Contents
Group financial statements

Independent auditor's report to the members of the Sage Group plc

Our opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 September 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

What we have audited

The Sage Group plc's financial statements comprise:

Group	Parent company
Consolidated balance sheet as at 30 September 2016	Company balance sheet as at 30 September 2016
Consolidated income statement for the year then ended	Company statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Company accounting policies
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 9 to the financial statements
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 18 to the financial statements	

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Overview of our audit approach

Risks of material misstatement	– Revenue recognition – Carrying value of goodwill – **(New in 2016)** Changes in finance systems and processes, including classification of restructuring costs as non-recurring as a result of the Group's business transformation
Audit scope	– We performed an audit of the complete financial information of 6 components and audit procedures on specific balances for a further 6 components. – The components where we performed full or specific audit procedures accounted for 99% of adjusted Profit before tax* and 90% of Revenue.
Materiality	– Overall Group materiality was £19.1m which represents 5% of adjusted Profit before tax*.

Note:
* Profit before tax adjusted for non-recurring items as defined in the 'Our application of materiality' section of this report

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Revenue recognition Refer to the Audit and Risk Committee Report (page 76); and Notes 1 and 3.1 of the Group financial statements The Group has reported revenues of £1,569.1m (2015: £1,435.5m). We identified 3 specific risks of fraud and error in respect of improper revenue recognition given the nature of the Group's products and services as follows: – Inappropriate cut-off and deferral of revenue;	At each full and specific scope audit location with significant revenue streams: – We performed walkthroughs of each significant class of revenue transactions and assessed the design effectiveness of key controls. For 4 components we tested the operating effectiveness of controls. – For products and services where the risks and rewards are transferred over a period of time, we tested a sample of transactions to ensure that the amount of revenue was accurately calculated based on the state of completion of the contract and recognised in the appropriate period. – Our procedures in relation to inappropriate accounting for complex one-off arrangements, changes to existing products and new products or services ensured that the policies adopted were appropriate and consistently applied.	Based on the procedures performed, we did not identify any evidence of material misstatement in the revenue recognised in the year and deferred at 30 September 2016.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Revenue recognition continued – Inappropriate accounting for complex one-off arrangements; changes to existing products and new products or services; and – Inappropriate allocation of revenue between the components of bundled products. There is no change in the risk profile in the current year.	– For bundled products, we tested on a sample basis, that (1) the calculation of the fair value attributed to each element of the bundle was reasonable, and (2) that the allocation of any discount was consistent with the relative fair value of each element of the bundle. – We performed other substantive, transactional testing and analytical procedures to validate the recognition of revenue throughout the year. Where practicable, at component level we performed testing over full populations of transactions using data analysis. – For revenue recorded through journal entries outside of normal business processes, we performed testing to establish whether a service had been provided or a sale had occurred in the financial year to support the revenue recognised We also considered the adequacy of the Group’s disclosures for the accounting policies for revenue recognition in notes 1 and 3.1 respectively.	
	At each full and specific scope audit location with significant revenue streams (9 components) we performed audit procedures which covered 90% of the Group’s revenue. We also performed review procedures in 6 locations, which covered a further 8% of the Group’s revenue.	
Carrying value of goodwill Refer to the Audit and Risk Committee Report (page 76); and Notes 1 and 6 of the Group financial statements We focussed on this area due the size of the goodwill balance £1,658.5m (2014: £1,446m) and because the directors’ assessment of ‘value in use’ of the Group’s Cash Generating Units (“CGUs”) involves judgement about the future performance of the business and the discount rates applied to future cash flow forecasts. The risk has decreased in the year as the goodwill most sensitive to a material impairment was fully impaired in the prior year.	We challenged management’s assumptions used in its impairment models for assessing the recoverability of the carrying value of goodwill. We focused on the appropriateness of CGU identification, methodology applied to estimate recoverable values, discount rates, and forecast cash flows. Specifically – We have validated that the CGUs identified are the lowest level at which management monitors goodwill. – We tested the methodology applied in the value in use calculation as compared to the requirements of IAS 36, Impairment of Assets, and the mathematical accuracy of management’s model. – We obtained an understanding of, and assessed the basis for, key underlying assumptions for the 2017 budget. – We have validated that the cash flow forecasts used in the valuation are consistent with information approved by the Board and have reviewed the historical accuracy of management’s forecasts. – We challenged management on its cash flow forecasts and the implied growth rates for 2017 and beyond by considering evidence available to support these assumptions and their consistency with findings from other areas of our audit. – The discount rates and long term growth rates applied within the model were assessed by an EY business valuation specialist, including comparison to economic and industry forecasts where appropriate – For all CGUs, we performed sensitivity analyses by stress testing key assumptions in the model with downside scenarios to understand the parameters that, should they arise, could lead to a different conclusion in respect of the carrying value of goodwill. We considered the appropriateness of the related disclosures provided in note 6.1 in the Group financial statements. The entire goodwill was subject to full scope audit procedures by the Primary audit team.	Based on the results of our work, we agree with management’s conclusion that no impairment of goodwill is required in the current year. We agree with management that no reasonably possibly change in assumptions would result in a material impairment in any Cash Generating Unit and hence no additional sensitivity disclosures are required in note 6.1 of the Group financial statements.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
(New in 2016) Changes in finance systems and processes, including classification of restructuring costs as non-recurring as a result of the Group's business transformation Refer to the Audit and Risk Committee Report (page 76); and Note 3.6 of the Group financial statements We focussed on this area as the Group commenced its finance transformation in the current year which included for the UK and South Africa the implementation of its X3 ERP system for certain processes and the establishment of Financial Shared Services Centres. During a period of finance operational and systems changes there is an increased risk to the internal financial control environment. In addition costs of £109.9m have been classified as non-recurring on the basis that they relate to the Group's business transformation and consequently are excluded from the Group's underling results. As such, the audit team focussed its procedures on the following risks: – Inappropriate classification of costs as non-recurring; – Inconsistent treatment of non-recurring items from year to year; and – Inappropriate quantification of non-recurring items and recognition of amounts in an incorrect accounting period.	We performed the following procedures in respect of the X3 implementation for certain processes in both the UK and South Africa: – Walkthroughs of new processes, and identification of key IT dependent manual and IT application controls; – Obtained an understanding of data cleansing prior to migration, and tested data migration with associated reconciliations; – Discussed and assessed IT access and segregation of duties for all users; and – Inspected evidence in respect of project governance, and in particular in relation to key gateway decisions. Whilst our audit strategy did not seek to rely on controls over the processes impacted by the changes in finance operations and X3 implementation, in performing our substantive audit procedures, we evaluated the robustness of the financial statement close process in both Financial Shared Services Centres at the year end. With respect to the non-recurring transformation costs: – We assessed whether the constituent costs are recorded in line with the Group's policy as summarised in Note 3.6 and that the policy has been applied consistently with prior years. – We tested a sample of costs classified as non-recurring to verify that they are directly attributable to the business transformation and are recorded at the correct amount and in the appropriate period. – We considered the level of transparency of the disclosures provided in note 6.3 in the Group financial statements with reference to the Financial Reporting Council's 2013 guidance to directors on the use of exceptional items. Component teams at 6 locations performed audit procedures on people related reorganisation costs and on certain net property exit costs. The Primary audit team performed audit procedures on the remaining business transformations costs.	Based on the procedures performed, for the relevant processes we were satisfied that data had been appropriately migrated from legacy systems to X3 and the access to the system was properly set up. Whilst the processes subject to change in both locations did not generally impact our procedures in respect of the significant audit risk of revenue recognition, we noted a number of control observations which are currently being addressed as part of management's stabilisation plan prior to further migration of finance operations in to the European Financial Shared Services Centre in 2017. Based on the procedures performed, we did not identify any evidence of material misstatement of business transformations costs and that the classification of these costs as non-recurring was in accordance with the Group's disclosed accounting policy. On the basis that further costs are anticipated to be incurred and reported as non-recurring in 2017, we recommended that appropriate disclosure outlining the rationale for the expense timeline is included in the Group financial statements.

In the prior year, our auditor's report included a risk of material misstatement in respect of 'Accounting for taxation'. Following our first year audit in 2015, the audit team re-assessed this audit risk and no longer considers it a risk of material misstatement that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of efforts in the audit team.

The scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each component within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent Internal Audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 46 reporting components of the Group, we selected 12 components covering entities within UK and Ireland, France, Germany, Spain, North America, South Africa, and Brazil which represent the principal business units within the Group.

Of the 12 components selected, we performed an audit of the complete financial information of 6 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 6 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. For the remaining 34 components, audit procedures were undertaken as set out in Note 4 below to respond to any potential risks of material misstatement to the Group financial statements.

Reporting components	2016 Number	2016 % Group adjusted Profit before tax	2016 % Group Revenue	2016 See note	2015 Number	2015 % Group adjusted Profit before tax	2015 % Group Revenue
Full scope	**6**	**68%**	**58%**	**1,2**	6	63%	58%
Specific scope	**6**	**31%**	**32%**	**2,3**	6	27%	32%
Full and specific scope coverage	**12**	**99%**	**90%**		12	90%	90%
Remaining components	**34**	**1%**	**10%**	**4**	33	10%	10%
Total Reporting components	**46**	**100%**	**100%**		45	100%	100%

Notes:

1. 3 of the 6 full scope components relate to the parent company and other corporate entities whose activities include the Group's treasury management and consolidation adjustments. The Group audit risk in relation to the carrying value of goodwill was subject to audit procedures by the Primary audit team on the entire balance.
2. The Group audit risk in relation to revenue recognition was subject to full audit procedures at each of the full and specific scope locations with significant revenue streams.
3. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts selected for testing by the Primary audit team.
4. The remaining 34 components contributed a net 1% of adjusted Profit before tax and none are individually greater than 3% of the Group's adjusted Profit before tax. We instructed a component team to undertake specified procedures over certain cash balances at one location. For 6 components, including 2 in Asia and Australia, we performed review scope procedures. For the remaining components, the Primary audit team performed other procedures, including analytical review procedures and testing of consolidation journals, intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the Primary audit team, or by component auditors from other EY global network firms operating under our instruction. Of the 6 full scope components, audit procedures were performed on 3 of these directly by the Primary audit team and 3 by component audit teams. For the 6 specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement with the component teams to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

At the start of the audit, a Global Team Planning Event was held in the UK with representatives from all full and specific scope component audit team in attendance. In addition, the Primary audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor, or her designate, would visit all full and selected specific scope audit locations. During the current year's audit cycle, visits were undertaken at least once by the primary audit team to the component teams in the UK, France, Spain, North America, and South Africa. These visits involved discussing the audit approach with the component team and any issues arising from their work, meeting with local management, and reviewing key audit working papers on the Group risk areas. The Primary audit team interacted regularly with the component teams where appropriate during various stages of the audit, attended all closing meeting calls, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £19.1 million (2015: £16.9 million), which is 5% (2015: 5%) of Profit before tax adjusted for non-recurring items reported by the Group. We believe that adjusted Profit before tax provides us with a consistent year on year basis for determining materiality and is the most relevant performance measure to the stakeholders of the entity. Non-recurring items are set out in Note 3.6 of the Group's financial statements. Given the scale of, and multi-year timeline for, the Group's business transformation, further non-recurring transformation costs will be incurred in 2017.

During the course of our audit, we reassessed initial materiality and the only change in the final materiality from our original assessment at planning was to reflect the actual reported performance of the Group in the year.

Starting basis

- Profit before tax – £274.5m

Adjustments

- Adjusted for non recurring items
- Business transformation costs of £109.9m
- Recovery of litigation costs of £2.2m

Materiality

- Totals £382.2m materiality basis
- Materiality of £19.1m (5% of materiality basis)

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2015: 50%) of our planning materiality, namely £9.5m (2015: £8.5m). Our performance materiality percentage has remained at 50% to reflect the risk associated with the Group wide business transformation, and specifically changes across the finance organisation that commenced during the current year, which included for the UK and South Africa the implementation of their respective X3 ERP system for certain processes and the establishment of Financial Shared Services Centres.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to full and specific scope components was £0.9m to £5.2m (2015: £0.9m to £4.3m).

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £1.0m (2015: £0.9m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts 2016 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 105, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

ISAs (UK and Ireland) reporting	We are required to report to you if, in our opinion, financial and non-financial information in the annual report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or – otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed.	We have no exceptions to report.
Companies Act 2006 reporting	We are required to report to you if, in our opinion: – adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or – the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or – certain disclosures of directors' remuneration specified by law are not made; or – we have not received all the information and explanations we require for our audit.	We have no exceptions to report.
Listing Rules review requirements	We are required to review: – the directors' statement in relation to going concern and longer-term viability, both set out on page 101; and – the part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review.	We have no exceptions to report.

Statement on the Directors' Assessment of the Principal Risks that Would Threaten the Solvency or Liquidity of the Entity

ISAs (UK and Ireland) reporting	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: – the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; – the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated; – the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and – the directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Alison Duncan (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
29 November 2016

Notes:

1. The maintenance and integrity of the The Sage Group plc's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement
For the year ended 30 September 2016

	Note	**Underlying 2016 £m**	**Adjustments (note 3.6) 2016 £m**	**Statutory 2016 £m**	Underlying as reported * 2015 £m	Adjustments (note 3.6) 2015 £m	Statutory 2015 £m
Revenue	2.1, 3.1	**1,569.1**	**–**	**1,569.1**	1,435.5	–	1,435.5
Cost of sales		**(103.0)**	**–**	**(103.0)**	(86.7)	–	(86.7)
Gross profit		**1,466.1**	**–**	**1,466.1**	1,348.8	–	1,348.8
Selling and administrative expenses		**(1,039.1)**	**(126.6)**	**(1,165.7)**	(968.9)	(82.7)	(1,051.6)
Operating profit	2.2, 3.2, 3.3, 3.6	**427.0**	**(126.6)**	**300.4**	379.9	(82.7)	297.2
Share of loss of an associate	8	**(0.4)**	**(0.6)**	**(1.0)**	–	–	–
Finance income	3.5	**2.4**	**2.7**	**5.1**	2.2	–	2.2
Finance costs	3.5	**(24.1)**	**(5.9)**	**(30.0)**	(23.6)	–	(23.6)
Profit before income tax		**404.9**	**(130.4)**	**274.5**	358.5	(82.7)	275.8
Income tax expense	4	**(105.1)**	**38.2**	**(66.9)**	(90.3)	8.8	(81.5)
Profit for the year		**299.8**	**(92.2)**	**207.6**	268.2	(73.9)	194.3
Profit attributable to:							
Owners of the parent		**299.8**	**(92.2)**	**207.6**	268.2	(73.9)	194.3
Earnings per share attributable to the owners of the parent (pence)							
– Basic	5	**27.84p**		**19.28p**	25.00p		18.11p
– Diluted	5	**27.67p**		**19.16p**	24.85p		18.00p

All operations in the year relate to continuing operations.

Note:

* Underlying as reported is at 2015 reported exchange rates.

Consolidated statement of comprehensive income
For the year ended 30 September 2016

	Note	**2016 £m**	2015 £m
Profit for the year		**207.6**	194.3
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss:			
Actuarial loss on post-employment benefit obligations	11, 15.4	**(2.2)**	(4.8)
Deferred tax credit on actuarial loss on post-employment benefit obligations	4, 15.4	**0.8**	0.6
		(1.4)	(4.2)
Items that may be reclassified to profit or loss:			
Deferred tax credit on foreign currency movements	4, 15.3	**2.6**	–
Exchange differences on translating foreign operations	15.3	**117.1**	(23.2)
		119.7	(23.2)
Other comprehensive income/(expense) for the year, net of tax		**118.3**	(27.4)
Total comprehensive income for the year		**325.9**	166.9
Total comprehensive income for the year attributable to:			
Owners of the parent		**325.9**	166.9

Consolidated balance sheet
As at 30 September 2016

	Note	2016 £m	2015 £m
Non-current assets			
Goodwill	6.1	**1,658.5**	1,446.0
Other intangible assets	6.2	**109.3**	105.5
Property, plant and equipment	7	**123.4**	122.7
Investment in an associate	8	**9.0**	–
Other financial assets		**2.7**	–
Deferred income tax assets	12	**58.4**	34.2
		1,961.3	1,708.4
Current assets			
Inventories	9.1	**2.1**	2.0
Trade and other receivables	9.2	**419.5**	320.9
Current income tax asset		**7.9**	–
Cash and cash equivalents (excluding bank overdrafts)	13.3	**264.5**	263.4
Assets classified as held for sale	16.3	**1.0**	–
		695.0	586.3
Total assets		**2,656.3**	2,294.7
Current liabilities			
Trade and other payables	9.3	**(350.5)**	(311.2)
Current income tax liabilities		**(20.7)**	(31.4)
Borrowings	13.4	**(43.3)**	(33.6)
Provisions	10	**(37.6)**	(9.9)
Deferred income	3.1	**(535.8)**	(436.5)
Liabilities classified as held for sale	16.3	**(0.4)**	–
		(988.3)	(822.6)
Non-current liabilities			
Borrowings	13.4	**(534.4)**	(571.4)
Post-employment benefits	11	**(25.3)**	(18.7)
Deferred income tax liabilities	12	**(13.2)**	(7.3)
Provisions	10	**(29.4)**	(10.4)
Trade and other payables		**(7.5)**	–
Deferred income	3.1	**(4.9)**	(2.2)
		(614.7)	(610.0)
Total liabilities		**(1,603.0)**	(1,432.6)
Net assets		**1,053.3**	862.1
Equity attributable to owners of the parent			
Ordinary shares	15.1	**11.8**	11.8
Share premium		**544.4**	541.2
Other reserves	15.3	**186.6**	66.9
Retained earnings		**310.5**	242.2
Total equity		**1,053.3**	862.1

The consolidated financial statements on pages 113 to 162 were approved by the Board of Directors on 29 November 2016 and are signed on their behalf by:

S Hare
Chief Financial Officer

Consolidated statement of changes in equity
For the year ended 30 September 2016

	Note	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
		Attributable to owners of the parent				
At 1 October 2015		**11.8**	**541.2**	**66.9**	**242.2**	**862.1**
Profit for the year		–	–	–	**207.6**	**207.6**
Other comprehensive income/(expense):						
Exchange differences on translating foreign operations	15.3	–	–	**117.1**	–	**117.1**
Deferred tax credit on foreign currency movements	4, 15.3	–	–	**2.6**	–	**2.6**
Actuarial loss on post-employment benefit obligations	11, 15.4	–	–	–	**(2.2)**	**(2.2)**
Deferred tax credit on actuarial loss on post-employment obligations	4. 15.4	–	–	–	**0.8**	**0.8**
Total comprehensive income for the year ended 30 September 2016		–	–	**119.7**	**206.2**	**325.9**
Transactions with owners:						
Employee share option scheme:						
– Proceeds from shares issued		–	**3.2**	–	–	**3.2**
– Value of employee services, net of deferred tax	15.4	–	–	–	**9.3**	**9.3**
Purchase of treasury shares	15.4	–	–	–	**(2.4)**	**(2.4)**
Dividends paid to owners of the parent	15.5	–	–	–	**(144.8)**	**(144.8)**
Total transactions with owners for the year ended 30 September 2016		–	**3.2**	–	**(137.9)**	**(134.7)**
At 30 September 2016		**11.8**	**544.4**	**186.6**	**310.5**	**1,053.3**

Consolidated statement of changes in equity
For the year ended 30 September 2015

	Note	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
		Attributable to owners of the parent				
At 1 October 2014		11.7	535.9	90.1	130.2	767.9
Profit for the year		–	–	–	194.3	194.3
Other comprehensive income/(expense):						
Exchange differences on translating foreign operations	15.3	–	–	(23.2)	–	(23.2)
Actuarial loss on post-employment benefit obligations	11, 15.4	–	–	–	(4.8)	(4.8)
Deferred tax credit on actuarial loss on post-employment obligations	4, 15.4	–	–	–	0.6	0.6
Total comprehensive (expense)/income for the year ended 30 September 2015		–	–	(23.2)	190.1	166.9
Transactions with owners:						
Employee share option scheme:						
– Proceeds from shares issued		0.1	5.3	–	–	5.4
– Value of employee services, net of deferred tax	15.4	–	–	–	10.1	10.1
Purchase of treasury shares	15.4	–	–	–	(14.6)	(14.6)
Expenses related to purchase of treasury shares	15.4	–	–	–	(0.1)	(0.1)
Close period share buyback programme	15.4	–	–	–	60.0	60.0
Dividends paid to owners of the parent	15.5	–	–	–	(133.5)	(133.5)
Total transactions with owners for the year ended 30 September 2015		0.1	5.3	–	(78.1)	(72.7)
At 30 September 2015		11.8	541.2	66.9	242.2	862.1

Consolidated statement of cash flows
For the year ended 30 September 2016

	Note	**2016 £m**	2015 £m
Cash flows from operating activities			
Cash generated from continuing operations	13.1	**397.9**	418.6
Interest paid		**(21.1)**	(19.2)
Income tax paid		**(92.1)**	(84.6)
Net cash generated from operating activities		**284.7**	314.8
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash acquired	16.1	**(6.4)**	(47.3)
Purchases of intangible assets	6.2	**(7.7)**	(6.0)
Purchases of property, plant and equipment	7	**(23.5)**	(16.4)
Purchase of investment in an associate		**(10.0)**	–
Proceeds from sale of property, plant and equipment		**0.1**	2.1
Interest received	3.5	**2.4**	2.2
Net cash generated used in investing activities		**(45.1)**	(65.4)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**3.2**	5.4
Purchase of treasury shares		**(2.4)**	(17.7)
Finance lease principal payments		**(0.6)**	(1.4)
Proceeds from borrowings		**69.2**	481.2
Repayments of borrowings		**(188.8)**	(474.5)
Movements in cash held on behalf of customers		**(13.0)**	12.5
Borrowing costs		**(1.5)**	(1.3)
Dividends paid to owners of the parent	15.5	**(144.8)**	(133.5)
Net cash used in financing activities		**(278.7)**	(129.3)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts (before exchange rate movement)		**(39.1)**	120.1
Effects of exchange rate movement	13.2	**35.9**	(0.4)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		**(3.2)**	119.7
Cash, cash equivalents and bank overdrafts at 1 October	13.2	**263.4**	143.7
Cash, cash equivalents and bank overdrafts at 30 September	13.2	**260.2**	263.4

Basis of preparation and critical accounting estimates and judgements

1 Basis of preparation and critical accounting estimates and judgements

Accounting policies applicable across the financial statements are shown below. Accounting policies that are specific to a component of the financial statements have been incorporated into the relevant note.

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"). 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.

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.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report on pages 1 to 63.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future, for a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements, in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Foreign currencies

The consolidated financial statements are presented in sterling, which is the functional currency of the parent Company and the presentation currency for the consolidated financial statements.

Foreign currency transactions are recorded at the rates of exchange prevailing on the dates of the transactions. Foreign currency monetary items are translated at the rates prevailing at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlements of monetary items and on the retranslation of monetary items are included in profit or loss for the period, except for foreign currency movements on intercompany balances where settlement is not planned or likely in the foreseeable future, in which case they are recognised in other comprehensive income. Foreign exchange movements on external borrowings which are designated as a hedge of the net investment in its related subsidiaries are recognised in the translation reserve.

The assets and liabilities of the Group's subsidiaries outside of the UK are translated into sterling using period end exchange rates. Income and expense items are translated at the average exchange rates for the period. Where differences arise between these rates, they are recognised in other comprehensive income and the translation reserve.

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in other comprehensive income are recycled in the income statement as part of the gain or loss on sale, with the exception of exchange differences recorded in equity prior to the transition to IFRS on 1 October 2004, in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards".

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.

The judgements and management's rationale in relation to these accounting estimates and judgements are assessed and where material in value or in risk, are discussed with the Audit and Risk Committee.

Revenue recognition

Approximately 30% of the company's revenue is generated from sales to partners rather than to end users. The key judgement in accounting for the three principal ways in which our business partners are remunerated is determining whether the business partner is a customer of the Group in respect of the initial product sale. The key criteria in this determination is whether the business partner has paid for and taken on the risks and rewards of ownership of the software product from Sage. At this point the business partner is able to sell on the licence to the end user at a price of its determination and consequently bears the credit risk of the onward sale.

Where the business partner is a customer of Sage, there are two ways in which they can be remunerated. Firstly, there are discounts granted as a discount from the list price. These discounts are negotiated between the company and the business partner prior to the sale and invoices are raised, and revenue booked is based on the discounted price. Secondly, there are further discounts given to business partners for subsequent renewals or increased sales to the end user. These discounts are recognised as a deduction from the incremental revenue earned.

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 a cost within selling and administrative costs.

An additional area of judgement is the recognition and deferral of revenue on bundled products, for example the sale of a perpetual licence with an annual maintenance and support contract. When products are bundled together for the purpose of sale, the associated revenue, net of all applicable discounts, is allocated between the constituent parts of the bundle on a relative fair value basis. The Group has a systematic basis for allocating relative fair values in these situations, based upon published list prices.

Goodwill impairment

There are two key judgement areas in relation to goodwill impairment.

The first 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. As management continues to monitor goodwill at a country level and product cash flows are still predominantly generated by the existing product base within each country, it was determined that the existing CGUs remain appropriate.

The other key judgement area relates to the assumptions applied in calculating the value in use of the CGUs being tested for impairment. 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.

These key assumptions used in performing the impairment assessment are disclosed in note 6.1.

1 Basis of preparation and critical accounting estimates and judgements continued

Tax provisions

The Group recognises certain provisions and accruals in respect of tax which involve a degree of estimation and uncertainty where the tax treatment cannot finally be determined until a resolution has been reached by the relevant tax authority. This approach resulted in providing £18.7m as at 30 September 2016 (2015: £32.8m).

The carrying amount is sensitive to the resolution of issues which is not always within the control of the Group and it is often dependent on the efficiency of the legal processes in the relevant taxing jurisdictions in which the Group operates. Issues can take many years to resolve and assumptions on the likely outcome have therefore been made by management.

The nature of the assumptions made by management when calculating the carrying amounts relates to the estimated tax which could be payable as a result of decisions with tax authorities in respect of transactions and events whose treatment for tax purposes is uncertain. In making the estimates, management's judgement was based on various factors, including:

- the status of recent and current tax audits and enquiries;
- the results of previous claims; and
- any changes to the relevant tax environments.

When making this assessment, we utilise our specialist in-house tax knowledge and experience of similar situations elsewhere to confirm these provisions. These judgements also take into consideration specialist tax advice provided by third party advisors on specific items.

Future accounting standards

The directors also considered the impact on the Group of new and revised accounting standards, interpretations or amendments. The following revised and new accounting standards may have a material impact on the Group. They are currently issued but not effective for the Group for the year ended 30 September 2016:

- IFRS 9, "Financial Instruments";
- IFRS 15, "Revenue from Contracts with Customers"; and
- IFRS 16, "Leases".

IFRS 9 and IFRS 16 have not yet been endorsed by the EU. The Group plans to adopt these standards in line with their effective dates, which for IFRSs 9 and 16 will be confirmed once the standards are endorsed by the EU. Currently, based on the expected timing of that endorsement, IFRSs 9 and 15 will be adopted for the financial year commencing 1 October 2018, and IFRS 16 for the financial year commencing 1 October 2019. The Group is in the process of assessing the impact that the application of these standards will have on the Group's financial statements, but it is currently too early to determine how significant any effect on actual financial results and financial position might be.

In the case of IFRS 15, the Group is in the initial stage of planning its evaluation of the impact of the standard. IFRS 15 will replace IAS 11 "Construction Contracts" and IAS 18 "Revenue" and related interpretations. It contains a new set of principles on when and how to recognise and measure revenue as well as new requirements related to presentation and disclosures.

Under IFRS 15, revenue earned from contracts with customers will be recognised based on a five-step model which requires, for each contract, the transaction price to be apportioned to the separate performance obligations arising under the contract on a relative standalone selling price basis, and recognised as revenue at the point at which control of goods or services is transferred to the customer. The transaction price will be the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer. The incremental costs of obtaining a contract and contract fulfilment costs will be recognised as an expense consistent with the transfer of the related goods or services to the customer. Depending on the particular contractual arrangements in place, application of the new standard may change the amount of revenue recognised on a contract and/or its timing, and the timing of the recognition of contract costs compared with current accounting policies.

2 Segment information

This note shows how Group revenue and Group operating profit are generated across the three reportable segments in which we operate, being Europe, North America and International (South America, Africa, Australia, Middle East and Asia).

For each geographical region, revenue and operating profit are compared to prior year in order to understand the movements in the year. This comparison is provided for statutory, underlying and organic revenue and operating profit.

- Statutory results reflect the Group's results prepared in accordance with the requirements of IFRS.
- Underlying and underlying as reported are non-GAAP measures. Adjustments are made to statutory results to arrive at an underlying result which is in line with how the business is managed and measured on a day to day basis. Adjustments are made for items that are individually important in order to understand the financial performance. If included, these items could distort understanding of the performance for the year and the comparability between periods. Management apply judgement in determining which items should be excluded from underlying performance. See note 3.6 for details of these adjustments.

  In addition, the prior year underlying values are translated at current year exchange rates, so that exchange rate impacts do not distort comparisons. Prior year underlying values at prior year exchange rates are "underlying as reported"; prior year and current year values at current year exchange rates are "underlying".
- Organic is a non-GAAP measure. The contributions of current and prior year acquisitions, disposals and assets held for sale of standalone businesses are removed so that results can be compared to the prior year on a like for like basis. Acquisitions and disposals which occurred close to the start of the opening comparative period where the contribution impact would be immaterial are not adjusted.

In addition, the following reconciliations are made in this note.

- Revenue per segment reconciled to the profit for the year as per the income statement.
- Statutory operating profit reconciled to underlying operating profit per segment (detailing the adjustments made).

Accounting policy
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 assessing their performance, through the Quarterly Business Reviews chaired by the Chief Executive Officer and Chief Financial Officer. The Executive Committee use 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 four key operating segments, with Brazil being aggregated with AAMEA with which there are similar economic characteristics to form the International reporting segment. The UK is the home country of the parent. The reporting segments and their main operating territories are as follows:

- Europe (France, UK & Ireland, Spain, Germany, Switzerland, Poland, Portugal and Sagepay)
- North America (US and Canada)
- International (Brazil, Africa, Australia, Middle East and Asia)

The Africa operations are principally based in South Africa; the Middle East and Asia operations are principally based in Singapore, Malaysia and UAE.

Segment reporting
The tables overleaf show a segmental analysis of the results for continuing operations.

The revenue analysis in the table overleaf 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 categories are defined in Note 3.1.

2 Segment information continued

2.1 Revenue by segment

	Year ended 30 September 2016					Change
	Statutory and underlying £m	**Organic adjustments £m**	**Organic £m**	Statutory	Underlying	Organic
Recurring revenue by segment						
Europe	**641.7**	**–**	**641.7**	13.5%	10.2%	10.2%
North America	**307.9**	**–**	**307.9**	16.3%	8.5%	8.5%
International	**143.3**	**(1.1)**	**142.2**	7.7%	15.8%	16.0%
Recurring revenue	**1,092.9**	**(1.1)**	**1,091.8**	13.5%	10.4%	10.4%
Software and software related services ("SSRS") revenue by segment						
Europe	**149.1**	**–**	**149.1**	(4.0%)	(7.4%)	(7.4%)
North America	**70.5**	**–**	**70.5**	(0.8%)	(7.6%)	(7.6%)
International	**52.6**	**(0.8)**	**51.8**	(18.2%)	(13.5%)	(12.4%)
SSRS revenue	**272.2**	**(0.8)**	**271.4**	(6.4%)	(8.7%)	(8.5%)
Processing revenue by segment						
Europe	**36.2**	**–**	**36.2**	11.7%	11.5%	11.5%
North America	**157.1**	**–**	**157.1**	11.3%	2.9%	2.9%
International	**10.7**	**–**	**10.7**	32.1%	49.8%	49.8%
Processing revenue	**204.0**	**–**	**204.0**	12.3%	6.1%	6.1%
Total revenue by segment						
Europe	**827.0**	**–**	**827.0**	9.8%	6.6%	6.6%
North America	**535.5**	**–**	**535.5**	12.3%	4.4%	4.4%
International	**206.6**	**(1.9)**	**204.7**	0.6%	7.8%	8.4%
Total revenue	**1,569.1**	**(1.9)**	**1,567.2**	9.3%	6.0%	6.1%

					Year ended 30 September 2015
	Statutory and underlying as reported £m	Impact of foreign exchange £m	Underlying £m	Organic adjustments £m	Organic £m
Recurring revenue by segment					
Europe	565.3	17.1	582.4	–	582.4
North America	264.7	19.0	283.7	–	283.7
International	133.1	(9.3)	123.8	(1.2)	122.6
Recurring revenue	963.1	26.8	989.9	(1.2)	988.7
Software and software related services ("SSRS") revenue by segment					
Europe	155.3	5.7	161.0	–	161.0
North America	71.1	5.2	76.3	–	76.3
International	64.3	(3.5)	60.8	(1.7)	59.1
SSRS revenue	290.7	7.4	298.1	(1.7)	296.4
Processing revenue by segment					
Europe	32.4	0.2	32.6	–	32.6
North America	141.2	11.5	152.7	–	152.7
International	8.1	(1.0)	7.1	–	7.1
Processing revenue	181.7	10.7	192.4	–	192.4
Total revenue by segment					
Europe	753.0	23.0	776.0	–	776.0
North America	477.0	35.7	512.7	–	512.7
International	205.5	(13.8)	191.7	(2.9)	188.8
Total revenue	1,435.5	44.9	1,480.4	(2.9)	1,477.5

2.2 Operating profit by segment

	Year ended 30 September 2016					Change		
	Statutory £m	**Underlying adjustments £m**	**Underlying £m**	**Organic adjustments £m**	**Organic £m**	Statutory	Underlying	Organic
Europe	**167.6**	**88.1**	**255.7**	**–**	**255.7**	(22.6%)	12.7%	12.7%
North America	**106.0**	**28.3**	**134.3**	**–**	**134.3**	11.7%	15.9%	15.9%
International	**26.8**	**10.2**	**37.0**	**(0.1)**	**36.9**	–	(25.5%)	(23.4%)
Total operating profit	**300.4**	**126.6**	**427.0**	**(0.1)**	**426.9**	1.1%	8.8%	9.2%

	Year ended 30 September 2015						
	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							
Europe	216.6	6.4	223.0	3.9	226.9	–	226.9
North America	94.9	7.5	102.4	13.5	115.9	–	115.9
International	(14.3)	68.8	54.5	(5.0)	49.5	(1.3)	48.2
Total operating profit	297.2	82.7	379.9	12.4	392.3	(1.3)	391.0

The results by segment from continuing operations were as follows:

Year ended 30 September 2016	Note	**Europe £m**	**North America £m**	**International £m**	**Group £m**
Revenue		**827.0**	**535.5**	**206.6**	**1,569.1**
Segment statutory operating profit		**167.6**	**106.0**	**26.8**	**300.4**
Share of loss of an associate					**(1.0)**
Finance income	3.5				**5.1**
Finance costs	3.5				**(30.0)**
Profit before income tax					**274.5**
Income tax expense	4				**(66.9)**
Profit for the year					**207.6**

Reconciliation of underlying operating profit to statutory operating profit

	Europe £m	**North America £m**	**International £m**	**Group £m**
Underlying operating profit	**255.7**	**134.3**	**37.0**	**427.0**
Amortisation of acquired intangible assets (note 3.6)	**(6.4)**	**(8.0)**	**(3.8)**	**(18.2)**
Other acquisition-related items (note 3.6)	**(0.1)**	**(0.6)**	**–**	**(0.7)**
Non-recurring items (note 3.6)	**(81.6)**	**(19.7)**	**(6.4)**	**(107.7)**
Statutory operating profit	**167.6**	**106.0**	**26.8**	**300.4**

2 Segment information continued

2.2 Operating profit by segment continued

The results by segment from continuing operations were as follows:

Year ended 30 September 2015	Note	Europe £m	North America £m	International £m	Group £m
Revenue		753.0	477.0	205.5	1,435.5
Segment statutory operating profit		216.6	94.9	(14.3)	297.2
Finance income	3.5				2.2
Finance costs	3.5				(23.6)
Profit before income tax					275.8
Income tax expense	4				(81.5)
Profit for the year					194.3

Year ended 30 September 2015	Europe £m	North America £m	International £m	Group £m
Underlying operating profit (as reported)	223.0	102.4	54.5	379.9
Amortisation of acquired intangible assets	(6.4)	(7.5)	(4.3)	(18.2)
Fair value adjustments and goodwill impairment	–	–	(64.5)	(64.5)
Statutory operating profit	216.6	94.9	(14.3)	297.2

2.3 Analysis by geographic location

Management deems countries which generate more than 10% of total group revenue to be material. Additional disclosures have been provided below to show the proportion of revenue from these countries.

Revenue by individually significant countries	**2016 £m**	2015 £m
UK	**319.5**	298.6
France	**246.6**	221.2
USA	**473.6**	374.6
Other individually immaterial countries	**529.4**	541.1
	1,569.1	1,435.5

Management deems countries which contribute more than 10% to total group non-current assets to be material. Additional disclosures have been provided below to show the proportion of non-current assets from these countries.

Non-current assets presented below excludes deferred tax assets, post-employment benefit assets and financial instruments.

Non-current assets by geographical location	**2016 £m**	2015 £m
UK	**272.5**	295.8
France	**239.1**	217.0
USA	**1,010.9**	871.6
Other individually immaterial countries	**377.7**	289.8
	1,900.2	1,674.2

3 Profit before income tax

This note sets out the Group's profit before tax, by looking in more detail at the key operating costs, including a breakdown of the costs incurred as an employer, research and development costs, the cost of the external audit of the Group's financial statements and finance costs. This note also sets out the Group's revenue recognition policy.

In addition, this note analyses the future amounts payable under operating lease agreements, which the Group has entered into as at the year-end. These commitments are not included as liabilities in the consolidated balance sheet.

This note also provides a breakdown of any material recurring and non-recurring costs that have been reported separately on the face of the income statement.

3.1 Revenue

Accounting policy

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received or receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

The Group reports revenue under three revenue categories and the basis of recognition for each category is described below:

Category & Examples	Accounting Treatment
Recurring revenue Subscription contracts Maintenance and support contracts	Recurring revenue is revenue earned from customers for the provision of a good or service, where risks and rewards are transferred to the customer over the term of a contract, with the customer being unable to continue to benefit from the full functionality of the good or service without ongoing payments. Subscription revenue is revenue earned from customers for the provision of a good or service, where the risk and rewards are transferred to the customer over the term of a contract. In the event that the customer stops paying, they lose the legal right to use the software and the Company has the ability to restrict the use of the product or service. (Also known as 'Pay to play'). Subscription revenue and maintenance and support revenue is recognised on a straight-line basis over the term of the contract (including non-specified upgrades, when included). Revenue relating to future periods is classified as deferred income on the balance sheet to reflect the transfer of risk and reward.
Software and software-related services Perpetual software licences Upgrades to perpetual licences Professional services Training Hardware and stationary	Perpetual software licences and specified upgrades revenue is recognised when the significant risks and rewards of ownership relating to the licence have been transferred and it is probable that the economic benefits associated with the transaction will flow to the Group. This is when the goods have left the warehouse to be shipped to the customer or when electronic delivery has taken place. Other product revenue (which includes hardware and stationary) is recognised as the products are shipped to the customer. Other services revenue (which includes the sale of professional services and training) is recognised when delivered, or by reference to the stage of completion of the transaction at the end of the reporting period. This assessment is made by comparing the proportion of contract costs incurred to date to the total expected costs to completion.
Processing revenue Payment processing services Payroll processing services	Processing revenue is revenue earned from customers for the processing of payments or where Sage colleagues process our customers' payroll. Processing revenue is recognised at the point that the service is rendered on a per transaction basis.

When products are bundled together before being sold to the customer, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. The associated revenue is allocated between the constituent parts of the bundle on a relative fair value basis. When customers are offered discounts on bundled products and/or services, the combined discount is allocated to the constituent elements of the bundle, based upon publically available list prices.

3 Profit before income tax continued

3.2 Operating profit

Accounting policy

Cost of sales includes items such as third party royalties, transaction and credit card fees related to the provision of payment processing services and the cost of hardware and inventories. These also include the third party costs of providing training and professional services to customers. All other operating expenses incurred in the ordinary course of business are recorded in selling and administrative expenses.

The following items have been included in arriving at operating profit	Note	2016 £m	2015 £m
Staff costs	3.3	**671.5**	639.2
Cost of inventories recognised as an expense (included in cost of sales)	9.1	**9.4**	8.0
Depreciation of property, plant and equipment	7	**22.2**	18.2
Amortisation of intangible assets	6.2	**29.6**	29.1
Impairment of property, plant and equipment	7	**6.6**	–
Fair value adjustments and goodwill impairment	3.6	**–**	64.5
Other operating lease rentals payable		**27.9**	27.9
Net foreign exchange (gain)/ losses		**(0.1)**	0.3
Acquisition-related items		**0.7**	2.0

The Group incurred £144.0m (2015: £141.2m) of research and development expenditure in the year, of which £128.8m (2015: £123.5m) is included above in staff costs. See note 6.2 for the research and development accounting policy. The Group also incurred £109.9m (2015: nil) of transformation costs. See note 3.6 for a detailed explanation of these costs.

Services provided by the Group's auditors and network firms

During the year, the Group (including its overseas subsidiaries) obtained the following services from the Group's auditors at costs as detailed below:

	2016 £m	2015 £m
Fees payable to the Group's auditor for the audit of the Plc's companies and the consolidated accounts	**1.2**	0.9
Fees payable to the Group's auditor for the audit of the Company's subsidiaries	**2.1**	1.8
Fees payable to the Group's auditor for audit-related assurance services	**0.1**	0.1
Total audit and audit related services	**3.4**	2.8
Tax compliance services	**–**	–
Tax advisory services	**–**	–
Other non-audit services	**–**	–
Total fees	**3.4**	2.8

A summary of the Board's policy in respect of the procurement of non-audit services for the Group's auditor is set out on page 80.

3.3 Employees and directors

Average monthly number of people employed (including directors)	2016 number	2015 number
By segment:		
Europe	**7,361**	7,277
North America	**2,569**	2,508
International	**3,811**	3,486
	13,741	13,271

Staff costs (including directors on service contracts)	Note	2016 £m	2015 £m
Wages and salaries		**572.2**	546.2
Social security costs		**79.8**	72.1
Post-employment benefits	11	**11.6**	11.8
Share-based payments	15.2	**7.9**	9.1
		671.5	639.2

Key management compensation	2016 £m	2015 £m
Salaries and short-term employee benefits	**7.3**	10.0
Post-employment benefits	**0.5**	0.4
Share-based payments	**2.7**	2.4
	10.5	12.8

Key management personnel are deemed to be members of the Executive Committee as shown on page 68. The key management figures given above include the executive directors of the Group.

3.4 Operating lease commitments

Accounting policy

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Total future minimum lease payments under non-cancellable operating leases falling due for payment as follows:	2016 Property, vehicles, plant and equipment £m	2015 Property, vehicles, plant and equipment £m
Within one year	**33.6**	29.4
Later than one year and less than five years	**94.6**	73.7
After five years	**37.2**	15.7
	165.4	118.8

The Group leases various offices and warehouses under non-cancellable operating lease agreements. These leases have various terms, escalation clauses and renewal rights. The Group also leases vehicles, plant and equipment under non-cancellable operating lease agreements.

3 Profit before income tax continued

3.5 Finance income and costs

Accounting policy

Finance income and costs are recognised using the effective interest method. Finance costs are recognised in the income statement simultaneously with the recognition of an increase in a liability or the reduction in an asset. Derivative financial instruments are measured at fair value through profit or loss. Foreign currency movements on intercompany balances are recognised in the profit and loss account unless settlement is not planned or likely in the foreseeable future, in which case they are recognised in other comprehensive income.

	2016 £m	2015 £m
Finance income:		
Interest income on short-term deposits	**2.4**	2.2
Fair value adjustments to debt related financial instruments	**2.7**	–
Finance income	**5.1**	2.2
Finance costs:		
Finance costs on bank borrowings	**(3.9)**	(3.6)
Finance costs on US senior loan notes	**(19.2)**	(18.7)
Amortisation of issue costs	**(1.0)**	(1.3)
Foreign currency movements on intercompany balances	**(5.9)**	–
Finance costs	**(30.0)**	(23.6)
Finance costs – net	**(24.9)**	(21.4)

3.6 Adjustments between underlying and statutory results

Accounting policy

The business is managed and measured on a day to day basis using underlying results. To arrive at underlying results, certain adjustments are made for items that are individually important and which could, if included, distort the understanding of the performance for the year and the comparability between periods.

Management apply judgement in determining which items should be excluded from underlying performance.

Recurring items

These are items which occur regularly but which management judge to have a distorting effect on the underlying results of the Group. These items relate mainly to fair value adjustments on financial instruments and merger & acquisition ("M&A") activity, although other types of recurring items may arise. M&A activity by its nature is irregular in its impact and includes amortisation and acquisition related costs, but not operating or integration costs relating to an acquired business. Foreign currency movements on intercompany balances that are charged through the income statement are excluded from underlying so that exchange rate impacts do not distort comparisons. Recurring items are adjusted each year irrespective of materiality to ensure consistent treatment.

Non-recurring items

These are items which are non-recurring and are identified by virtue of either their size or their nature. These items can include, but are not restricted to, gains and losses on the disposal of assets, impairment charges and reversals, and restructuring related costs. As these items are one-off or non-operational in nature, management considers that they would distort the Group's underlying business performance.

	Recurring 2016 £m	Non-recurring 2016 £m	Total 2016 £m	Recurring 2015 £m	Non-recurring 2015 £m	Total 2015 £m
Amortisation of acquired intangibles	**18.2**	**–**	**18.2**	18.2	–	18.2
Fair value adjustments	**–**	**–**	**–**	2.2	–	2.2
Other acquisition-related items	**0.7**	**–**	**0.7**	–	–	–
Litigation related items	**–**	**(2.2)**	**(2.2)**	–	–	–
Transformation costs	**–**	**109.9**	**109.9**	–	–	–
Goodwill impairment	**–**	**–**	**–**	–	62.3	62.3
Total adjustments made to operating profit	**18.9**	**107.7**	**126.6**	20.4	62.3	82.7
Fair value adjustments	**(2.7)**	**–**	**(2.7)**	–	–	–
Amortisation of acquired intangibles	**0.6**	**–**	**0.6**	–	–	–
Foreign currency movements on intercompany balances	**5.9**	**–**	**5.9**	–	–	–
Total adjustments made to profit before income tax	**22.7**	**107.7**	**130.4**	20.4	62.3	82.7

Recurring items

Acquired intangibles are assets which have previously been recognised as part of business combinations. These assets are predominantly brands, customer relationships and technology rights. Further details including specific accounting policies in relation to these assets can be found in note 6.2.

Other acquisition-related items relate to completed transaction costs and include advisory, legal, accounting, valuation and other professional or consulting services.

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

Amortisation of acquired intangibles below operating profit relates to the Group's share of the amortisation of intangible assets arising on the acquisition of an investment in an associate accounted for under the equity method.

Foreign currency movements on intercompany balances of £5.9m occurs 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, predominately the movement in Euro and US Dollar compared to sterling.

The prior year fair value adjustment of £2.2m relates to an accounting loss on fair valuation of the call option in relation to the possible acquisition of Mastermaq.

Non-recurring items

Net charges in respect of non-recurring items amounted to £107.7m (2015: £62.3m).

Charges of £109.9m have been incurred in the current year as a result of the implementation of the business transformation strategy. This is comprised of people reorganisation charges of £51.5m, net property exit costs of £39.7m and other directly attributable costs, mainly relating to consultancy, contractor and asset write downs, of £18.7m.

The people reorganisation charges comprise severance costs of £43.8m with the remaining cost largely arising from retention payments, transition and overlap costs whilst implementing the new operating model. The property exit costs consist of net lease exit costs following consolidation of office space used and impairment and accelerated depreciation of leasehold improvement assets and other related assets that are no longer in use due to the property exits. The other costs include expenditure that is directly attributable to the implementation of the new operating model under the business transformation strategy, including advisory, legal, accounting, valuation and other professional or consulting services.

These charges are one-off in nature and directly linked to the business transformation that is under way. Given the scale of the change, further non-recurring costs will be incurred in the next financial year.

Total cash paid in relation to the business transformation strategy totalled £57.9m in the year.

In addition, there has been income of £2.2m in the year arising from recovery of costs relating to the Archer Capital litigation case following its conclusion in 2015. All other litigation costs which may be incurred through the normal course of business are charged through operating expenses.

As a result of the prior year annual goodwill impairment review, an impairment of the goodwill held in the Brazilian business was recognised in 2015, totalling £62.3m.

See note 4 for the tax impact of these adjustments.

4 Income tax expense

This note analyses the tax expense for this financial year which includes both current and deferred tax. Current tax expense represents the amount payable on this year's taxable profits and any adjustments relating to prior years. Deferred tax is an accounting adjustment to provide for tax that is expected to arise in the future due to differences between the carrying values of assets and liabilities and their respective tax bases.

This note outlines the tax accounting policies, analyses the current and deferred tax expenses in the year and presents a reconciliation between profit before tax in the income statement multiplied by the UK rate of corporation tax and the tax expense for the year.

Accounting policy

The taxation expense for the year represents the sum of current tax payable and deferred tax. The expense is recognised in the income statement and statement of comprehensive income according to the accounting treatment of the related transaction.

Current tax payable or receivable is based on the taxable income for the period and any adjustment in respect of prior periods. Current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax arises due to certain temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases (note 12).

Analysis of charge in the year	Note	**2016 £m**	2015 £m
Current tax			
– Current tax on profit for the year		**90.3**	106.9
– Adjustment in respect of prior years		**(16.2)**	(11.0)
Current tax		**74.1**	95.9
Deferred tax			
– Origination and reversal of temporary differences		**(12.1)**	(13.9)
– Adjustment in respect of prior years		**4.9**	(0.5)
Deferred tax	12	**(7.2)**	(14.4)
The current year tax expense is split into the following:			
Underlying tax expense		**105.1**	90.3
Tax credit on adjustments between the underlying and statutory operating profit		**(38.2)**	(8.8)
Income tax expense		**66.9**	81.5

The majority of the current tax adjustment in respect of prior years of £16.2m (2015: £11.0m) reflects the resolution of a number of historical tax matters, including settlements with a number of tax authorities and true ups to prior year estimates.

	2016 £m	2015 £m
Tax on items credited to other comprehensive income		
Deferred tax credit on actuarial loss on post-employment benefit obligations	**(0.8)**	(0.6)
Deferred tax credit on foreign exchange movements	**(2.6)**	-
Total tax on items credited to other comprehensive income	**(3.4)**	(0.6)

Deferred tax credit relating to share options of £1.4m (2015: £1.2m) has been recognised directly in equity.

The tax for the year is higher (2015: higher) than the rate of UK corporation tax applicable to the Group of 20% (2015: 20.5%). The differences are explained below:

	Note	**2016 £m**	2015 £m
Statutory profit before income tax		**274.5**	275.8
Statutory profit before income tax multiplied by the rate of UK corporation tax of 20% (2015: 20.5%)		**54.9**	56.5
Tax effects of:			
Adjustments in respect of prior years		**(11.3)**	(11.5)
Adjustments in respect of foreign tax rates		**23.3**	22.4
Non-deductible expenses and permanent items		**(0.1)**	6.4
Non-deductible impairment		**–**	10.5
Foreign tax credit		**(3.0)**	–
Local business tax		**2.8**	3.3
R&D tax credits		**(0.7)**	(1.7)
Recognition of amortisation claims		**1.0**	(4.4)
Total statutory income tax		**66.9**	81.5

The effective tax rate on statutory profit before tax was 24% (2015: 30%), whilst the effective tax rate on underlying profit before tax was 26% (2015: 25%). The difference between the statutory effective tax rate and the underlying tax rate relates to non-recurring items which are deductible in countries with a tax rate higher than the UK.

The underlying effective tax rate is higher than the UK corporation tax rate applicable to the Group due to the geographic profile of the Group. In addition, there is an obligation to account for local business taxes in the corporate tax expense. These additional tax expenses are offset by research and development tax credits which are a government incentive in a number of operating territories.

5 Earnings per share

This note shows how earnings per share ("EPS") is calculated. EPS is the amount of post-tax profit attributable to each ordinary share. Diluted EPS shows what the impact would be if all outstanding, exercisable share options were exercised and treated as ordinary shares at the year-end.

This note also provides a reconciliation between the statutory profit figure, which ties to the consolidated income statement on page 113, and the Group's internal measure of performance, underlying profit. See note 3.6 for details of the adjustments made between statutory and underlying profit, and note 4 for the tax impact on these adjustments.

Accounting policy

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.

5 Earnings per share continued

Reconciliations of the earnings and weighted average number of shares	**Underlying 2016**	Underlying as reported 2015	Underlying 2015	**Statutory 2016**	Statutory 2015
Earnings (£m)					
Profit for the year attributable to owners of the parent	**299.8**	268.2	274.0	**207.6**	194.3
Number of shares (millions)					
Weighted average number of shares	**1,077.0**	1,073.0	1,073.0	**1,077.0**	1,073.0
Dilutive effects of shares	**6.3**	6.5	6.5	**6.3**	6.5
	1,083.3	1,079.5	1,079.5	**1,083.3**	1,079.5
Earnings per share					
Basic earnings per share (pence)	**27.84**	25.00	25.54	**19.28**	18.11
Diluted earnings per share (pence)	**27.67**	24.85	25.38	**19.16**	18.00

Reconciliation between statutory and underlying earnings per share	**2016 £m**	2015 £m
Earnings: Statutory profit for the year attributable to owners of the parent	**207.6**	194.3
Adjustments:		
Amortisation of acquired intangible assets	**18.8**	18.2
Goodwill impairment and fair value adjustments	**(2.7)**	64.5
Foreign currency movements on intercompany balances	**5.9**	–
Other acquisition-related items	**0.7**	–
Transformation costs and litigation related items	**107.7**	–
Taxation on adjustments	**(38.2)**	(8.8)
Net adjustments	**92.2**	73.9
Earnings – underlying profit for the year (before exchange movement)	**299.8**	268.2
Exchange movement	**–**	7.8
Taxation on exchange movement	**–**	(2.0)
Net exchange movement	**–**	5.8
Earnings – underlying profit for the year (after exchange movement) attributable to owners of the parent	**299.8**	274.0

Exchange movement relates to the retranslation of prior year results to current year exchange rates as shown in the table on page 49 within the financial review.

Operating assets and liabilities

6 Intangible assets

This note provides details of the non-physical assets used by the Group to generate revenues and profits. These assets include items such as goodwill, and other intangible assets such as brands, customer relationships, computer software, in-process R&D and technology which have predominantly been acquired as part of business combinations. These assets are initially measured at fair value, which is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

Goodwill represents the excess of the amount paid to acquire a business over the fair value of the net assets of that business at the acquisition date.

This section also explains the accounting policies applied and the specific judgements and estimates made by the directors in arriving at the carrying value of these assets.

6.1 Goodwill

Accounting policy

Goodwill arising from the acquisition of a subsidiary represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's total identifiable net assets acquired. Goodwill is carried at cost less accumulated impairment losses.

Goodwill previously written-off directly to reserves under UK GAAP prior to 1 October 1998 has not been reinstated and is not recycled to the income statement on the disposal of the business to which it relates.

Goodwill is tested for impairment annually and when circumstances indicate that it may be impaired. Impairment is determined by assessing the recoverable amount of each CGU to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised.

Goodwill is allocated to CGUs expected to benefit from the synergies of the combination and the allocation represents the lowest level at which goodwill is monitored.

	2016 £m	2015 £m
Cost at 1 October	**1,526.4**	1,476.7
– Additions	**–**	61.9
– Exchange movement	**246.2**	(12.2)
At 30 September	**1,772.6**	1,526.4
Impairment at 1 October	**80.4**	43.7
– Impairment in the year	**–**	62.3
– Exchange movement	**33.7**	(25.6)
At 30 September	**114.1**	80.4
Net book amount at 30 September	**1,658.5**	1,446.0

In the prior year the Group acquired Paychoice and recorded goodwill of £59.6m and also incurred a fair value adjustment of £2.3m in relation to the acquisition of Exact which was acquired on 15 September 2014.

6 Intangible assets continued

6.1 Goodwill continued

Goodwill impairment tests

The following table shows the allocation of the carrying value of goodwill at the end of the reporting period by CGU:

	2016 £m	2015 £m
France	**218.5**	186.3
UK & Ireland	**180.6**	180.6
Spain	**125.5**	107.0
Sage Pay Europe	**25.3**	23.6
Germany	**37.6**	32.1
Switzerland	**40.3**	34.5
Poland	**6.7**	5.8
Portugal	**5.5**	4.7
North America		
– Sage Business Solutions Division (SBS)	**741.3**	635.4
– Sage Payment Solutions Division (SPS)	**192.6**	165.0
South Africa	**42.7**	36.3
Australia	**22.6**	19.0
Malaysia	**13.9**	11.2
Singapore	**5.4**	4.5
	1,658.5	1,446.0

The recoverable amount of a CGU is determined as the higher of its fair value less costs of disposal and its value in use. In determining value in use, estimated future cash flows are discounted to their present value.

In all cases, the 2017 budget and the approved Group plan for the three years following the current financial year form the basis for the cash flow projections for a CGU. Beyond the three year plan these projections are extrapolated using an estimated long-term growth rate. The key assumptions in the value in use calculations are the average medium-term revenue growth rates and the long-term growth rates of net operating cash flows.

- The average medium-term revenue growth rates represent the compound annual revenue growth for the first five (2015: five) years. The average medium-term revenue growth rate applied to CGUs reflects the specific rates for each territory.
- Long-term growth rates of net operating cash flows are assumed to be equal to the long-term growth rate in the gross domestic product of the country in which the CGU's operations are undertaken reflecting the specific rates for each territory.

Range of rates used across the different CGUs	**2016**	2015
– Average medium-term revenue growth rates*	**1%-14%**	0%-20%
– Long-term growth rates to net operating cash flows	**1.0%-3.5%**	1.1%-4.2%

Note:

* Average Medium-Term Revenue Growth Rate is calculated on value in use projections that exclude intercompany revenue.

In accordance with IAS 36, key assumptions for those CGUs where significant goodwill is held are disclosed. These are deemed by management to be CGUs holding more than 10% of total goodwill. The discount rate, average medium-term revenue growth rate and long-term growth rate assumptions used for the value in use calculation are shown below:

2016	**Local Discount Rate (post-tax)**	**Approximate Local Discount Rate (pre-tax) equivalent**	**Long-Term Growth Rate**	**Average Medium-Term Revenue Growth Rate***
– UKI	**8.8%**	**10.3%**	**2.1%**	**6.1%**
– France	**8.0%**	**11.4%**	**1.8%**	**6.3%**
– North America – SBS	**9.0%**	**14.1%**	**1.9%**	**7.4%**
– North America – SPS	**9.0%**	**14.3%**	**1.9%**	**1.3%**

2015	Local Discount Rate (post tax)	Approximate Local Discount Rate (pre-tax) equivalent	Long-Term Growth Rate	Average Medium-Term Revenue Growth Rate*
– UKI	9.1%	10.7%	2.5%	6.7%
– France	8.5%	12.2%	2.1%	4.9%
– North America – SBS	8.9%	13.2%	2.3%	10.0%
– North America – SPS	8.9%	13.2%	2.3%	10.0%

Note:

* Average Medium-Term Revenue Growth Rate is calculated on value in use projections that exclude intercompany revenue.

Discount rate

The Group uses a discount rate based on a local Weighted Average Cost of Capital ("WACC") for each CGU, applying local government yield bonds and tax rates to each CGU on a geographical basis. The discount rate applied to a CGU represents a post-tax rate that reflects the market assessment of the time value of money at the end of the Q3 2016 and the risks specific to the CGU. The post-tax discount rates applied to CGUs were in the range of 6.96% (2015: 7.24%) to 14.67% (2015: 17.48%), reflecting the specific rates for each territory.

Sensitivity analysis

A sensitivity analysis was performed for each of the significant CGUs and management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of any CGU to materially exceed its recoverable amount.

Impairment charge

The Group performed its annual test for impairment in the third quarter of 2016. The recoverable amount exceeded the carrying value for all CGUs. In the prior year an impairment of £62.3m was recognised, driven by economic uncertainty in Brazil.

6 Intangible assets continued

6.2 Other intangibles

Accounting policy

Intangible assets arising on business combinations are recognised initially at cost, which is their fair value at the date of acquisition. Subsequently they are carried at cost less accumulated amortisation and impairment losses. The main intangible assets recognised are brands, technology, in-process R&D, computer software and customer relationships.

Amortisation is charged to the income statement on a straight-line basis over their estimated useful lives.

The estimated useful lives are as follows:

Brand names	– 3 to 20 years
Technology/In process R&D ("IPR&D")	– 3 to 7 years
Customer relationships	– 4 to 15 years
Computer software	– 2 to 5 years

Other intangible assets that are acquired by the Group are stated at cost, which is the asset's purchase and any directly attributable costs of preparing the asset for its intended use, less accumulated amortisation and impairment losses if applicable. Software assets are amortised on a straight-line basis over their estimated useful lives, which do not exceed seven years.

The carrying value of intangibles is reviewed for impairment whenever events indicate that the carrying value may not be recoverable.

Internally generated software development costs qualify for capitalisation when the Group can demonstrate all of the following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete the intangible asset and use or sell it;
- Its ability to use or sell the intangible asset; how the intangible asset will generate probable future economic benefits;
- The existence of a market or, if it is to be used internally, the usefulness of the intangible asset;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- Its ability to measure reliably the expenditure attributable to the intangible asset during development.

Generally, commercial viability of new products is not proven until all high risk development issues have been resolved through testing pre-launch versions of the product. As a result, technical feasibility is proven only after completion of the detailed design phase and formal approval, which occurs just before the products are ready to go to market. Accordingly, development costs have not been capitalised. However, the group continues to assess the eligibility of development costs for capitalisation on a project by project basis.

Costs which are incurred after the general release of internally generated software or costs which are incurred in order to enhance existing products are expensed in the period in which they are incurred and included within research and development expense in the financial statements.

	Brands £m	Technology £m	Acquired IPR&D £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
Cost at 1 October 2015	**34.3**	**106.3**	**0.3**	**5.6**	**70.8**	**120.0**	**337.3**
– Additions	**–**	**0.7**	**–**	**–**	**6.6**	**0.4**	**7.7**
– Acquisitions	**–**	**–**	**–**	**–**	**–**	**6.4**	**6.4**
– Disposals	**–**	**–**	**–**	**(1.8)**	**(0.5)**	**–**	**(2.3)**
– Exchange movement	**6.6**	**19.4**	**0.1**	**(0.3)**	**16.0**	**20.2**	**62.0**
At 30 September 2016	**40.9**	**126.4**	**0.4**	**3.5**	**92.9**	**147.0**	**411.1**
Accumulated amortisation at 1 October 2015	**23.5**	**72.6**	**0.3**	**5.6**	**39.9**	**89.9**	**231.8**
– Charge for the year	**2.3**	**9.4**	**–**	**–**	**11.5**	**6.4**	**29.6**
– Disposals	**–**	**–**	**–**	**(1.8)**	**(0.3)**	**–**	**(2.1)**
– Exchange movement	**4.7**	**13.6**	**0.1**	**(0.3)**	**10.3**	**14.1**	**42.5**
At 30 September 2016	**30.5**	**95.6**	**0.4**	**3.5**	**61.4**	**110.4**	**301.8**
Net book amount at 30 September 2016	**10.4**	**30.8**	**–**	**–**	**31.5**	**36.6**	**109.3**

	Brands £m	Technology £m	Acquired IPR&D £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
Cost at 1 October 2014	36.7	83.3	0.3	5.6	64.4	111.6	301.9
– Additions	–	–	–	–	4.6	1.4	6.0
– Acquisitions	–	28.5	–	–	0.3	5.4	34.2
– Disposals	–	(0.1)	–	–	(0.2)	–	(0.3)
– Exchange movement	(2.4)	(5.4)	–	–	1.7	1.6	(4.5)
At 30 September 2015	34.3	106.3	0.3	5.6	70.8	120.0	337.3
Accumulated amortisation at 1 October 2014	21.9	67.6	0.3	5.6	28.4	80.0	203.8
– Charge for the year	2.3	9.2	–	–	10.9	6.7	29.1
– Disposals	–	–	–	–	(0.1)	–	(0.1)
– Exchange movement	(0.7)	(4.2)	–	–	0.7	3.2	(1.0)
At 30 September 2015	23.5	72.6	0.3	5.6	39.9	89.9	231.8
Net book amount at 30 September 2015	10.8	33.7	–	–	30.9	30.1	105.5

All amortisation charges in the year have been charged through selling and administrative expenses.

7 Property, plant and equipment

This note details the physical assets used by the Group to operate the business and generate revenues and profits. Assets are shown at their purchase price less depreciation, which is an expense that is charged over the useful life of these assets to reflect annual usage and wear and tear, and impairment.

Accounting policy

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation on property, plant and equipment is provided on a straight-line basis to write down an asset to its residual value over its useful life as follows:

Freehold buildings	– 50 years
Long leasehold buildings and improvements	– over period of lease
Plant and equipment	– 2 to 7 years
Motor vehicles	– 4 years
Office equipment	– 2 to 7 years

Freehold land is not depreciated.

The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

An item of property, plant and equipment is reviewed for impairment whenever events indicate that its carrying value may not be recoverable.

7 Property, plant and equipment continued

	Land and buildings £m	Plant and equipment £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 October 2015	**91.3**	**143.5**	**54.3**	**289.1**
– Additions	**–**	**15.9**	**7.6**	**23.5**
– Disposals	**–**	**(16.6)**	**(12.4)**	**(29.0)**
– Exchange movement	**2.6**	**14.3**	**6.4**	**23.3**
At 30 September 2016	**93.9**	**157.1**	**55.9**	**306.9**
Accumulated depreciation at 1 October 2015	**14.2**	**112.8**	**39.4**	**166.4**
– Charge for the year	**1.3**	**15.7**	**5.2**	**22.2**
– Impairment	**–**	**5.3**	**1.3**	**6.6**
– Disposals	**–**	**(16.6)**	**(12.3)**	**(28.9)**
– Exchange movement	**1.1**	**10.5**	**5.6**	**17.2**
At 30 September 2016	**16.6**	**127.7**	**39.2**	**183.5**
Net book amount at 30 September 2016	**77.3**	**29.4**	**16.7**	**123.4**

	Land and buildings £m	Plant and equipment £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 October 2014	92.5	141.7	49.9	284.1
– Additions	0.1	11.3	5.0	16.4
– Disposals	–	(6.5)	(2.3)	(8.8)
– Acquisition of subsidiaries	–	1.0	–	1.0
– Exchange movement	(1.3)	(4.0)	1.7	(3.6)
At 30 September 2015	91.3	143.5	54.3	289.1
Accumulated depreciation at 1 October 2014	15.2	106.8	35.4	157.4
– Charge for the year	1.3	12.8	4.1	18.2
– Disposals	–	(6.1)	(0.6)	(6.7)
– Exchange movement	(2.3)	(0.7)	0.5	(2.5)
At 30 September 2015	14.2	112.8	39.4	166.4
Net book amount at 30 September 2015	77.1	30.7	14.9	122.7

Assets held under finance leases with a net book value of £0.8m (2015: £1.0m) are included in the above tables.

Depreciation expenses of £22.2m (2015: £18.2m) and impairment of £6.6m (2015: nil) have been charged through selling and administrative expenses (note 3.2).

8 Investment in an associate

This note presents information about the Group's investment in its associate, which is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control of those policies. The Group determines whether it has significant influence based on the voting and any other rights it holds as a result of its investment and also any contractual arrangements in place. Normally, if the Group holds over 20% of the voting rights of an entity without having control or joint control of that entity, the investment will be treated as an associate unless it can be clearly demonstrated that this is not the case.

Accounting policy

The Group's investment in its associate is accounted for using the equity method. Under the equity method, the investment is initially measured at cost. Subsequently, the carrying amount is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately. The income statement reflects the Group's share of the associate's profit or loss after tax and any non-controlling interests in the subsidiaries of the associate. Any change in the group's share of the associate's other comprehensive income is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any such changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate. The aggregate of the Group's share of profit or loss of the associate is shown on the face of the income statement outside operating profit. The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group. After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment. At each reporting date, the Group determines whether there is objective evidence that the investment is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss in the income statement.

On 4 May 2016, the Group acquired a 20.7% interest in Fairsail Limited (Fairsail), a leading Human Capital Management (HCM) cloud provider to mid-sized, multinational companies. Fairsail is a private entity incorporated in the UK and not listed on any public exchange. The cost of this investment totalled £10.0m. The Group's investment constitutes 100% of Fairsail's C Ordinary Shares. At 30 September 2016, the carrying amount of the Group's investment in its associate was £9.0m, and the Group's share of its total comprehensive income for the year ended 30 September 2016 was a loss of £1.0m, comprising losses from continuing operations. The Group had no contingent liabilities in relation to its investment in its associate at 30 September 2016.

9 Working capital

This note provides the amounts invested by the Group in working capital balances at the end of the financial year. Working capital is made up of inventories, trade and other receivables and trade and other payables.

Inventories mainly consist of warehouse stock of Sage products, awaiting shipment to business partners or distributors. Trade and other receivables are made up of amounts owed to the Group by customers and amounts that we pay to our suppliers in advance. Trade receivables are shown net of an allowance for bad and doubtful debts. Our trade and other payables are amounts we owe to our suppliers that have been invoiced to us or accrued by us. They also include taxes and social security amounts due in relation to our role as an employer.

This note also gives some additional detail on the age and recoverability of our trade receivables, which provide an understanding of the credit risk faced by the Group as a part of everyday trading. Credit risk is further disclosed in the Directors' Report.

9 Working capital continued

9.1 Inventories

Accounting policy

Inventories are stated at the lower of cost and net realisable value after making allowances for slow moving or obsolete items.

Cost includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Cost is calculated using the first-in-first-out method.

	2016 £m	2015 £m
Materials	**0.7**	0.6
Work in progress	**0.1**	0.1
Finished goods	**1.3**	1.3
	2.1	2.0

The Group consumed £9.4m (2015: £8.0m) of inventories, included in cost of sales, during the year. There was no material write down of inventories during the current or prior year.

9.2 Trade and other receivables

Accounting policy

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Amounts falling due within one year:	2016 £m	2015 £m
Trade receivables	**363.2**	292.7
Less: provision for impairment of receivables	**(20.7)**	(17.8)
Trade receivables – net	**342.5**	274.9
Other receivables	**41.4**	20.6
Prepayments and accrued income	**35.6**	25.4
	419.5	320.9

The Group's credit risk on trade and other receivables is primarily attributable to trade receivables. The Group has no significant concentrations of credit risk since the risk is spread over a large number of unrelated counterparties.

The Group considers the credit quality of trade and other receivables by geographical location. The Group considers that the carrying value of the trade and other receivables that is disclosed below gives a fair presentation of the credit quality of the assets.

Trade and other receivables (excluding prepayments and accrued income) by geographical location:	2016 £m	2015 £m
Europe	**262.9**	210.7
North America	**63.8**	52.0
International	**57.2**	32.8
	383.9	295.5

Movements on the Group provision for impairment of trade receivables were as follows:	2016 £m	2015 £m
At 1 October	**17.8**	25.5
Increase in provision for receivables impairment	**7.6**	5.7
Receivables written-off during the year as uncollectible	**(6.4)**	(6.1)
Unused amounts reversed	**(1.3)**	(6.0)
Exchange movement	**3.0**	(1.3)
At 30 September	**20.7**	17.8

In determining the recoverability of a trade receivable, the Group considers the ageing of each receivable and any change in the circumstances of the individual receivables. The directors believe that there is no further provision required in excess of the provision for impairment of receivables.

The creation and releases of the provision for impaired receivables have been included in selling and administrative expenses in the income statement. Amounts charged to the provision are generally written-off when there is no expectation of recovering additional cash.

At 30 September 2016, trade receivables of £33.4m (2015: £30.2m) were either partially or fully impaired.

The ageing of these receivables was as follows:	2016 £m	2015 £m
Not due	**0.3**	7.1
Less than six months past due	**14.1**	5.9
More than six months past due	**19.0**	17.2
	33.4	30.2

Trade receivables which were past their due date but not impaired at 30 September 2016 were £52.9m (2015: £45.8m).

The ageing of these receivables was as follows:	2016 £m	2015 £m
Less than six months past due	**46.4**	41.2
More than six months past due	**6.5**	4.6
	52.9	45.8

The maximum exposure to credit risk at the end of the reporting period is the fair value of each class of receivables mentioned above. The Group held no collateral as security. The directors estimate that the carrying value of trade receivables approximated their fair value.

9.3 Trade and other payables

Accounting policy

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Trade and other payables can be analysed as follows:	2016 £m	2015 £m
Trade payables	**35.4**	23.3
Other tax and social security payable	**43.2**	41.8
Other payables	**37.2**	22.2
Cash held on behalf of customers (see note 13.3)	**83.8**	83.8
Accruals	**150.9**	140.1
	350.5	311.2

10 Provisions

This note provides details of the provisions recognised by the Group, where a liability exists of uncertain timing or amount. The main estimates in this area relate to legal exposure, employee severance, onerous leases and dilapidation charges.

This section also explains the accounting policies applied and the specific judgements and estimates made by the directors in arriving at the value of these liabilities.

Accounting policy

A provision is recognised only when all three of the following conditions are met:

– The Group has a present obligation (legal or constructive) as a result of a past event;
– It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
– A reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the present value of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, i.e. the present value of the amount that the Group would rationally pay to settle the obligation at the balance sheet date or to transfer it to a third party.

	Restructuring £m	Legal £m	Building £m	Other £m	Total £m
At 1 October 2015	–	15.2	3.5	1.6	20.3
– Additional provision in the year	17.6	0.4	29.1	2.2	49.3
– Provision utilised in the year	(0.4)	(3.3)	(1.2)	(1.2)	(6.1)
– Unused amounts reversed	–	(1.8)	(2.4)	–	(4.2)
– Exchange movement	1.9	1.8	3.4	0.6	7.7
At 30 September 2016	19.1	12.3	32.4	3.2	67.0

	Restructuring £m	Legal £m	Building £m	Other £m	Total £m
Maturity profile					
< 1 year	19.1	7.0	8.7	2.8	37.6
1 – 2 years	–	1.9	6.4	0.3	8.6
2 – 5 years	–	3.3	17.3	0.1	20.7
> 5 years	–	0.1	–	–	0.1
At 30 September 2016	19.1	12.3	32.4	3.2	67.0

Restructuring provisions are for the estimated costs of group restructuring activities and relate mainly to employee severance. These provisions will be utilised as obligations are settled which is generally expected to be within one year.

Legal provisions have been made in relation to ongoing disputes with third parties and other claims against the Group. The ageing of legal provisions is assessed regularly, based upon internal and external legal advice, as required.

Building provisions relate to dilapidation charges and onerous lease commitments. The timing of the cash flows associated with building provisions is dependent on the timing of lease agreement termination.

Other provisions comprise mainly those for the costs of warranty cover provided by the Group in respect of products sold to third parties. The timing of the cash flows associated with warranty provisions is spread over the period of warranty with the majority of the claims expected in the first year.

11 Post-employment benefits

This note explains the accounting policies governing the Group's pension schemes, analyses the deficit on the defined benefit pension scheme and shows how it has been calculated.

The majority of the Group's employees are members of defined contribution pension schemes. Additionally, the Group operates two small defined benefit schemes in France and Switzerland.

For defined contribution schemes, the Group pays contributions into separate funds on behalf of the employee and has no further obligations to employees. The risks associated with this type of plan are assumed by the member. Contributions paid by the Group in respect of the current period are included in the income statement.

The defined benefit scheme is a pension arrangement under which participating members receive a pension benefit at retirement determined by the scheme rules, salary and length of pensionable service. The income statement charge for the defined benefit scheme is the current/past service cost and the net interest cost which is the change in the net defined benefit liability that arises from the passage of time. The Group underwrites both financial and demographic risks associated with this type of plan.

Accounting policy

Obligations under defined contribution schemes are recognised as an operating cost in the income statement as incurred.

The Group also operates a small defined benefit pension scheme in Switzerland and other post-employment benefit schemes in France. The assets of these schemes are held separately from the assets of the Group. Under French legislation, the Group is required to make one-off payments to employees in France who reach retirement age while still in employment. The costs of providing benefits under these schemes are determined using the projected unit credit actuarial valuation method.

The current service cost and gains and losses on settlements and curtailments are included in selling and administrative expenses in the income statement. Past service costs should be recognised on the earlier of the date of the plan amendment and the date the Group recognises restructuring-related costs. Interest on the pension plan assets and the imputed interest on pension plan liabilities are included within selling and administrative expenses in the income statement.

Changes in the post-employment benefit obligation due to experience and changes in actuarial assumptions are included in the statement of comprehensive income in full in the period in which they arise.

The liability recognised in the balance sheet in respect of the defined benefit pension scheme is the present value of the defined benefit obligation and future administration costs at the end of the reporting period, less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximate to the terms of the related pension liability.

The calculation of the defined benefit obligation of a defined benefit plan requires estimation of future events, for example salary and pension increases, inflation and mortality rates. In the event that future experience does not bear out the estimates made in previous years, an adjustment will be made to the plan's defined benefit obligation in future periods which could have a material effect on the Group.

A sensitivity analysis has been performed on the significant assumptions. The relevant assumptions are deemed to be the discount rate and salary increases, as these are most likely to have a material impact on the defined benefit obligations. The analysis has been performed by the independent actuaries.

Pension costs included in the consolidated income statement	Note	**2016 £m**	2015 £m
Defined contribution schemes		**9.6**	9.8
Defined benefit plans		**2.0**	2.0
	3.3	**11.6**	11.8

11 Post-employment benefits continued

Defined benefit plans

The most recent actuarial valuations of the post-employment benefit plans were performed by KPMG (France) and PwC (Switzerland) in October 2016 for the year ended 30 September 2016.

Weighted average principal assumptions made by the actuaries	2016 %	2015 %
Rate of increase in pensionable salaries	**2.00**	2.02
Discount rate	**0.43**	1.12
Inflation assumption	**2.00**	2.02

Mortality rate assumptions made by the actuaries	2016 years	2015 years
Average life expectancy for 65-year-old male	**21.0**	22.2
Average life expectancy for 65-year-old female	**23.8**	24.5
Average life expectancy for 45-year-old male	**39.9**	42.5
Average life expectancy for 45-year-old female	**43.5**	45.0

Amounts recognised in the balance sheet	2016 £m	2015 £m
Present value of funded obligations	**(46.0)**	(36.6)
Fair value of plan assets	**20.7**	17.9
Net liability recognised in the balance sheet	**(25.3)**	(18.7)

Major categories of plan assets as a percentage of total plan assets	2016 £m	2016 %	2015 £m	2015 %
Bonds (quoted)	**8.3**	**40.1**	6.3	35.2
Equities (quoted)	**5.0**	**24.1**	5.9	33.0
Other (unquoted)	**7.4**	**35.8**	5.7	31.8
	20.7	**100.0**	17.9	100.0

Expected contributions to post-employment benefit plans for the year ending 30 September 2017 are £1.2m (2015: expected contributions year ending 30 September 2016 £2.0m).

Amounts recognised in the income statement	2016 £m	2015 £m
Net interest costs on obligation	**(0.3)**	(0.3)
Current service cost	**(1.7)**	(1.7)
Total included within staff costs – all within selling and administrative expenses	**(2.0)**	(2.0)

Changes in the present value of the defined benefit obligation	2016 £m	2015 £m
At 1 October	**(36.6)**	(30.8)
Exchange movement	**(6.6)**	(0.2)
Service cost	**(1.7)**	(1.7)
Plan participant contributions	**(0.6)**	(0.6)
Interest cost	**(0.4)**	(0.5)
Benefits paid	**1.9**	1.5
Actuarial gain – demographic assumptions	**0.8**	–
Actuarial loss – financial assumptions	**(3.5)**	(1.8)
Actuarial gain/(loss) – experience	**0.7**	(2.5)
At 30 September	**(46.0)**	(36.6)

Changes in the fair value of plan assets	2016 £m	2015 £m
At 1 October	**17.9**	17.2
Exchange movement	**3.1**	1.0
Interest income	**0.1**	0.2
Employer's contributions	**1.1**	0.9
Plan participant contributions	**0.6**	0.6
Benefits paid	**(1.9)**	(1.5)
Actuarial loss on plan assets	**(0.2)**	(0.5)
At 30 September	**20.7**	17.9

Analysis of the movement in the balance sheet liability	2016 £m	2015 £m
At 1 October	**(18.7)**	(13.6)
Exchange movement	**(3.5)**	0.8
Total expense as recognised in the income statement	**(2.0)**	(2.0)
Contributions paid	**1.1**	0.9
Actuarial loss	**(2.2)**	(4.8)
At 30 September	**(25.3)**	(18.7)

Sensitivity analysis on significant actuarial assumptions		2016 £m	2015 £m
Discount rate applied to Scheme obligations	+/- 0.5% pa	**2.6**	2.1
Salary increases	+/- 0.5% pa	**1.4**	0.9

12 Deferred income tax

Deferred income tax is an accounting adjustment to provide for tax that is expected to arise in the future due to differences in the carrying value of assets and liabilities and their respective tax bases. In this note we outline the accounting policies, movements in the year on the deferred tax account and the net deferred tax asset or liability at the year-end.

A deferred tax asset represents a tax reduction that is expected to arise in a future period.

A deferred tax liability represents taxes which will become payable in a future period as a result of a current or an earlier transaction.

Accounting policy

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

Tax assets and liabilities are offset when there is a legally enforceable right and there is an intention to settle the balances net.

12 Deferred income tax continued

The movement on the deferred tax account is as shown below:	2016 £m	2015 £m
At 1 October	**26.9**	10.3
Income statement credit	**7.2**	14.4
Acquisition of subsidiaries	**–**	2.3
Exchange movement	**6.3**	(1.7)
Other comprehensive income/equity movement in deferred tax	**4.8**	1.6
At 30 September	**45.2**	26.9

On 16 March 2016, the Chancellor of the Exchequer announced that the planned reduction to 18% from 1 April 2020 would instead be a reduction to 17%. The Finance Bill has been substantively enacted and as such the UK tax balances which are expected to unwind beyond 1 April 2020 have been remeasured to account for these planned changes.

Deferred tax assets have been recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered. A potential deferred tax asset on losses of £15.0m (2015: £10.7m) has not been recognised as it is not expected that these losses will be recovered in the foreseeable future. All underlying temporary differences where a deferred tax liability arising from investments in subsidiaries and associates have been appropriately recognised where it is probable the temporary difference will reverse in the foreseeable future.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12, "Income Taxes") during the year are shown below.

The offsetting of these balances is shown within the reclassification line of the notes below. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Deferred tax assets and liabilities categorised as "other deferred tax" of £49.3m (2015: £22.3m) includes various balances in relation to accounting provisions / accruals (asset £37.1m) (2015: £15.5m), goodwill amortisation (liability £18.1m) (2015: £24.1m), deferred revenue (asset £19.1m) (2015: £20.8m) and other sundry amounts (asset £11.2m) (2015: £10.1m).

Deferred tax assets	Intangible assets £m	Tax losses £m	Other £m	Total £m
At 1 October 2015	**(3.8)**	**2.8**	**35.2**	**34.2**
Income statement credit	**4.3**	**1.4**	**7.2**	**12.9**
Reclassification to deferred tax liability	**(6.8)**	**–**	**4.8**	**(2.0)**
Other comprehensive income/equity movement in deferred tax	**–**	**–**	**4.8**	**4.8**
Exchange movement	**(1.9)**	**1.3**	**9.1**	**8.5**
At 30 September 2016	**(8.2)**	**5.5**	**61.1**	**58.4**
Deferred tax liabilities				
At 1 October 2015	**(12.7)**	**18.3**	**(12.9)**	**(7.3)**
Income statement credit/(debit)	**3.7**	**(4.4)**	**(5.0)**	**(5.7)**
Reclassification from deferred tax asset	**(7.2)**	**0.7**	**8.5**	**2.0**
Exchange movement	**(2.8)**	**3.0**	**(2.4)**	**(2.2)**
At 30 September 2016	**(19.0)**	**17.6**	**(11.8)**	**(13.2)**
Net deferred tax (liability)/asset at 30 September 2016	**(27.2)**	**23.1**	**49.3**	**45.2**

Deferred tax assets	Intangible assets £m	Losses £m	Other £m	Total £m
At 1 October 2014	(8.6)	3.0	35.0	29.4
Income statement credit	3.3	0.3	2.9	6.5
Acquisition of subsidiaries	–	18.6	(0.3)	18.3
Reclassification to deferred tax liability	2.9	(18.3)	(0.9)	(16.3)
Other comprehensive income/equity movement in deferred tax	–	–	1.6	1.6
Exchange movement	(1.4)	(0.8)	(3.1)	(5.3)
At 30 September 2015	(3.8)	2.8	35.2	34.2

Deferred tax liabilities	Intangible assets £m	Losses £m	Other £m	Total £m
At 1 October 2014	(3.7)	–	(15.4)	(19.1)
Income statement credit	5.4	–	2.5	7.9
Reclassification from deferred tax asset	(16.5)	–	0.5	(16.0)
Reclassification to other deferred tax	(2.9)	18.3	0.9	16.3
Change in tax rate	2.8	–	(2.8)	–
Exchange movement	2.2	–	1.4	3.6
At 30 September 2015	(12.7)	18.3	(12.9)	(7.3)
Net deferred tax (liability)/asset at 30 September 2015	(16.5)	21.1	22.3	26.9

13 Cash flow and net debt

This note analyses our operational cash generation, shows the movement in our net debt in the year, and explains what is included within our cash balances and borrowings at the year-end.

Cash generated from operations is the starting point of our cash flow statement on page 117. This section outlines the adjustments for any non-cash accounting items to reconcile our accounting profit for the year to the amount of cash we generated from our operations.

Net debt represents the amount of cash held less borrowings, overdrafts, finance lease payments due and cash held on behalf of customers.

Borrowings are mostly made up of fixed-term external debt which the Group has taken out in order to finance acquisitions in the past.

13.1 Cash flow generated from continuing operations

Reconciliation of profit for the year to cash generated from continuing operations	2016 £m	2015 £m
Profit for the year	**207.6**	194.3
Adjustments for:		
Income tax	**66.9**	81.5
Finance income	**(5.1)**	(2.2)
Finance costs	**30.0**	23.6
Share of loss of an associate	**1.0**	–
Amortisation and impairment of intangible assets	**29.6**	29.1
Depreciation and impairment of property, plant and equipment	**28.8**	18.2
R&D tax credits	**(2.0)**	(2.3)
Equity-settled share-based transactions	**7.9**	9.1
Fair value adjustments and goodwill impairment	**–**	64.5
Exchange movement	**(0.4)**	(4.7)
Changes in working capital (excluding effects of acquisitions and disposals of subsidiaries):		
– Decrease/(increase) in inventories	**0.2**	(0.2)
– Increase in trade and other receivables	**(53.8)**	(8.4)
– Increase/(decrease) in trade and other payables	**50.8**	(6.8)
– Increase in deferred income	**36.4**	22.9
Cash generated from continuing operations	**397.9**	418.6

13.2 Net debt

Reconciliation of net cash flow to movement in net debt (inclusive of finance leases)	2016 £m	2015 £m
(Decrease)/increase in cash in the year (pre-exchange movements)	**(22.7)**	90.5
Cash inflow/(outflow) from movement in loans, finance leases and cash held on behalf of customers	**133.2**	(17.8)
Change in net debt resulting from cash flows	**110.5**	72.7
Acquisitions	**(16.4)**	(21.3)
Non-cash movements	**(1.0)**	–
Exchange movement	**(64.7)**	(39.6)
Movement in net debt in the year	**28.4**	11.8
Net debt at 1 October	**(425.4)**	(437.2)
Net debt at 30 September	**(397.0)**	(425.4)

Analysis of change in net debt (inclusive of finance leases)	At 1 October 2015 £m	Cash flow £m	Acquisitions £m	Non-cash movements £m	Exchange movement £m	At 30 September 2016 £m
Cash and cash equivalents	263.4	**(18.4)**	**(16.4)**	**–**	**35.9**	**264.5**
Bank overdrafts	–	**(4.3)**	**–**	**–**	**–**	**(4.3)**
Cash, cash equivalents and bank overdrafts	263.4	**(22.7)**	**(16.4)**	**–**	**35.9**	**260.2**
Finance leases due within one year	(0.6)	**0.5**	**–**	**(0.2)**	**(0.1)**	**(0.4)**
Loans due within one year	(33.0)	**34.7**	**–**	**(34.7)**	**(5.6)**	**(38.6)**
Loans due after more than one year	(571.0)	**84.9**	**–**	**33.7**	**(81.8)**	**(534.2)**
Finance leases due after more than one year	(0.4)	**0.1**	**–**	**0.2**	**(0.1)**	**(0.2)**
Cash held on behalf of customers	(83.8)	**13.0**	**–**	**–**	**(13.0)**	**(83.8)**
Total	(425.4)	**110.5**	**(16.4)**	**(1.0)**	**(64.7)**	**(397.0)**

Included in cash above is £83.8m (2015: £83.8m) relating to cash held on behalf of customers. This arises as a consequence of providing payment transaction processing and electronic fund transfer services. The balance represents cash in transit from third parties to Sage Customers. Accordingly, a liability for the same amount is included in trade and other payables on the balance sheet and is classified within net debt.

13.3 Cash and cash equivalents (excluding bank overdrafts)

Accounting policy

For the purpose of preparation of the consolidated statement of cash flows and the consolidated balance sheet, cash and cash equivalents include cash at bank and in hand and short-term deposits with an original maturity period of three months or less. Bank overdrafts that are an integral part of a subsidiary's cash management are included in cash and cash equivalents where they have a legal right of set-off and there is an intention to settle net, against positive cash balances, otherwise bank overdrafts are classified as borrowings.

	2016 £m	2015 £m
Cash at bank and in hand	**126.6**	179.6
Cash held on behalf of customers	**83.8**	83.8
Short-term bank deposits	**54.1**	–
	264.5	263.4

In line with contractual obligations or company practice, cash held on behalf of customers is held in separate bank accounts by the Group until such time as these amounts are paid.

The credit risk on liquid funds is considered to be low, as the Board-approved Group treasury policy limits the value that can be invested with each approved counterparty to minimise the risk of loss. The Group policy is to place cash and cash equivalents with counterparties which are well established banks with high credit ratings where available. In some jurisdictions there is limited availability of such counterparties.

At 30 September 2016, 81% (2015: 83%) of the cash and cash equivalents balance was deposited with financial institutions rated at least A3 by Moody's Investors Service. The investment instruments utilised are money market funds, money market term deposits and bank deposits.

The Group's maximum exposure to credit risk in relation to cash and cash equivalents is their carrying amount in the balance sheet.

13 Cash flow and net debt continued

13.4 Borrowings

Accounting policy

Assets held under finance leases are initially recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of borrowing on an effective interest basis.

Current	**2016 £m**	2015 £m
Bank overdrafts	**4.3**	–
Finance lease obligations	**0.4**	0.6
US senior loan notes – unsecured	**38.6**	33.0
	43.3	33.6

Non-current	**2016 £m**	2015 £m
Finance lease obligations	**0.2**	0.4
Bank loans – unsecured	**–**	80.0
US senior loan notes – unsecured	**534.2**	491.0
	534.4	571.4

Included in loans above is £572.8m (2015: £604.0m) of unsecured loans (after unamortised issue costs). These borrowings were utilised for acquisitions and managing the Group's minimum leverage target of 1x net debt to EBITDA.

In the table above, bank loans and loan notes are stated net of unamortised issue costs of £1.9m (2015: £3.0m). The Group has in the year incurred total issue costs amounting to £nil (2015: £0.8m) in respect of the note issue into the US private placement market. These issue costs were paid during the year ended 30 September 2015 and are allocated to the income statement over the term of the facility using the effective interest method.

				Loan value	
Borrowings	Year issued	Interest coupon	Maturity	**2016 £m**	2015 £m
US private placement					
– USD 50m loan note	2010	4.78%	11-Mar-16	**–**	33.0
– USD 50m loan note	2010	5.15%	11-Mar-17	**38.6**	33.0
– USD 50m loan note	2013	2.60%	20-May-18	**38.6**	33.0
– USD 150m loan note	2013	3.08%	20-May-20	**115.7**	99.1
– USD 150m loan note	2013	3.71%	20-May-23	**115.7**	99.1
– USD 50m loan note	2013	3.86%	20-May-25	**38.6**	33.0
– EUR 55m loan note	2015	1.89%	26-Jan-22	**47.6**	40.6
– EUR 30m loan note	2015	2.07%	26-Jan-23	**26.0**	22.2
– USD 200m loan note	2015	3.73%	26-Jan-25	**154.2**	132.2

There were £nil drawings (2015: £81.6m) under the multi-currency revolving credit facility of £613.5m (2015: £525.2m) expiring on 26 June 2019, which consists both of US$551.0m (£424.8m, 2015: £364.1m) and of €218.0m (£188.7m, 2015: £161.1m) tranches.

14 Financial instruments

This note shows details of the fair value and carrying value of short and long term borrowings, trade and other payables, trade and other receivables, short-term bank deposits, cash at bank and in hand and other financial liabilities. These items are all classified as "financial instruments" under accounting standards. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In order to assist users of these financial statements in making an assessment of any risks relating to financial instruments, this note also shows the ageing of these items and analyses their sensitivity to changes in key inputs, such as interest rates and foreign exchange rates. Further explanation of the Group's exposure to and management of capital, liquidity, credit, interest rate and foreign currency risk is set out in the financial risk management section of the Directors' Report.

Accounting policy

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised (i.e., removed from the Group's balance sheet) when the rights to receive cash flows from the asset have expired; or when the Group has transferred those rights and either has also transferred substantially all the risks and rewards of the asset or has neither transferred nor retained substantially all the risks and rewards of the asset but no longer has control of the asset.

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

14.1 Fair values of financial instruments

The carrying amounts of the following financial assets and liabilities approximate to their fair values: trade and other payables excluding tax and social security, trade and other receivables excluding prepayments and accrued income, short-term bank deposits, cash at bank and in hand and other financial liabilities. The fair value of borrowings differs from their carrying amounts due to their bearing interest at fixed rates which are currently higher than floating 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.

	Note	**2016** Book value £m	**2016** Fair value £m	2015 Book value £m	2015 Fair value £m
Long term-borrowing	13.4	**(534.4)**	**(559.0)**	(571.4)	(572.8)
Short term borrowing	13.4	**(43.3)**	**(43.9)**	(33.6)	(34.1)

The carrying amounts of trade receivables (note 9.2) and cash and cash equivalents (note 13.3) represents the Group's maximum exposure to credit risk.

14.2 Maturity of financial liabilities

The maturity profile of the undiscounted contractual amount of the Group's financial liabilities at 30 September was as follows:

2016	Borrowings £m	Trade and other payables excluding other tax and social security £m	Total £m
In less than one year	**63.3**	**307.3**	**370.6**
In more than one year but not more than two years	**57.5**	**4.2**	**61.7**
In more than two years but not more than five years	**161.2**	**2.5**	**163.7**
In more than five years	**414.6**	**0.8**	**415.4**
	696.6	**314.8**	**1,011.4**

14 Financial instruments continued

14.2 Maturity of financial liabilities continued

			2015
	Borrowings £m	Trade and other payables excluding other tax and social security £m	Total £m
In less than one year	53.0	269.4	322.4
In more than one year but not more than two years	51.3	–	51.3
In more than two years but not more than five years	259.2	–	259.2
In more than five years	366.2	–	366.2
	729.7	269.4	999.1

The maturity profile of provisions is disclosed in Note 10.

14 Financial instruments continued

14.3 Borrowing facilities

The Group has the following undrawn committed borrowing facilities available at 30 September in respect of which all conditions precedent had been met at that date:

	2016 £m	2015 £m
Expiring in more than two years but not more than five years	**613.5**	443.6

The facilities have been arranged to help finance the expansion of the Group's activities. All these facilities incur commitment fees at market rates. In addition, the Group maintains overdraft and uncommitted facilities to provide short-term flexibility and has also utilised the US private placement market.

14.4 Market risk sensitivity analysis

Financial instruments affected by market risks include borrowings and deposits.

The following analysis, required by IFRS 7, "Financial Instruments: Disclosures", is intended to illustrate the sensitivity to changes in market variables, being sterling, US Dollar and Euro interest rates, and sterling/US Dollar and sterling/Euro exchange rates.

The sensitivity analysis assumes reasonable movements in foreign exchange and interest rates before the effect of tax. The Group considers a reasonable interest rate movement in LIBOR to be 1%, based on interest rate history. Similarly, sensitivity to movements in sterling/US Dollar and sterling/Euro exchange rates of 10% are shown, reflecting changes of reasonable proportion in the context of movement in those currency pairs over the last year.

Using the above assumptions, the following table shows the illustrative effect on the consolidated income statement and equity.

		2016		2015
	Income (losses)/gains £m	**Equity (losses)/gains £m**	Income (losses)/gains £m	Equity (losses)/gains £m
1% increase in market interest rates	**(0.5)**	**(0.5)**	(1.4)	(1.4)
1% decrease in market interest rates	**0.4**	**0.4**	1.2	1.2
10% strengthening of sterling versus the US Dollar	**(6.5)**	**(38.2)**	(6.1)	(30.1)
10% strengthening of sterling versus the Euro	**(6.3)**	**(31.2)**	(7.1)	(20.9)
10% weakening of sterling versus the US Dollar	**7.1**	**42.1**	6.7	33.2
10% weakening of sterling versus the Euro	**6.9**	**34.3**	7.9	23.0

14.5 The minimum lease payments under finance leases fall due as follows:

	2016 £m	2015 £m
In less than one year	**0.4**	0.6
In more than one year but not more than five years	**0.2**	0.4
	0.6	1.0
Future finance charges on finance leases	**–**	–
Present value of finance lease liabilities	**0.6**	1.0

14.6 Hedge accounting

Accounting policy

The Group's external US Dollar and Euro denominated borrowings are designated as a hedge of the net investment in its subsidiaries in the US and Eurozone. The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation which is determined to be an effective hedge is recognised in other comprehensive income. The ineffective portion is recognised immediately in profit or loss. On disposal of the net investment, the foreign exchange gains and losses on the hedging instrument are recycled to the income statement from equity.

The fair values of the Group's external US Dollar and Euro denominated borrowings at 30 September 2016 were USD 650.0m and EUR 85.0m (2015: USD 772.5m and EUR 126.5m). These borrowings were used to hedge the Group's exposure to the USD and EUR foreign exchange risk on its investments in subsidiaries in the US and Eurozone.

15 Equity

This note analyses the movements recorded through shareholders' equity that are not explained elsewhere in the financial statements, being changes in the amount which shareholders have invested in the Group.

The Group utilises share award schemes as part of its employee remuneration package. Share option schemes for our employees include The Sage Group Performance Share Plan for directors and senior executives and The Sage Group Savings-related Share Option Plan (the "SAYE Plan") for all qualifying employees. We incur a cost in respect of these schemes in our income statement, which is set out below along with a detailed description of each scheme and the number of options outstanding.

This note also shows the dividends paid in the year and any dividends that are to be proposed and paid post year-end. Dividends are paid as an amount per ordinary share held.

15.1 Ordinary shares

Accounting policy

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the owners of the Company until the shares are cancelled or reissued.

Issued and fully paid ordinary shares of $1^4/77$ pence each	**2016 shares**	**2016 £m**	2015 shares	2015 £m
At 1 October	**1,118,298,748**	**11.8**	1,115,892,047	11.7
Proceeds from shares issued	**1,181,615**	**–**	2,406,701	0.1
At 30 September	**1,119,480,363**	**11.8**	1,118,298,748	11.8

Issues of ordinary shares

Under Executive Share Option Scheme, 500,489 $1^4/77$ p ordinary shares were issued during the year for aggregate proceeds of £0.9m.

Under the Savings-related Share Option Scheme, 675,608 $1^4/77$ p ordinary shares were issued during the year for aggregate proceeds of £2.3m.

15 Equity continued

15.2 Share-based payments

Accounting policy

Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest allowing for the effect of non-market-based vesting conditions.

Fair value is measured using the Black-Scholes or the Monte Carlo pricing models, based on observable market prices. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

All outstanding Sage Performance Share Plans ("PSPs") and certain Restricted Share Plans ("RSPs") are subject to some non-market performance conditions. These are organic revenue and EPS growth. The element of the income statement charge relating to market performance conditions is fixed at the grant date.

At the end of the reporting period, the Group revises its estimates for the number of options expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The total charge for the year relating to employee share-based payment plan was £7.9m (2015: £9.1m), all of which related to equity-settled share-based payment transactions.

Scheme	2016 £m	2015 £m
Performance Share Plan	**6.9**	6.8
Restricted Share Plan	**0.6**	1.8
Savings-related Share Option Scheme	**0.4**	0.5
Total	**7.9**	9.1

The Sage Group Performance Share Plan

Annual grants of performance shares will normally be made to executive directors and senior executives across the Group after the preliminary declaration of the annual results. Under the Performance Share Plan 3,410,056 (2015: 5,411,495) awards were made during the year.

Awards prior to 2013

Annual awards under the Plan were limited to shares worth up to 300% of base salary. In practice, annual grants to executive directors were limited to shares with a maximum value on award of 210% of base salary except in exceptional circumstances, such as a promotion or recruitment or to reflect local market practice.

The performance shares were subject to a service condition and performance conditions on a sliding scale based on EPS. 25% of the award vested at the end of the period if the increase in EPS exceeded RPI by 9% (an average of 3% per year); 100% of the award vested at that time only where RPI was exceeded in that period by 27% (an average of 9% per year). Between those targets, awards vested on a straight-line basis, and if those targets were not met there was no opportunity for re-testing. Awards were then subject to a total shareholder return (TSR) "multiplier" whereby the level of vesting based on EPS achievement was adjusted according to TSR performance over the same three-year period compared with a group of international software and computer services companies.

The comparator group for awards made in 2012 comprised the following companies:

- Adobe Systems
- ARM Holdings
- Blackbaud
- Cap Gemini
- Cegid
- Dassault Systèmes
- Exact
- Intuit
- Logica
- Micro Focus International
- Microsoft
- Oracle
- Salesforce.com
- SAP
- Software AG

If Sage's TSR was ranked at lower quartile in the group, the multiplier was 0.75. If Sage's TSR was ranked at median in the group, the multiplier was 1. If Sage's TSR was ranked at upper quartile in the group, then the multiplier was 1.5. Straight-line pro-rating applied between 0.75 and 1, and between 1 and 1.5, but the multiplier could not be higher or lower than these figures.

Awards from 2013-2015

These performance shares are subject to a service condition and three performance conditions. Performance conditions are weighted one third on the achievement of an EPS target, and one third on the achievement of an organic revenue growth target. The remaining one third is based on a TSR target.

The EPS vesting percentage is based on compound EPS growth. Where compound EPS growth is between 6% and 12%, the EPS vesting percentage will be calculated on a straight-line pro-rata basis between 6.7% and 26.7%, and where compound EPS growth is between 12% and 15%, the EPS vesting percentage will be calculated on a straight-line pro-rata basis between 26.7% and 33.3%.

The organic revenue growth target is based on the Company's compound annual organic revenue growth. Where growth is between 4% and 8% the organic revenue growth vesting percentage will be calculated on a straight-line pro-rata basis between 6.7% and 26.7%, and where the Company's compound organic revenue growth is between 8% and 10%, the organic revenue growth vesting percentage will be calculated on a straight-line pro-rata basis between 26.7% and 33.3%. In order for the organic revenue growth target proportion to vest, the underlying operating profit margin in the financial year of vesting must not be less than that of the underlying operating profit margin for the financial year in which the award is granted.

The final third of the award is the performance target relating to TSR which measures share price performance against a designated comparator group. Where the Company's TSR is between median and upper quartile, the TSR vesting percentage will be calculated on a straight-line pro-rata basis between 6.7% and 26.7% and where the Company's TSR is between upper quartile and upper decile, the TSR vesting percentage will be calculated on a straight-line pro-rata basis between 26.7% and 33.3%. The TSR vesting percentage may only exceed 26.7% ("Stretch" level) if performance against either the EPS target or the organic revenue growth target is also at "Stretch" level.

The comparator group for awards granted from 2013-2015 is the companies comprised in the FTSE 100 Index at the start of the performance period, excluding financial services and extraction companies.

Awards were valued using the Monte Carlo option-pricing model. The market based performance condition were included in the fair value calculations, which were based on observable market prices at grant date. All options granted under performance share awards have an exercise price of nil. The fair value per award granted in the prior year and the assumptions used in the calculation were as follows:

Grant date	January 2015	January 2015	January 2015	May 2015	May 2015	June 2015	June 2015	September 2015	September 2015
Share price at grant date	£4.65	£4.65	£4.65	£5.44	£5.44	£5.13	£5.13	£4.91	£4.91
Number of employees	150	111	1	12	11	3	3	9	8
Shares under award	3,930,755	485,199	213,421	422,406	52,090	59,829	13,959	197,067	36,769
Vesting period (years)	3	3	3	3	3	3	3	2	2
Expected volatility	20%	20%	20%	20%	20%	20%	20%	20%	20%
Award life (years)	3	3	3	3	3	3	3	2	2
Expected life (years)	3	3	3	3	3	3	3	2	2
Risk free rate	0.67%	0.67%	0.67%	0.91%	0.91%	0.96%	0.96%	0.65%	0.65%
Fair value per award	£4.13	£4.65	£3.06	£5.14	£5.44	£4.82	£5.13	£4.54	£4.91

Awards from 2016 onwards

These performance shares are subject to a service condition and two performance conditions. Performance conditions are weighted one half on the achievement of a revenue growth target and one half on the achievement of a TSR target. The revenue growth target is subject to two underpin performance conditions relating to EPS growth and organic revenue growth.

The revenue growth target is based on the Company's compound annual organic revenue growth. Where the Company's annual Revenue growth is between 8% and 10% or 10% and 12%, the extent to which the Revenue Performance Condition is satisfied will be calculated on a straight-line pro rata basis between 10% and 40% or between 40% and 50% respectively. Notwithstanding the extent to which the Revenue Performance Condition has been satisfied, the Revenue Tranche will not be released and will lapse on the Board's determination that (1) the compound growth of the Company's underlying EPS over the Performance Period is less than 8% per annum; or (2) the compound growth of the Company's organic revenue over the Performance Period is less than 6% per annum.

The performance target relating to TSR measures share price performance against a designated comparator group. Where the Company's TSR is between median and upper quartile, the TSR vesting percentage will be calculated on a straight-line pro-rata basis between 10% and 40% and where the Company's TSR is between upper quartile and upper decile, the TSR vesting percentage will be calculated on a straight-line pro-rata basis between 40% and 50%.

The comparator group for awards granted from 2016 onwards is the companies comprised in the FTSE 100 Index at the start of the performance period, excluding financial services and extraction companies.

15 Equity continued

15.2 Share-based payments continued

Awards were valued using the Monte Carlo option-pricing model. Performance conditions were included in the fair value calculations, which were based on observable market prices at grant date. All options granted under performance share awards have an exercise price of nil. The fair value per award granted and the assumptions used in the calculation are as follows:

Grant date	March 2016	June 016	September 2016
Share price at grant date	**£6.04**	**£6.04**	**£7.47**
Number of employees	**94**	**9**	**11**
Shares under award	**2,980,575**	**175,487**	**253,994**
Vesting period (years)	**3**	**3**	**2**
Expected volatility	**21.2%**	**21.3%**	**21.3%**
Award life (years)	**3**	**3**	**2**
Expected life (years)	**3**	**3**	**2**
Risk free rate	**0.47%**	**0.32%**	**0.06%**
Fair value per award	**£4.28**	**£4.28**	**£5.23**

The expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed award life.

A reconciliation of award movements over the year is shown below:

	2016		2015	
	Number '000s	**Weighted average exercise price £**	Number '000s	Weighted average exercise price £
Outstanding at 1 October	**13,063**	**–**	13,891	–
Awarded	**3,410**	**–**	5,411	–
Forfeited	**(3,996)**	**–**	(4,697)	–
Exercised	**(2,442)**	**–**	(1,542)	–
Outstanding at 30 September	**10,035**	**–**	13,063	–
Exercisable at 30 September	**–**	**–**	–	–

	2016		2015	
	Weighted average remaining life years		Weighted average remaining life years	
Range of exercise prices	**Expected**	**Contractual**	Expected	Contractual
N/A	**1.2**	**1.2**	1.3	1.3

The Sage Group Restricted Share Plan

The Group's Restricted Share Plan is a long-term incentive plan used in limited circumstances and usually on a one-off basis, under which contingent share awards, other than the award made in December 2013, are usually made only with service conditions. Executive directors are not permitted to participate in the plan and shares are purchased in the market to satisfy vesting awards. During the year 91,653 (2015: 362,530) awards were made. These awards only have service conditions and their fair values are equal to the share price on the date of grant, ranging from 606-742p.

The plan options granted in December 2013 have vested at 67.5% of the total award, based upon FY15 organic revenue growth.

A reconciliation of award movements over the year is shown below:

	2016 Number '000s	2016 Weighted average exercise price £	2015 Number '000s	2015 Weighted average exercise price £
Outstanding at 1 October	**1,168**	**–**	1,451	–
Awarded	**92**	**–**	363	–
Forfeited	**(389)**	**–**	(296)	–
Exercised	**(334)**	**–**	(350)	–
Outstanding at 30 September	**537**	**–**	1,168	–
Exercisable at 30 September	**–**	**–**	–	–

	2016 Weighted average remaining life years		2015 Weighted average remaining life years	
Range of exercise prices	**Expected**	**Contractual**	Expected	Contractual
N/A	**1.7**	**1.7**	1.1	1.0

The Sage Group Savings-related Share Option Plan (the "SAYE Plan")

The Group operates an approved savings-related share option scheme for UK employees. The fair value is expensed over the service period of three, five or seven years on the assumption that 20% of options will lapse over the service period as employees leave the Group.

In the year, no (2015: 1,241,905) options were granted under the terms of the Savings-related Share Option Scheme.

15 Equity continued

15.3 Other reserves

	Translation reserve £m	Merger reserve £m	Total other reserves £m
At 1 October 2014	29.0	61.1	90.1
Exchange differences on translating foreign operations	(23.2)	–	(23.2)
At 30 September 2015	**5.8**	**61.1**	**66.9**
Exchange differences on translating foreign operations	**117.1**	**–**	**117.1**
Deferred tax credit on foreign currency movements	**2.6**	**–**	**2.6**
At 30 September 2016	**125.5**	**61.1**	**186.6**

Translation reserve

The translation reserve represents the accumulated exchange differences arising since the transition to IFRS from the following sources:

- The impact of the translation of subsidiaries with a functional currency other than sterling; and
- Exchange differences arising on hedging instruments that are designated hedges of a net investment in foreign operations, net of tax where applicable.

Exchange differences arising prior to the IFRS transition were offset against retained earnings.

Merger reserve

Merger reserve brought forward relates to the merger reserve which was present under UK GAAP and frozen on transition to IFRS.

15.4 Retained earnings

Retained earnings	**2016 £m**	2015 £m
At 1 October	**242.2**	130.2
Profit for the year	**207.6**	194.3
Actuarial loss on post-employment benefit obligations (note 11)	**(2.2)**	(4.8)
Deferred tax credit on actuarial loss on post-employment obligations	**0.8**	0.6
Value of employee services net of deferred tax	**9.3**	10.1
Purchase of treasury shares	**(2.4)**	(14.6)
Expenses related to purchase of treasury shares	**–**	(0.1)
Close period share buyback programme	**–**	60.0
Dividends paid to owners of the parent (note 15.5)	**(144.8)**	(133.5)
Total	**310.5**	242.2

Treasury shares

Purchase of treasury shares

Shares purchased under the Group's buyback programme are not cancelled but are retained in issue and represent a deduction from equity attributable to owners of the parent. During the year the Group purchased nil shares (2015: 3,457,020) at a cost of £nil (2015: £12.4m).

At the 30 September 2016 the Group held 39,522,431 (2015: 39,522,431) of treasury shares.

Employee Share Trust

The Group holds treasury shares in a trust which was set up for the benefit of Group employees. The Trust purchases the Company's shares in the market or is gifted them by the Company for use in connection with the Group's share-based payments arrangements. The Trust holds 1,016,311 ordinary shares in the Company (2015: 3,638,249) at a cost of £0.2m (2015: £0.6m) and a nominal value of £10,691 (2015: £38,272).

During the year, the Trust agreed to satisfy the vesting of certain PSP and RSP awards, utilising a total of 3,006,938 (2015: 1,768,906) shares held in the Trust. Furthermore, the Trust received additional funds of £2.4m (2015: £2.2m) which were used to purchase 385,000 (2015: 377,860) shares in the market.

The costs of funding and administering the scheme are charged to the profit and loss account of the Company in the period to which they relate. The market value of the shares at 30 September 2016 was £7.5m (2015: £18.2m).

15.5 Dividends

Accounting policy

Dividends are recognised through equity when approved by the Company's shareholders or on payment, whichever is earlier.

	2016 £m	2015 £m
Final dividend paid for the year ended 30 September 2015 of 8.65p per share	**93.0**	–
(2015: final dividend paid for the year ended 30 September 2014 of 8.00p per share)	**–**	85.7
Interim dividend paid for the year ended 30 September 2016 of 4.80p per share	**51.8**	–
(2015: interim dividend paid for the year ended 30 September 2015 of 4.45p per share)	**–**	47.8
	144.8	133.5

In addition, the directors are proposing a final dividend in respect of the financial year ended 30 September 2016 of 9.35p per share which will absorb an estimated £101m of shareholders' funds. It will be paid on 3 March 2017 to shareholders who are on the register of members on 10 February 2017. These financial statements do not reflect this dividend payable.

16 Acquisitions and disposals

The following note outlines acquisitions and disposals during the year and the accompanying accounting policies. Each acquisition or disposal during the year is discussed and the effects on the results of the Group are highlighted.

Accounting policy

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, "Business Combinations" are recognised at their fair values at the acquisition date.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in the income statement. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's total identifiable net assets acquired. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the difference is recognised directly in the consolidated income statement. Any subsequent adjustment to reflect changes in consideration arising from contingent consideration amendments is recognised in the consolidated income statement.

On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Acquisition-related items such as legal or professional fees are expensed to the income statement as incurred.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. The difference between fair value of any consideration paid and the relevant shares acquired of the carrying value of net assets of the subsidiary is recorded in equity.

Where the Group enters into put and call arrangements over shares held by a non-controlling interest, the Group continues to recognise the non-controlling interest until the ownership risks and rewards of those shares transfer to the Group.

16.1 Acquisitions

Acquisitions made during the current year

On 2 November 2015 the Group acquired trade and business from People's United Bank, a provider of payroll services for small and medium sized business in North America, for a total consideration of £6.4m. The transaction price included deferred consideration of £2.0m, which was fully paid in the year. The acquisition strengthens Sage's position in the large and growing US payroll market.

The acquisition resulted in the recognition of intangible assets of £6.4m, consisting of customer lists. No goodwill was recognised.

16.2 Costs relating to business combinations in the year

Costs relating to business combinations in the year of £0.7m (2015: £2.0m) have been included in selling and administrative expenses in the consolidated income statement. These acquisition-related items relate to completed transactions and include advisory, legal, accounting, valuation and other professional or consulting services.

16.3 Assets and liabilities held for sale

The assets and liabilities held for sale relate to the Group's subsidiary Sage XRT Brasil Ltda. The sale is expected to be finalised during the year ending 30 September 2017. The business forms part of the Group's International reporting segment. Assets held for sale comprise trade and other receivables of £1.0m and liabilities held for sale comprise trade and other payables of £0.4m.

17 Related party transactions

This note provides information about transactions between the Group and its related parties. A group's related parties include any entities over which it has control, joint control or significant influence, and any persons who are members of its key management personnel.

The Group's related parties are its subsidiary undertakings, its associated undertaking and its key management personnel, which comprises the Group's Executive Committee members. The Group has taken advantage of the exemption available under IAS 24, "Related Party Disclosures", not to disclose details of transactions with its subsidiary undertakings. Compensation paid to the Executive Committee is disclosed in note 3.3.

Supplier transactions occurred during the year between Sage South Africa (Pty) Ltd, one of the Group's subsidiary companies, and Ivan Epstein, President, International and Executive Committee member. These transactions relate to the lease of four properties in which Ivan Epstein has a minority and indirect shareholding. During the year £4.0m (2015: £4.3m) relating to these transactions was charged through selling and administrative expenses. There were no outstanding amounts payable for the year ended 2016 (2015: £nil).

Supplier transactions occurred during the year between Sage SP, S.L., one of the Group's subsidiary companies, and Álvaro Ramírez, who held the role of President, Europe and Executive Committee member during the year. These transactions relate to the lease of a property in which Álvaro Ramírez has a minority shareholding. During the year £0.9m (2015: £1.0m) relating to these transactions was charged through selling and administrative expenses. There were no outstanding amounts payable for the year ended 2016 (2015: £nil).

These arrangements are subject to independent review using external advisers to ensure all transactions are at arm's length.

18 Group undertakings

While we present consolidated results in these financial statements, our structure is such that there are a number of different operating and holding companies that contribute significantly to the overall result.

Our subsidiaries and associates are located around the world and each contributes to the profits, assets and cash flow of the Group.

The entities listed below and on the following page are subsidiaries of the Company or Group. The Group percentage of equity capital and voting rights is 100% for all subsidiaries listed. The results for all of the subsidiaries have been consolidated within these financial statements.

Name	Country of incorporation	Direct or indirect holding
ACCPAC Middle East FZ – LLC	UAE	Indirect
ACCPAC UK Limited	UK	Indirect
Apex Software International Limited	Ireland	Indirect
Apex Software Systems Limited	Ireland	Indirect
BSG (Best Software Ger.)	Germany	Indirect
Computer Resources (Research) Limited	Ireland	Indirect
Computer Resources (Software) Limited	Ireland	Indirect
Computer Resources (Supplies) Limited	Ireland	Indirect
Computer Resources Limited	Ireland	Indirect
Creative Purpose Sdn Bhd	Malaysia	Indirect
eWare GmbH	Germany	Indirect
Handisoft Software Pty Limited	Australia	Indirect
Intelligent Apps Holdings Limited	Bahamas	Indirect
Interact UK Holdings Limited	UK	Direct
IOB Informacoes Objetivas Publicacoes Juridicas Limiteda	Brazil	Indirect
KCS Global Holdings Limited	UK	Indirect
KHK Software AG	Switzerland	Indirect
Multisoft Financial Systems Limited	UK	Indirect
PAI Services LLC	US	Indirect
Pastel Software (Europe) Limited	Ireland	Indirect
Pastel Software (Ireland) Limited	Ireland	Indirect
Pastel Software (UK) Limited	UK	Indirect
Protx Group Limited	UK	Indirect
Protx Limited	UK	Indirect
Sage S.A.	Belgium	Indirect
Sage (UK) Limited	UK	Indirect
Sage Alchemex (Pty) Limited	South Africa	Indirect
Sage Australia Holdings Pty Limited	Australia	Indirect
Sage Baurer AG	Switzerland	Indirect
Sage Baurer GmbH	Germany	Indirect
Sage Brasil 3 Empreendimentos e Participacoes Limiteda.	Brazil	Indirect
Sage Brasil Software S.A.	Brazil	Indirect
Sage Brazilian Investment One Limited	UK	Indirect
Sage Brazilian Investment Two Limited	UK	Indirect
Sage Business Solutions (NZ) Limited	New Zealand	Indirect
Sage Business Solutions Pty Limited	Australia	Indirect
Sage CRM Solutions GmbH	Germany	Indirect
Sage CRM Solutions Limited	UK	Indirect
Sage Enterprise Solutions (Pty) Limited	South Africa	Indirect
Sage Enterprise Solutions Limited	UK	Indirect
Sage Euro Hedgeco 1	UK	Indirect
Sage Euro Hedgeco 2	UK	Indirect
Sage Far East Investments Limited	UK	Indirect
Sage Global Services (Ireland) Limited	Ireland	Indirect
Sage Global Services Limited	UK	Indirect
Sage Global Services US	US	Indirect
Sage GmbH	Germany	Indirect
Sage GmbH	Austria	Indirect

Name	Country of incorporation	Direct or indirect holding
Sage Hibernia Investments No.1 Limited	UK	Indirect
Sage Hibernia Investments No.2 Limited	UK	Indirect
Sage Hibernia Limited	Ireland	Indirect
Sage Hibernia Services Limited	Ireland	Indirect
Sage Holding Company Limited	UK	Direct
Sage Holding France SAS	France	Indirect
Sage Holdings Limited	UK	Indirect
Sage Irish Finance Company	Ireland	Indirect
Sage Irish Investments LLP	UK	Indirect
Sage Irish Investments One Limited	UK	Direct
Sage Irish Investments Two Limited	UK	Direct
Sage Management & Services GmbH	Germany	Indirect
Sage Newco SAS	France	Indirect
Sage One Pty Limited	Australia	Indirect
Sage Online Holdings Limited	UK	Indirect
Sage Overseas Limited	UK	Indirect
Sage Overseas Limited Sucursal	Spain	Indirect
Sage Pay (Dublin) Limited	Ireland	Indirect
Sage Pay (GB) Limited	UK	Indirect
Sage Pay (Pty) Limited	South Africa	Indirect
Sage Pay Europe Limited	UK	Indirect
Sage Pay GmbH	Germany	Indirect
Sage Pay Ireland Limited	Ireland	Indirect
Sage Pay S.L.	Spain	Indirect
Sage Payment Solutions EFT, Inc.	US	Indirect
Sage Payment Solutions, Inc.	US	Indirect
Sage Payments (UK) Limited	UK	Indirect
Sage Portugal – Software, S.A.	Portugal	Indirect
Sage SAS	France	Indirect
Sage Schweiz AG	Switzerland	Indirect
Sage Services GmbH	Germany	Indirect
Sage Singapore Holdings Pte. Limited	Singapore	Indirect
Sage Software (India) Private Limited	India	Indirect
Sage Software (Maroc)	Morocco	Indirect
Sage Software Asia Pte. Limited	Singapore	Indirect
Sage Software Australia Pty Limited	Australia	Indirect
Sage Software Botswana (Pty) Limited	Botswana	Indirect
Sage Software Canada Holdings Limited	Canada	Indirect
Sage Software Canada Limited	Canada	Indirect
Sage Software East Africa Limited	Kenya	Indirect
Sage Software Holdings Inc.	US	Indirect
Sage Software International, Inc.	US	Indirect
Sage Software Limited	UK	Indirect
Sage Software Middle East FZ-LLC	UAE	Indirect
Sage Software Namibia (Pty) Limited	Namibia	Indirect
Sage Software Nigeria Limited	Nigeria	Indirect
Sage Software North America	US	Indirect
Sage Software Sdn Bhd	Malaysia	Indirect
Sage Software, Inc.	US	Indirect
Sage South Africa (Pty) Limited	South Africa	Direct
Sage sp. zoo.	Poland	Indirect
Sage Spain Investment Company Limited	UK	Direct
Sage Spain, S.L.	Spain	Indirect
Sage Technologies Limited	Ireland	Indirect
Sage Treasury Company Limited	UK	Direct
Sage USD Hedgeco 1	UK	Indirect
Sage USD Hedgeco 2	UK	Indirect
Sage Whitley Limited	UK	Indirect
Sage XRT Brasil Limiteda.	Brazil	Indirect
Sagesoft	UK	Indirect
Sandco 1191 Limited	UK	Direct
Snowdrop Systems Limited	UK	Indirect
Snowdrop Systems Pty Limited	Australia	Indirect
Softline Australia Holdings Pty Limited	Australia	Indirect
Softline Holdings USA Inc.	US	Indirect
Softline Software Holdings Limited	Ireland	Indirect
Softline Software Inc. (USA)	US	Indirect
Softline Software Limited	Ireland	Indirect
Softline Software USA LLC	US	Indirect
Syska Gesellschaft fur betriebliche Datenverarbeitung mbH	Germany	Indirect
Sytax Sistemas S.A	Brazil	Indirect
TAS Software Limited	UK	Indirect
TAS Software Limited	Ireland	Indirect
Tetra Limited	UK	Direct
Tonwomp	Ireland	Indirect
Ulysoft	Tunisia	Indirect

Associated undertaking

An associated undertaking is an undertaking in which the Group has a participating interest and over whose operating and financial policy it exercises a significant influence, and which is neither a subsidiary undertaking nor a joint venture of the Group. The Group's investment in its associated undertaking is included in the consolidated financial statements using the equity method of accounting. Details of the Group's associated undertaking are as follows.

Name	Country of incorporation	Direct or indirect holding	Class of share and proportion of nominal value held
Fairsail Limited	UK	Indirect	100% of C Ordinary Shares, representing 20.6% of equity and voting rights.

Contents
Company financial statements

Company balance sheet
At 30 September 2016

	Note	2016 £m	2015 £m
Fixed assets: investments	2	**3,088.2**	3,088.2
Current assets			
Cash at bank and in hand	3	**0.8**	3.1
Debtors – amounts due greater than one year £349.2m (2015: £286.9m)	4	**795.9**	574.7
		796.7	577.8
Creditors: amounts falling due within one year			
Trade and other payables	5	**(1,015.2)**	(763.0)
Net current liabilities		**(218.5)**	(185.2)
Total assets less current liabilities		**2,869.7**	2,903.0
Creditors: amounts falling due after more than one year	6	**–**	(33.0)
Net assets		**2,869.7**	2,870.0
Capital and reserves			
Called up share capital	8.1	**11.8**	11.8
Share premium account		**544.4**	541.2
Other reserves	8.2	**(101.4)**	(101.8)
Profit and loss account		**2,414.9**	2,418.8
Total shareholders' funds		**2,869.7**	2,870.0

The financial statements on pages 164 to 169 were approved by the Board of Directors on 29 November 2016 and are signed on their behalf by:

S Hare
Chief Financial Officer

Company statement of changes in equity

	Called up share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total equity £m
			Attributable to owners of the parent		
At 1 October 2015	**11.8**	**541.2**	**(101.8)**	**2,418.8**	**2,870.0**
Profit for the year	**–**	**–**	**–**	**135.8**	**135.8**
Total comprehensive (expense)/income for the year ended 30 September 2016	**–**	**–**	**–**	**135.8**	**135.8**
Transactions with owners:					
Employee share option scheme:					
– Proceeds from shares issued	**–**	**3.2**	**–**	**–**	**3.2**
– Value of employee services, net of deferred tax	**–**	**–**	**–**	**7.9**	**7.9**
Utilisation of treasury shares	**–**	**–**	**2.8**	**(2.8)**	**–**
Purchase of treasury shares	**–**	**–**	**(2.4)**	**–**	**(2.4)**
Dividends paid to owners of the parent	**–**	**–**	**–**	**(144.8)**	**(144.8)**
Total transactions with owners for the year ended 30 September 2016	**–**	**3.2**	**0.4**	**(139.7)**	**(136.1)**
At 30 September 2016	**11.8**	**544.4**	**(101.4)**	**2,414.9**	**2,869.7**

	Called up share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total equity £m
			Attributable to owners of the parent		
At 1 October 2014	11.7	535.9	(87.2)	2,419.0	2,879.4
Profit for the year	–	–	–	64.3	64.3
Total comprehensive income for the year ended 30 September 2015	–	–	–	64.3	64.3
Transactions with owners:					
Employee share option scheme:					
– Proceeds from shares issued	0.1	5.3	–	–	5.4
– Value of employee services, net of deferred tax	–	–	–	9.1	9.1
Purchase of treasury shares	–	–	(14.6)	–	(14.6)
Expenses related to purchase of treasury shares	–	–	–	(0.1)	(0.1)
Close period share buyback programme	–	–	–	60.0	60.0
Dividends paid to owners of the parent	–	–	–	(133.5)	(133.5)
Total transactions with owners for the year ended 30 September 2015	0.1	5.3	(14.6)	(64.5)	(73.7)
At 30 September 2015	11.8	541.2	(101.8)	2,418.8	2,870.0

Company accounting policies

Company accounting policies

Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 (FRS 102) "The Financial Reporting Standard applicable in the UK and Republic of Ireland", the transition date to this standard being 1 October 2014.

Basis of accounting

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006. A summary of the more important Company accounting policies, which have been consistently applied, is set out below. These accounting policies have been consistently applied to all periods presented and in preparing an opening FRS102 balance sheet at 1 October 2014 for the purposes of transition to FRS102.

The Company is deemed a qualifying entity under FRS102, and so may take advantage of the reduced disclosures permitted under the standard. As a result, the following disclosures have not been provided:

- a statement of cash flows and related disclosures under Section 7 Statement of Cash Flows and Section 3 Financial Statement Presentation paragraph 3.17(d);
- disclosures about financial instruments under Section 11 Basic Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c) and Section 12 Other Financial Instruments Issues paragraphs 12.26 (in relation to those cross-referenced paragraphs from which a disclosure exemption is available), 12.27, 12.29(a), 12.29(b), and 12.29A; this exemption is permitted as equivalent disclosures are included in the consolidated financial statements of The Sage Group plc;
- disclosures about share-based payments under Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23; this exemption is permitted as the Company is an ultimate parent, the share-based payment arrangements concern its own equity instruments, its separate financial statements are presented alongside the consolidated financial statements of The Sage Group plc and equivalent disclosures are included in those consolidated financial statements; and
- key management personnel compensation in total under Section 33 Related Party Disclosures paragraph 33.7.

The prior year financial statements have been restated for material adjustments on adoption of FRS102 in the current year. For more information see note 9.

Foreign currencies

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange prevailing at the balance sheet date. Transactions in foreign currencies are converted into sterling at the rate prevailing at the dates of the transactions. All differences on exchange are taken to the profit and loss account.

Investments

Fixed asset investments are stated at cost less provision for any diminution in value. Any impairment is charged to the profit and loss account as it arises.

Parent Company profit and loss account

The amount of profit for the financial year before dividends within the accounts of the parent Company is £135.8m (2015: £64.3m).

No profit and loss account is presented for the Company as permitted by section 408 of the Companies Act 2006.

Auditors' remuneration

The audit fees payable in relation to the audit of the financial statements of the Company are £30,000 (2015: £30,000).

Directors' remuneration

Details of the remuneration of Executive and Non-Executive Directors and their interest in shares and options of the Company are given in the audited part of the Directors' Remuneration Report on pages 82 to 100.

Share-based payments

The Company issues equity-settled share-based payments to certain employees and employees of its subsidiaries. Equity-settled share-based payments granted to employees of the company are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the shares that will eventually vest allowing for the effect of non-market-based vesting conditions.

Fair value is measured using the Black-Scholes or the Monte Carlo pricing models. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Company also provides certain employees and employees of its subsidiaries with the ability to purchase the Company's ordinary shares at a discount to the current market value at the date of the grant. For awards made to its own employees, the Company records an expense, based on its estimate of the discount related to shares expected to vest, on a straight-line basis over the vesting period.

At the end of each reporting period, the entity revises its estimates for the number of options expected to vest. It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to equity. For awards made to subsidiary employees, the fair value of awards made is recognised by the company as an addition to the cost of investment in the employing subsidiary. Intergroup recharges to the employing subsidiary, up to the fair value of awards made to employees of that subsidiary, subsequently reverse the increase to the cost of investment.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Financial instruments

The accounting policy of the Company for financial instruments is the same as that shown in the Group accounting policies. The Company is taking the exemption for financial instruments disclosure, because disclosures are provided under IFRS 7 'Financial Instruments: Disclosures' in note 14 to the Group financial statements.

Dividends

Dividends are recognised through equity when approved by the Company's shareholders or on payment, whichever is earlier.

Notes to the Company financial statements

1 Dividends

	2016 £m	2015 £m
Final dividend paid for the year ended 30 September 2015 of 8.65p per share	**93.0**	
(2015: final dividend paid for the year ended 30 September 2014 of 8.00p per share)		85.7
Interim dividend paid for the year ended 30 September 2016 of 4.80p per share	**51.8**	
(2015: interim dividend paid for the year ended 30 September 2015 of 4.45p per share)		47.8
	144.8	133.5

In addition, the directors are proposing a final dividend in respect of the financial year ended 30 September 2016 of 9.35p per share which will absorb an estimated £101m of shareholders' funds. It will be paid on 3 March 2017 to shareholders who are on the register of members on 10 February 2017. These financial statements do not reflect this dividend payable.

2 Fixed assets: investments

Equity interests in subsidiary undertakings are as follows:

	£m
Cost	
At 1 October 2015	3,224.0
At 30 September 2016	**3,224.0**
Provision for diminution in value	
At 1 October 2015	135.8
At 30 September 2016	**135.8**
Net book value	
At 30 September 2016	**3,088.2**
At 30 September 2015	3,088.2

The directors believe that the carrying value of the investments is supported by their underlying net assets.

Subsidiary undertakings, included in the Group financial statements for the year ended 30 September 2016, are shown in note 18 of the Group financial statements. All of these subsidiary undertakings are wholly owned. All subsidiaries are engaged in the development, distribution and support of business management software and related products and services for small and medium sized businesses.

All operating subsidiaries' results are included in the Group financial statements. The accounting reference date of all subsidiaries is 30 September, except for Brazilian subsidiaries which have an accounting reference of 31 December due to Brazilian statutory requirements.

3 Cash at bank and in hand

	2016 £m	2015 £m
Cash at bank and in hand	**0.8**	3.1

4 Debtors

	2016 £m	2015 £m
Prepayments and accrued income	**1.1**	–
Amounts owed by Group undertakings	**794.8**	574.7
	795.9	574.7

Of amounts owed by Group undertakings £349.2m (2015: £286.9m) is due greater than one year, on which interest is charged at 4.23% and is repayable in full on the 21 October 2023 but may be repaid, in whole or in part in advance of this date at the option of the borrower.

5 Creditors: amounts falling due within one year

	2016 £m	2015 £m
Bank loans and overdrafts	**3.4**	–
Amounts owed to Group undertakings	**969.3**	729.3
Accruals and deferred income	**4.0**	0.7
US senior bank loans –unsecured	**38.5**	33.0
	1,015.2	763.0

Included in loans above is £38.5m (2015: £66.0m) of unsecured external loans (after unamortised issue costs).

The Company has US$50.0m (2015: US$100.0m) (£38.5m, 2015: £66.0m) of US senior loan notes, which were issued into the US private placement market in 2010. These notes mature US$50.0m (£38.5m, 2015: £33.0m) in 2017 and carry interest coupons of 5.15% (2015: 4.78% and 5.15%).

In the table above, bank loans and loan notes are stated net of unamortised issue costs of £nil (2015: £nil).

Amounts owed to Group undertakings are unsecured and attract a rate of interest of between 0.0% and 8.3% (2015: 0.0% and 7.5%).

6 Creditors: amounts falling due in more than one year

	2016 £m	2015 £m
In more than two years but not more than five years		
US senior loan notes – unsecured	**–**	33.0
	–	33.0

7 Obligations under operating leases

	2016	2015
Total future minimum lease payments under non-cancellable operating leases falling due for payment as follows:	**Property, vehicles, plant and equipment £m**	Property, vehicles, plant and equipment £m
Within one year	**0.9**	–
Later than one year and less than five years	**1.0**	–
After five years	–	–
	1.9	–

The company leases various offices under non-cancellable operating lease agreements. These leases have various terms, escalation clauses and renewal rights.

8 Equity

8.1 Called up share capital

Issued and fully paid ordinary share of 1 4/77 pence each	2016 shares	2016 £m	2015 shares	2015 £m
At 1 October	**1,118,298,748**	**11.8**	1,115,892,047	11.7
Proceeds from shares issued	**1,181,615**	**–**	2,406,701	0.1
At 30 September	**1,119,480,363**	**11.8**	1,118,298,748	11.8

8.2 Other reserves

	Treasury shares £m	Merger reserve £m	Capital redemption reserve £m	Total other reserves £m
At 01 October 2015	**(164.5)**	**61.1**	**1.6**	**(101.8)**
Utilisation of treasury shares	**2.8**	**–**	**–**	**2.8**
Purchase of treasury shares	**(2.4)**	**–**	**–**	**(2.4)**
At 30 September 2016	**(164.1)**	**61.1**	**1.6**	**(101.4)**

	Treasury shares £m	Merger reserve £m	Capital redemption reserve £m	Total other reserves £m
At 01 October 2014	(149.9)	61.1	1.6	(87.2)
Purchase of treasury shares	(14.6)	–	–	(14.6)
At 30 September 2015	(164.5)	61.1	1.6	(101.8)

8.2 Other reserves

Treasury shares

Purchase of treasury shares

Shares purchased under the Group's buyback programme are not cancelled but are retained in issue and represent a deduction from equity attributable to owners of the parent. During the year the company purchased nil shares (2015: 3,457,020) at a cost of £nil (2015: £12.4m).

At the 30 September 2016 the company held 39,522,431 (2015: 39,522,431) of treasury shares.

Employee Share Trust

The Company holds treasury shares in a trust which was set up for the benefit of Group employees. The Trust purchases the Company's shares in the market or is gifted them by the Company for use in connection with the Group's share-based payments arrangements. The Trust holds 1,016,311 ordinary shares in the Company (2015: 3,638,249) at a cost of £0.2m (2015: £0.6m) and a nominal value of £10,691 (2015: £38,272).

During the year, the Trust agreed to satisfy the vesting of certain PSP and RSP awards, utilising a total of 3,006,938 (2015: 1,768,906) shares held in the Trust. Furthermore, the Trust received additional funds of £2.4m (2015: £2.2m) which were used to purchase 385,000 (2015: 377,860) shares in the market.

The costs of funding and administering the scheme are charged to the profit and loss account of the Company in the period to which they relate. The market value of the shares at 30 September 2016 was £7.5m (2015: £18.2m).

9 Explanation of transition to FRS102

This is the first year that the Company has presented its financial statements under Financial Reporting Standard 102 (FRS102) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under previous UK GAAP were for the year ended 30 September 2015 and the date of transition to FRS102 was therefore 1 October 2014. As a consequence of adopting FRS102, the basis of accounting has changed to comply with that standard.

9.1 Reconciliation of equity

There is no impact on total shareholders' funds as at 30 September 2015 and 1 October 2014.

Glossary

Measure /Description	Why we use it
Underlying	
Prior period underlying measures are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations. Underlying operating profit excludes: Recurring items: – Amortisation of acquired intangible assets – Acquisition-related items – Fair value adjustments on non-debt-related financial instruments – Foreign currency movements on intercompany balances Non-recurring items that management judge are one-off or non-operational Underlying profit before tax excludes: – All the items above – Imputed interest – Fair value adjustments on debt-related financial instruments. Underlying profit after tax and earnings per share excludes: – All the items above net of tax.	Underlying measures allow management and investors to compare performance without the potentially distorting effects of foreign exchange movements, one-off items or non-operational items. By including part-period contributions from acquisitions, disposals and products held for sale in the current and/or prior periods, the impact of M&A decisions on earnings per share growth can be evaluated.
Organic	
In addition to the adjustments made for underlying measures, organic measures exclude the contribution from acquisitions, disposals and products held for sale of standalone businesses, in the current and prior period. Acquisitions and disposals which occurred close to the start of the opening comparative period where the contribution impact would be immaterial are not adjusted.	Organic measures allow management and investors to understand the like-for-like performance of the business.
Underlying cash conversion	
Underlying cash conversion is underlying cash flow from operating activities divided by underlying operating profit. Underlying cash flow from operating activities is statutory cash flow from operating activities less net capital expenditure and adjusted for movements on foreign exchange rates and non-recurring cash items.	Underlying cash conversion informs management and investors about the cash operating cycle of the business and how efficiently operating profit is converted into cash.
Underlying (as reported)	
Where prior period underlying measures are included without retranslation at current period exchange rates, they are labelled as underlying (as reported).	This measure is used to report comparative figures for external reporting purposes where it would not be appropriate to retranslate. For instance, on the face of primary financial statements.
Processing revenue	
Processing revenue is revenue earned from customers for the processing of payments or where Sage colleagues process our customers' payroll.	
Recurring revenue	
Recurring revenue is revenue earned from customers for the provision of a good or service, where risks and rewards are transferred to the customer over the term of a contract, with the customer being unable to continue to benefit from the full functionality of the good or service without on-going payments. Recurring revenue includes both software subscription revenue and maintenance and service revenue.	
Software subscription revenue	
Subscription revenue is revenue earned from customers for the provision of a good or service, where the risk and rewards are transferred to the customer over the term of a contract. In the event that the customer stops paying, they lose the legal right to use the software and the Company has the ability to restrict the use of the product or service. (Also known as 'Pay to play').	
Software and software related services ("SSRS")	
SSRS revenue is for goods or services where the entire benefit is passed to the customer at the point of delivery. It comprises revenue for software or upgrades sold on a perpetual license basis and software related services, including hardware sales, professional services and training.	

A&RC
Audit and Risk Committee

AAMEA
Africa Australia Middle East Asia

AGM
Annual General Meeting

API
Application Program Interface

ASB
Annualised Subscriber Base

C4L
Customer For Life

CAGR
Compound Annual Growth Rate

CBC
Customer Business Centre

CDP
Carbon Disclosure Project

CFO
Chief Financial Officer

CGU
Cash Generating Unit

CMD
Capital Markets Day

CR
Corporate Responsibility

CRM
Customer Relationship Management

DEFRA
Department for Environment, Food & Rural Affairs

DTR
Disclosure Rules and Transparency Rules

EBITDA
Earnings Before Interest Taxes Depreciation and Amortisation

EBT
Employee Benefit Trust

EPS
Earnings Per Share

ERP
Enterprise Resource Planning

ESOS
Executive Share Operating Scheme

EU
European Union

FCF
Free Cash Flow

FY15
Financial year ending 30 September 2015

FY16
Financial year ending 30 September 2016

G&A
General and Administrative

GAC
Global Accounting Core

GHG
Green House Gas

HR
Human Resources

HCM
Human Capital Management

IFRS
International Financial Reporting Standards

ISV
Independent Software Vendor

KPI
Key Performance Indicator

LSE
London Stock Exchange

LTIP
Long Term Incentive Plan

NPS
Net Promoter Score

PBT
Profit Before Tax

PSP
Performance Share Plan

R&D
Research and Development

S&M
Sales and Marketing

SaaS
Software as a Service

SSRS
Software & Software Related Services

TSR
Total Shareholder Return

VSGM
Vision, Strategy, Goals, Measures

WRVS
Women's Royal Voluntary Service

Shareholder information

Financial calendar

Annual General Meeting	28 February 2017
Dividend payments	
Final payable – year ended 30 September 2016	3 March 2017
Interim payable – period ending 31 March 2017	2 June 2017
Results announcements	
Interim results – period ending 31 March 2017	3 May 2017
Final results – year ending 30 September 2017	15 November 2017

Shareholder information online

The Sage Group plc's registrars are able to notify shareholders by e-mail of the availability of an electronic version of shareholder information. Whenever new shareholder information becomes available, such as The Sage Group plc's interim and full year results, Equiniti will notify you by e-mail and you will be able to access, read and print documents at your own convenience.

To take advantage of this service for future communications, please go to www.shareview.co.uk, where full details of the shareholder portfolio service are provided. When registering for this service, you will need to have your 11 character shareholder reference number to hand, which is shown on your dividend tax voucher, share certificate or form of proxy.

Should you change your mind at a later date, you may amend your request to receive electronic communication by entering your shareview portfolio online and amending your preferred method of communication from "e-mail" to "post". If you wish to continue receiving shareholder information in the current format, there is no need to take any action.

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Information for investors

Information for investors is provided on the internet as part of the Group's website which can be found at: www.sage.com/investors.

Investor enquiries

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