amounts recognised as receivables and the capitalisation of business partner commissions where the end user is considered to be the customer under IFRS 15, with corresponding impact in current deferred income.

Current deferred income is higher by £16m (FY18: £21m), resulting from revised revenue pattern for non-refundable contract sign up fees which are spread over the anticipated period of benefit to the customer and the capitalisation of business partner commissions where the end user is considered to be the customer under IFRS 15, with corresponding impact in current deferred income. This is mitigated by changes in the timing of and amounts recognised as receivables and by upfront recognition of software for certain on-premise subscription contracts.

Deferred income tax assets are lower by £1m (FY18: £4m), current income tax liabilities and deferred income tax liabilities are higher by £2m and £7m (FY18: £nil and £4m respectively) due to the tax impact of the above adjustments.

13 Related party transactions

The Group's related parties are its subsidiary undertakings and its key management personnel, which comprises the Group's Executive Committee and non-executive directors. Prior to 17 March 2018, related parties also included the Group's investment in its associated undertaking. Transactions and outstanding balances between the parent and its subsidiaries within the Group and between those subsidiaries and have been eliminated on consolidation and are not disclosed in this note.

Key management compensation	**2019 £m**	2018 £m
Salaries and short-term employee benefits	**9**	4
Post-employment benefits	**–**	–
Share-based payments	**7**	2
	16	6

The key management figures given above include the executive directors of the Group.

14 Post-balance sheet events

An agreement was signed on 18 November 2019, for the sale of the Group's Sage Pay business for £232m (subject to customary debt and working capital adjustments) to Elavon Inc., a subsidiary of U.S. Bancorp. Sales proceeds are payable in cash upon completion. The business was classified as held for sale at 30 September 2019 (see note 11) and is part of the Group's Northern Europe reportable segment. Completion of the transaction and loss of control is expected to occur in Q2 FY20, subject to Elavon Inc. obtaining regulatory approval by the Board of Governors of the Federal Reserve System in the United States as well as the Central Bank of Ireland. The statutory gain on the transaction is expected to be approximately £180m on completion.

The board has approved a capital return of £250m, largely reflecting the expected proceeds from the disposal of Sage Pay.

Leveraging Our Risk Profile

The effective management of strategic and operational risk is critical to the success of Sage's strategy. This year we have introduced "on demand, always on" risk reporting that provides real-time risk information to leaders across the business, further enhancing their ability to make risk informed decisions in a timely manner. We also continued to drive organisational engagement with the risk process through the use of a company-wide Governance, Risk and Compliance tool.

The Board conducted an ongoing assessment of the principal risks facing the Company throughout the year. Through this process, we evolved and aligned our principal risks to reflect our three strategic lenses of Customer Success, Innovation and Colleague Success. Regular monitoring of our position against risk appetite targets helped drive action-focused risk management decision making by our Principal Risk Owners.

We focused on monitoring those risk metrics that would signal current performance, as well as help us to identify emerging issues. Executive leaders managed our principal risks, with accountability for other risks managed in accordance with our risk management framework.

Principal Risk	Risk Context	Management and Mitigation
Understanding Customer Needs If we fail to understand the products and services our current and future customers need to be successful, they will find alternative solution providers. *Strategic lens alignment:* ***Customer Success***	Sage is the leader in key global markets, and we can use this position to gather valuable insights into what our current and future customers want and need. It can also help us to better understand the strengths and weaknesses of our products and services, and better position those products and services to meet the needs of our current and future customers. By understanding the specific needs of these customer groups in each country and region, we will be better positioned to efficiently manage our products, marketing efforts and support services. This in turn will allow us to maximise our return on investment, and retain a loyal customer and partner base over the long term.	• Detailed customer segment and sector analysis was used to develop segment-specific playbooks that support customer-focused development • An Accountants Advisory Board was established to provide a feedback loop into the small business segment • Customer Advisory Boards, Customer Design Sessions and NPS detractor call-back channels are used to constantly gather information on customer needs • A Market and Competitive Intelligence team provides insights that Sage uses to win in the market • A product re-naming exercise was completed to simplify the purpose of each product, and assist with customer understanding, including the return to the X3 name based on customer feedback • Ongoing refinement and improvement of market data through feedback from the business and partners • Commenced the internationalisation of Sage Intacct with a product launch in Australia to meet the needs of the medium business segment In progress: • Making further investments in technology that can help us better identify which customers may not be utilising their software as fully as possible, allowing us to intervene early and support their success • Continue the internationalisation of Sage Intacct to meet the needs of the medium business segment

Principal Risk	Risk Context	Management and Mitigation
Product Strategy If we fail to develop and manage a prioritised strategy for our products that is aligned with our goals and delivers against customer needs, there is a significant financial risk that customers will go elsewhere. Strategic lens alignment: ***Customer Success*** ***Innovation***	A key component of Sage's transition to a Software as a Service (SaaS) company is the delivery of cloud-connected and cloud-native products. To achieve this, we will need to execute on a prioritised product strategy that moves our product portfolio to cloud-native solutions. This may include a transitional period of cloud-connected products, with a clear path to the cloud-native products our current and future customers desire.	• Following a product rationalisation and prioritisation exercise Sage's product strategy has been updated to focus strongly on the small and medium business segments, delivering against defined sectors within these segments in key territories • Acquisition and divestiture activities have been completed and are ongoing to align Sage's operating model with these segment and sector priorities • A licensing model transition strategy is in place, anchored on the Sage Business Cloud • Sage Business Cloud is available in United Kingdom and Ireland, North America, France and Spain • A Product Marketing team oversees competitive positioning and product development to align products with the needs of our customers In progress: • Embedding of the updated operating model for the business to reflect and support the segment model • The internationalisation of key cloud-native products (Sage Intacct and Sage People) will continue
Innovation If we fail to encourage and sustain the innovation that is required to create disruptive technologies, processes and services, we will fail to deliver on our commercial goals. Strategic lens alignment: ***Customer Success*** ***Innovation***	As Sage transitions into an SaaS business powered by a subscription licence model, we must be able to rapidly deploy new innovations to our customers and partners. This innovation could relate to new technologies, services, or new ways of working. Innovation will require us to address how we encourage innovation across our people, process and technology, and how we make this innovation sustainable. By building innovation into our collective DNA, we can empower our colleagues to improve the customer experience, and drive efficiencies in how we deliver our products and services. By strategically investing in platforms and relationships, we can also harness the innovation of our partners. By providing opportunities for our partners to interact with our products we can drive scalable growth and improve the customer experience.	• Integration of the Pegg chat bot across Sage's products and internal processes to enhance the customer and colleague experience using artificial intelligence • Service Fabric is being implemented to support the rapid development and deployment of shared features in cloud products • Prioritised product development based on the updated Product Strategy, focusing on delivery of key segment and sector capabilities • Refinement of data principles to guide how data will be used and protected in innovation and product delivery activities • Strategic acquisitions such as AutoEntry to complement and enable accelerated innovation • Development of an incubation framework to guide how Sage interacts with its innovation partners • Activities to drive colleague engagement such as hackathons and idea competitions In progress: • Simple, smart and open technology strategy to provide API and microservices through a Sage Developer Platform • Platform Services delivered to Sage Business Cloud to enhance value proposition for cloud adoption

Principal Risk	Risk Context	Management and Mitigation
Route to Market If we fail to identify, develop and maintain a blend of channels to market, our ability to sell and support the right products and services to the right customers at the right time is reduced. *Strategic lens alignment:* ***Customer Success***	By offering our current and potential customers the right information on the right products and services at the right time, we can maximise the value we can obtain from our marketing and customer engagement activities. This can shorten our sales cycle, and ensure that customer retention is improved. It can also use new products and services, such as payments and banking technologies, to draw new customers into the Sage family.	• The Go-To-Market function was re-organised to reflect the new segment-based operating model, with a strong focus on the UK and North America • Market data and intelligence is disseminated internally to support decision makers in the best routes to market • Dedicated colleagues are in place to support partners, and to help manage the growth of targeted channels • The Sage Partner Programme has been moved into the Marketing organisation to drive increased alignment of the indirect channel to market • New routes to market continue to be opened through our partnerships with payment and banking technology providers In progress: • The internationalisation of key cloud-native products (Sage Intacct and Sage People) has continued through a partner-led approach • Embedding of the updated operating model for the business to reflect and support the segment model, including the differentiation between direct and indirect channels
Customer Success If we fail to align front and back office activities to deliver the best possible customer experience, including the cloud-based products our customers need to be successful, we will not be able to achieve sustainable growth. *Strategic lens alignment:* ***Customer Success*** ***Colleague Success***	In becoming a true SaaS business, we must maintain a sharp focus on the relationship we have with our customers, constantly focusing on delivering the products, services and experiences our customers need to be successful. If we do not do this, they will likely find another provider who does give them these things. Conversely, if we do these things well these customers will stay with Sage, increasing their lifetime value, becoming our greatest marketing advocates. While Sage is renowned for its quality customer support, a focus on Customer Success requires more proactive engagement as well. By proactively helping customers to recognise and fully realise the value of Sage's products we can help increase the value of these relationships over time, and reduce the likelihood of customer loss. By aligning our people, processes and technology with this focus in mind, all Sage colleagues can help support our customers to be successful and in turn drive increased financial performance.	• Battlecards are in place for key products in all countries, setting out the strengths and weaknesses of competitors and their products • Segment and product roadmaps are in place, detailing how products fit together, any interdependencies, and migration pathways for current and potential customers • A data-driven Customer Success Framework is being rolled out in the UKI and US to enhance the customer experience and ensure that Sage is better positioned to meet the current and future needs of the customer • Continuous Net Promoter Score (NPS) surveying on a segment and channel basis allows Sage to identify customer challenges rapidly, and respond in a timely manner to emerging trends • 'Large' account managers are in place to provide a single point of contact for X3 customers, and are empowered to resolve customer issues at first contact In progress: • Consolidation of CRM systems continues to provide an efficient single view of the customer across all markets • The Customer Success Framework is being rolled out in phases to other major markets to improve the customer experience

Principal Risk	Risk Context	Management and Mitigation
Third Party Reliance If we fail to develop, manage and maintain relationships with third parties that are critical to the delivery of our products and services, we could suffer significant reputational and financial damage. *Strategic lens alignment:* ***Customer Success***	Sage has an increasing reliance on third-party providers that support the delivery of our products to our customers. Any interruption in these services or relationships could have a profound impact on Sage's reputation in the market and could result in significant financial liabilities and losses. Equally, Sage has an extensive network of sales partners critical to our success in the market. Carefully selecting, managing and supporting these partners is critical to how we grow our business, as well as ensuring that we only engage with those people and organisations that share Sage's values and aspirations. As Sage continues its transition into an SaaS business, this will likely split into two risks. The first of these will focus on our key supplier dependencies, while the second will consider the risks specifically associated with our partner relationships.	• Dedicated colleagues are in place to support partners, and to help manage the growth of targeted channels • Standardised implementation plans for Sage products that facilitate efficient partner implementation • A specialised Procurement function supports the business with the selection of strategic third-party suppliers and negotiation of contracts, and to support the ongoing management of key suppliers that are critical to product and service delivery • Clear roles and responsibilities for colleagues are outlined in the Procurement Lifecycle Policy and Procedures, which includes delegated levels of authority for investment approval • A Value-Added Reseller (VAR) programme was piloted in the UK, Canada, US and South Africa to enhance partner account manager capability • An Independent Software Vendor (ISV) programme was launched in the UK and US to simplify how ISVs engage with Sage and provide them with a consistent partnership experience In progress: • Rationalisation of targeted channels is continuing to focus on value-add activities • Managed growth of the API estate, including enhanced product development that enables access by third-party API developers
Sustainable Processes and Controls If we fail to apply sustainable and repeatable end-to-end business processes and controls, we will not be able to deliver against our goals. *Strategic lens alignment:* ***Customer Success*** ***Innovation*** ***Colleague Success***	Sage operates in multiple geographies and market segments which require sustainable processes to drive operational efficiencies. By consistently delivering the right outcome from its business processes each and every time, Sage is able to efficiently and effectively deliver an improved customer experience. By embedding a common business control framework that prioritises the critical people, process and technology, the organisation can focus on delivering the right outcomes at the right time. By simplifying our control environment, we can also drive an improved focus on those outcomes that help support Customer Success, in turn helping to sustain our subscription growth.	• Global and Regional Risk Committees oversee the risk and internal control environment, and set the tone-from-the-top • The Sage Governance, Risk and Compliance technology solution automates risk and compliance activity, and provides a consolidated view of risk, compliance and control environment • The Sage Compliance Hub provides a one stop repository and alert mechanism for the organisation, simplifying how Sage colleagues interact with and manage their compliance obligations • Shared Service Centres in Newcastle, Johannesburg and Atlanta enable the implementation of consistent and standardised systems and processes • Policy Approval Committee is in place to supervise and approve policies within the Sage-wide policy suite • Sage's business control framework, focused on 14 key processes, is starting to drive standardisation of practice and process across the business In progress: • The Business Control Framework continues to evolve as a way of supporting Sage's consistent approach to control

Principal Risk	Risk Context	Management and Mitigation
Colleague Success If we fail to ensure we have colleagues with the critical skills, capabilities and capacity we need to deliver on our strategy, we will not be successful. *Strategic lens alignment:* ***Customer Success*** ***Colleague Success***	As Sage transitions into a SaaS business, the capacity, knowledge and leadership skills we need will change. Sage will not only need to attract the talent and experience we will need to help navigate this change, we will also need to provide an environment where colleagues can develop to meet these new expectations. By empowering colleagues and leaders to make decisions, be innovative, and be bold in delivering on our commitments, Sage will be able to create an attractive working environment. By addressing drivers of colleague turn-over, and embracing the values of successful SaaS businesses, Sage can increase colleague engagement and create an aligned workforce.	• The Look, Evaluate, Assist, Deliver (L.E.A.D). performance development programme was embedded across the business to support leaders and colleagues manage their career performance • Our Sage Business Cloud People solution is used across the business to enhance colleague experience • Conducted multiple activities throughout the year to give colleagues a voice on what helps their engagement, including regular colleague pulse surveys, and the Big Conversation • Fully embedded Sage Learning and deployed the Leading@Sage and Growing@Sage training programmes to support colleague and leader development competencies • Sage Save and Share scheme opened for a second year, with over 25% of colleagues now invested • Career frameworks were embedded within the Product and Services functions to support colleague growth, development and retention In progress: • Development of an executive development programme that helps develop our next generation of senior and executive leaders • Focused efforts continue to be developed to address regional and functional retention drivers

Principal Risk	Risk Context	Management and Mitigation
Values and Behaviours If we do not fully empower our colleagues in line with our shared values, we will fail to develop the behavioural competencies required to be a successful SaaS business. *Strategic lens alignment:* ***Customer Success*** ***Colleague Success***	The development of a shared behavioural competency that encourages colleagues to think small and act big will be critical in Sage's successful transition to an SaaS business. Devolution of decision making, and the acceptance of accountability for these decisions, will need to go hand in hand as the organisation develops and sustains its shared values and behaviours, and develops a true SaaS culture. Sage will also need to create a culture of empowered leaders that support the development of ideas, and that provides colleagues with a safe environment that allows for honest disclosures and discussions. Such a trusting and empowered environment can help sustain innovation, enhance customer service and drive the engagement that results in increased market share.	• Code of Conduct communicated to all colleagues, and subject to annual certification • Refreshed and delivered Sage's values and behaviours, focusing on how we deliver against our three strategic lenses • The L.E.A.D. programme explicitly required colleagues to consider how their behaviours helped them meet their goals, alongside the actual performance delivered • Whistleblowing and Incident Reporting mechanisms are in place to allow issues to be formally reported, and investigated • All colleagues are empowered to take up to five paid Sage Foundation days each year, to support charities and provide philanthropic support to the community • Core eLearning modules have been rolled out across the enterprise, with annual refresher training • Compliance training has been transitioned into role-based education as a way of supporting colleagues to apply expected values and behaviours • A business integrity dashboard has been developed and delivered to all regions to provide leaders with metric-based data on colleague values and behaviours • In-person anti-bribery and corruption training has been delivered to all assessed higher risk regions In progress: • Embedding of the refreshed values and behaviours across the business • Ongoing enhancements to the delivery of mandatory training to help increase colleague engagement and retention

Principal Risk	Risk Context	Management and Mitigation
Information as an Asset If we fail to manage, protect and maximise the value of our data, we will not be able to realise the full potential of our assets. *Strategic lens alignment:* ***Customer Success*** ***Innovation***	Information is the life blood of a SaaS business – it tells us how we create revenue, how we can improve the customer experience, and how we can meet our obligations and commitments. Analysed using manual and machine learning, it provides us with the intelligence we need to run and build our business. Protecting the confidentiality, integrity and accessibility of this data is critical for a data-driven business. The hardening post-General Data Protection Regulation (GDPR) external environment has resulted in increased risk likelihood and potential for financial and regulatory consequences.	• The IT and Product functions have been realigned under Executive leadership to deliver against Sage's strategy • A product data strategy, accompanied by data principles, is being refined to help guide and support the use of data internally, and in the ongoing development of new solutions and services • Accountability is established within both IT and Product for all internal and external data being processed by Sage. Sage Chief Information Security Officer oversees information security, with a network of Information Security Officers that directly support the business • The Chief Data Protection Officer oversees information protection and development for Sage • A network of country-level data champions support the business in embedding Sage practices across the organisation, with a particular focus on the requirements of the GDPR • Formal certification schemes are maintained, across appropriate parts of the business, and include internal and external validation of compliance • An incident management framework is in place, which includes rating of incidents and requirements for notification and escalation, and online incident reporting to Sage Risk • All colleagues are required to undertake awareness training for information management and data protection, with a focus on the GDPR requirements. Colleagues who frequently handle personal data also undertake role-based training In progress: • A review of how Sage can provide maximum value to its current and future customers, including through the use of enhanced AI/ML capabilities in its products, aligned with the data principles

Statement of Directors' Responsibilities

Responsibility statement of the Directors on the Annual Report & Accounts

The Annual Report & Accounts for the year ended 30 September 2019 includes the following responsibility statement.

The Directors as at the date of this report, whose names and functions are listed in the Board of Directors section of the Annual Report and Accounts, confirm that:

- To the best of their knowledge, the Group's financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- To the best of their knowledge, the Directors' report and the Strategic report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board

Steve Hare
Chief Executive Officer
19 November 2019