

The Task Force on Climate-related Financial Disclosures

We recognise the importance of identifying and effectively managing climate-related risks, both physical and transitional, to our business, as well as the opportunities that climate change can create.

The journey so far

In alignment with our values and to comply with TCFD reporting requirements we have embedded the management of climate risks and opportunities into our governance, strategy, and risk management arrangements.

In FY21 we provided an initial voluntary disclosure, aligned with the recommendations of the TCFD framework within our FY21 Annual Report. This included an update on the risk and opportunity screening that would support our full FY22 disclosure.

Since then good progress has been made to build upon our first report.

In FY22, following the completion of climate scenario analysis across three physical risks and one transitional risk, we have reported our alignment to the TCFD recommendations (see pages 52 to 67).

Whilst this report focuses on our strategy to mitigate the physical and transitional risks of climate change to our business, Sage is also taking action to tackle climate change across our stakeholders, fostering climate awareness, and knocking down barriers to action.

Highlights of progress

- We embraced the most ambitious aim of the Paris Agreement, signing the Business Ambition for 1.5°C pledge.
- Our Science Based Target was submitted for validation in June 2022, committing Sage to a 50% reduction in Scope 1, 2, and 3 emissions by 2030 against a 2019 baseline.
- We achieved a B CDP rating.
- We announced the acquisition of Spherics, a carbon accounting solution to help businesses easily understand and reduce their environmental impact. The acquisition reinforces Sage's commitment to sustainability, in line with its purpose of knocking down barriers so everyone can thrive.

Key priorities moving forward

- We will continue to evolve and develop our understanding of climate risks
- We will be transparent on our risk management process and on key roles and responsibilities for oversight relating to climate-related risks and opportunities.
- We will capture, quantify and consider climate-related issues as part of major capital expenditure reviews, acquisitions and divestitures.
- We commit to learn from and implement best practices from other organisations and third parties with expertise in climate change.
- We will consider how the Board includes climate-related issues in decision making on strategy and performance objectives.
- We will continue to invest in projects that reduce and remove greenhouse gas (GHG) to help create a more sustainable future and protect the planet.

TCFD Disclosure Roadmap

We have established a roadmap to continually improve our understanding of climate-related risks and provide reporting in line with the recommended disclosures of the TCFD.



Our progress



Governance

- Enhanced executive oversight agreed with sponsorship for Environment, Social, and Governance related matters now with the Chief People Officer, within the Executive Leadership Team.
- ESG governance was enhanced in the Board and its Committees' ways of working.

Strategy

- Sage sustainability strategy launched in June 2021, with Protecting the Planet being one of the three key pillars.
- Climate risk and opportunity screening completed, working with multiple stakeholders across the Sage business.
- Climate scenario modelling completed in 2022 for three physical risks and one transitional risk.

Risk management

- ESG designated as a Principle Risk and integrated within our Enterprise Risk Management Framework.
- Climate risk mitigation and adaptation actions identified.

Metrics and targets

- Sage committed to Net Zero by 2040, and to reduce emissions by 50% by 2030 against a 2019 baseline.
- Climate-related objectives embedded within our executive remuneration.



Looking forward



Governance

- Assess Board climate competencies and implement appropriate training to address gaps.
- Further integrate ESG and climate-related considerations into strategic decision making within the Board and Executive Leadership Team.

Strategy

- Expand climate scenario modelling to further enhance our understanding of climate risks and opportunities on strategy and financial planning.
- Extend risk and opportunity screening to a broad range to external stakeholders, including external representation.

Risk management

- Extend our risk assessment process to cover quantitative and qualitative impacts.
- Continue to integrate climate-related risks and opportunities into existing Enterprise Risk Management Framework, business planning and decision making.

Metrics and targets

- Implement climate specific metrics and targets in relation to climate-related risks and opportunities.
- Identify and implement metrics which identify the financial and operational impact of climate change.
- Continue to improve the measurement of our Scope 1, 2, and 3 emissions, including the use of primary data where available.

TCFD disclosure continued

TCFD compliance status

In accordance with LSE Listing Rule 9.8.6(8)R, the table below sets out whether Sage has made disclosures fully or partially consistent with the TCFD recommendations and recommended disclosures, and summarises where the relevant disclosures are addressed. Where we have not included financial disclosures fully consistent with a recommended disclosure, the steps we are taking to improve our disclosure are set out in the thematic summary sections, referenced below:

TCFD recommendations Theme	Disclosures	Compliance status	Where in our TCFD disclosure is this addressed?	Link to future steps
Governance	Board's oversight of climate-related risks and opportunities	Partial	Page 53	Page 53
	Management's role in assessing and managing climate-related risks and opportunities	Partial	Page 54	Page 53
Strategy	Climate-related risks and opportunities (short, medium and long term)	Full	Page 55	Page 55
	Impact of climate-related risks and opportunities on the business, strategy and financial planning	Partial	Page 60	Page 55
	Resilience of the organisation's strategy, considering different climate-related scenarios, including a 2°C or lower scenario	Full	Page 60	Page 55
Risk management	Processes for identifying and assessing climate-related risks	Partial	Page 62	Page 62
	Processes for managing climate-related risks	Full	Page 63	Page 62
	Identifying, assessing and managing climate-related risks, and integration into overall risk management	Full	Page 63	Page 62
Metrics and targets	Metrics to assess climate-related risks and opportunities in line with strategy and risk management process	Partial	Page 64	Page 64
	Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks	Full	Page 66	Page 64
	Targets used to manage climate-related risks and opportunities, and performance against targets	Partial	Page 67	Page 64

Governance

Disclose the organisation’s governance around climate related risks and opportunities.

Governance summary

What we did in FY22	Next steps
<p>A <input checked="" type="checkbox"/> Cadence on regular updates to the Board and its Committees have been established and embedded, including an update on the implementation of Sage’s climate strategy and an update on the progress of Sage’s FY22 TCFD disclosures. Further information can be found on pages 74 and 75.</p>	<p><input type="checkbox"/> The Board will engage further on matters in relation to ESG and climate change, supporting the effective management of our sustainability strategy and management of climate risk.</p> <p><input type="checkbox"/> We will focus on further integrating climate risk and opportunity information into our Board decision making process, on a regular agreed frequency.</p>
<p>B <input checked="" type="checkbox"/> Chief People Officer given accountability for ESG and climate-related matters. EVP Sustainability and Society appointed and Sustainability team established.</p> <p><input checked="" type="checkbox"/> Climate-related targets were included within executive remuneration.</p>	<p><input type="checkbox"/> Climate-related awareness and training will also be provided to leadership teams to further strengthen management oversight and monitoring.</p> <p><input type="checkbox"/> We will enhance the reporting of climate-related risks and opportunities, as part of our broader non-financial and sustainability reporting.</p>

A Describe the Board’s oversight of climate-related risks and opportunities

Our Sustainability Governance Framework

We have a robust governance system to oversee our Sustainability and Society strategy, and our role in fighting climate change and protecting the planet.

The CEO and ELT are accountable for our ESG and climate strategy. Our Board provides oversight of the strategic direction and the progress being made in achieving its intended outcomes, as shown in the organisational chart below.

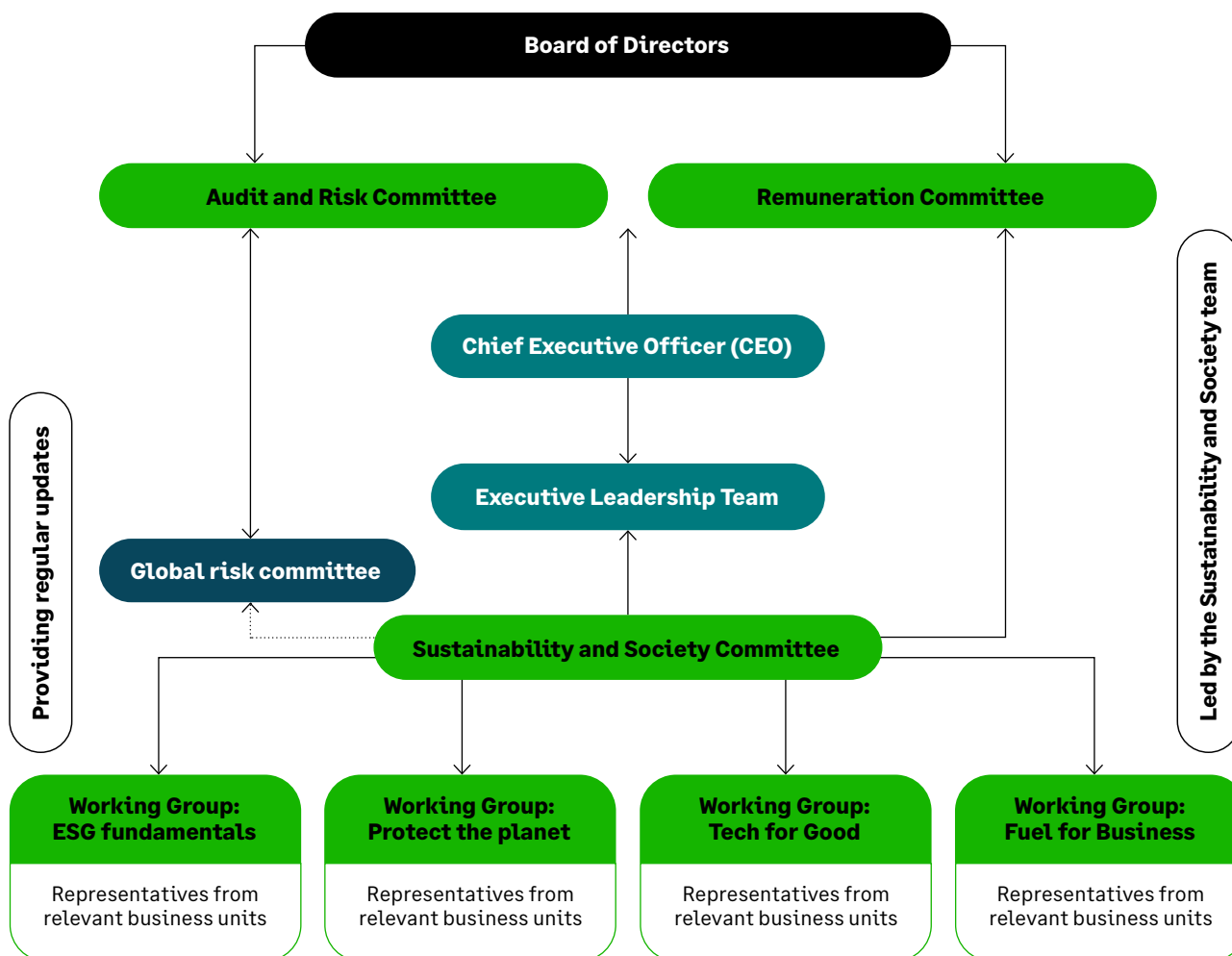
The Board retains overall responsibility for setting Sage’s risk appetite and for risk management and internal control systems.

Sustainability risks and opportunities are channelled through the Global Risk Committee, which reports to the Executive Leadership Team, and escalates matters to the Audit and Risk Committee, where required.

The Board has delegated authority to the Audit and Risk Committee to implement appropriate oversight of ESG risks, ensuring that the Group has appropriate mitigations or a plan to introduce mitigations to enable successful development and execution of the Group’s Sustainability and Society strategy.

The Board has ultimate responsibility for approving certain sustainability policies, with ESG matters delegated to the appropriate Committee as required.

Our Sustainability Governance Framework*



* The structure is descriptive of the interactions of the ESG team with the governance mechanisms at Sage. For the full governance structure at Sage, please refer to page 114.

B Describe the management’s role in assessing and managing climate-related risks and opportunities

Working together to deliver a successful strategy

The Chief Executive Officer and the Executive Leadership Team receive regular updates on ESG activities and performance against our Sustainability and Society strategy.

Responsibility for Sage’s climate change strategy, including the approach to TCFD, is devolved to the Chief People Officer. Day-to-day implementation of our climate strategy and co-ordination of the approach to TCFD is led by the Sustainability and Society team in collaboration with leaders across Sage functions.

The EVP of Sustainability and Society is responsible for implementation of our Protect the Planet climate action plan, including the assessment and management of climate-related risks, with support and oversight from our Sustainability and Society Committee.

The Sustainability and Society Committee is chaired by the Group’s Chief People Officer and includes senior representation from across the business, including the General Counsel and Company Secretary, Chief Risk Officer, Chief Corporate Affairs Officer and the Chief Architect & Technology Advisor.

In FY22 Sage established a Sustainability team of subject matter experts to support the design and delivery of Sage Sustainability and Society strategy. This team reports to the EVP of Sustainability and Society who is responsible for the implementation and day to day delivery of our sustainability strategy, including our climate strategy and approach to TCFD. The Sustainability team works in close collaboration with leaders across the business to drive execution.

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.

Strategy summary

What we did in FY22	Next steps
<p>A <input checked="" type="checkbox"/> Climate risk and opportunity screening completed with input from key internal stakeholders.</p>	<p><input type="checkbox"/> Continue to review our climate risk landscape, identifying new and emerging climate risks and the changing risk profile of existing risks.</p>
<p>B <input checked="" type="checkbox"/> A qualitative climate risk impact assessment was performed informing mitigation and adaptation strategy.</p>	<p><input type="checkbox"/> Further expand the financial quantification impact of climate change, including the impact on business strategy and financial planning, disclosing our strategy, targets, and initiatives aimed at mitigating these impacts.</p>
<p>C <input checked="" type="checkbox"/> Climate scenario analysis completed for three physical risks (Damage to Facilities, Hosting Resilience, Workforce Productivity) and one transitional risk (Changing Customer Behaviour and Needs).</p>	<p><input type="checkbox"/> Evolve our use of climate scenario analysis to assess the transitional risk of climate change on our customer, evaluating market, and sectoral data.</p>

A Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term

We recognise that climate-related risks and opportunities have the potential to impact our business.

We are therefore committed to taking the necessary steps recommended by the TCFD to assess the severity of the risks, and the value of the opportunities, on our business.

In our FY21 Sustainability Report, we identified six climate-related risks and five climate-related opportunities as having the potential to materially impact our business.

In FY22, working with our external environmental advisors EcoAct, we consolidated the findings from the climate risk and opportunity screening exercise, including interviews with key internal stakeholders across the Group. The process involved exploring the range of climate impacts that may present material short, medium, and long-term risks and opportunities to Sage.

Those identified as the most material were taken forward for further climate scenario analysis. A detailed description of the risks and opportunities is provided in the below table.

TCFD disclosure continued

Key—Stakeholder groups



Our shareholders



Our colleagues



Our customers



Society

Key—Maturity of assessment



High
Quantitative
Climate Scenario
Analysis performed



Moderate
Good
understanding,
further work
desirable



Low
Further work is
required to fully
impact, mitigate
and adapt

Key—Risk assessment period

Short term
1-5 years

Medium term
5-15 years

Longer term
15-30 years

Sage has selected time horizons that are harmonised with those of national and international climate policy and goals







Risks and opportunities identified

Business impact

Mitigation and adaptation

Maturity

Transition risks			
<p>Changing Customer Behaviour and Needs</p> <p>Time horizon Short to medium term</p> <p>Stakeholder impact </p> <p>Sub-Type Market</p> <p>Climate scenario analysis </p>	<p>The Sage business model is closely linked to economic activity and the success of SMB markets. However, SMB markets and businesses are more exposed and less resilient to the impacts of climate change. An increase in global disruption due to climate change could reduce economic activity and lead to a lower demand for Sage services.</p>	<p>Climate change will impact our customers in different ways, based on their location and the industry in which they operate. Sage will continue to progress our modelling to understand these impacts in more detail, alongside other macroeconomic and market factors. In addition, through our Sustainability Hub, Sage will continue to support our customers' understanding of sustainability and adapting to the risks and opportunities of climate change.</p> <p>We will work with SMBs to ensure climate resilience measures are embedded in customer businesses, where possible, and continue to monitor trends in SMB markets over time. When climate regulations come into force, Sage will help and guide SMBs to adapt.</p>	H
<p>Increasing Cost of Energy and Carbon</p> <p>Time horizon Short to medium term</p> <p>Stakeholder impact </p> <p>Sub-Type Regulation</p>	<p>Opening offices, providing hosting services and outsourcing data centres are energy intensive operations. If the cost of carbon increases, this could make the Group's operating costs more expensive. Sage may need to mitigate costs and consider where these are absorbed.</p>	<p>2022 has seen extreme volatility in energy prices and supply globally. As a business, Sage has limited exposure to high energy prices. However, we will continually monitor global prices and supply, including within our supply chain, and respond accordingly.</p> <p>At present, we do not have any short-term plans to offset our carbon emissions. However, we do recognise that carbon offsetting will potentially play a part to remove hard to abate residual emissions as we move towards our Net Zero goals. Sage plans to undertake a more comprehensive review of our carbon offsetting approach in FY23, to allow us to develop a proactive approach.</p>	M
<p>Reputational Damage</p> <p>Time horizon Short to medium term</p> <p>Stakeholder impact </p> <p>Sub-Type Reputation</p>	<p>Stakeholders' expectations regarding ambitious carbon targets and climate advocacy are increasing. They are applying greater scrutiny to how Sage aligns all business activities to its Net Zero transition plan. Sage may suffer reputational damage if targets are missed or if it is not sufficiently active in this space.</p>	<p>Our customers, colleagues and society in general are increasingly climate conscious. Sage is committed to tackling the climate crisis, in line with its purpose of knocking down barriers so everyone can thrive. Sage has pledged to fight climate change and help protect the planet by halving its own emissions by 2030 and becoming Net Zero by 2040, by supporting SMBs to get to Net Zero, and by advocating for policy and regulatory frameworks to support the transition to a low-carbon economy.</p>	L

Risks and opportunities identified	Business impact	Mitigation and adaptation	Maturity
Physical risks			
<p>Workforce Productivity</p> <p>Time horizon Short term</p> <p>Stakeholder impact</p>  <p>Sub-Type Chronic Physical</p> <p>Climate scenario analysis</p> 	<p>An increasing number of extreme weather events may leave offices and homes unfit for work. This could reduce workforce productivity by making it difficult for employees to work during certain times.</p>	<p>Last year, Sage launched Flexible Human Work, our signature approach to where and when we work at Sage. It is a principle-based approach that recognises that no one size fits all, and our leaders remain committed to it. We are investing in flexible working structures that support collaboration, whilst also creating and enhancing opportunities for teams to come together.</p> <p>Our business continuity plans and supporting technology infrastructure enabled a transition to home-working across our organisation during the pandemic, demonstrating the flexibility of our workforce to adapt to extreme events. We will continue to refine our flexible working model “Flexible Human Work”, including in the areas of climate resilience and sustainability. Moving forward, Sage will evaluate resilience measures for our home and hybrid workers, and how Sage can better enable a safe and sustainable hybrid working environment.</p>	
<p>Damage to Facilities</p> <p>Time horizon Short term</p> <p>Stakeholder impact</p>  <p>Sub-Type Acute Physical, Chronic Physical</p> <p>Climate scenario analysis</p> 	<p>Extreme weather events have the potential to disrupt or damage Sage sites/facilities. Flooding, heatwaves, wild fires, droughts, and rising sea levels could all impact the business. Insufficiently prepared facilities could be unable to deal with more frequent and intense occurrences of such events.</p>	<p>The dynamic and long-term nature of climate change has implications for business continuity (BC) and our broader business objectives. The BC programme seeks to ensure that effective business continuity practices are in place, so that our colleagues are better able to prevent, rapidly respond to, and help the organisation recover from operational disruptions. Our business continuity plans will assess the impacts of climate change, and ensure that Sage is adapting well to those impacts, with the objective of the long-term sustainability of the organisation.</p> <p>Our future property strategy will also incorporate climate risks, building upon our climate scenario analysis output. Sage will seek to ensure a positive customer experience is maintained and limit any associated financial damage.</p>	

TCFD disclosure continued

Key—Stakeholder groups



Our shareholders



Our colleagues



Our customers



Society

Key—Maturity of assessment



High
Quantitative
Climate Scenario
Analysis performed



Moderate
Good
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Key—Risk assessment period

Short term
1-5 years

Medium term
5-15 years

Longer term
15-30 years

Sage has selected time horizons that are harmonised with those of national and international climate policy and goals

Risks and opportunities identified

Business impact

Mitigation and adaptation

Maturity

Physical risks

Hosting Resilience

Time horizon

Short to medium term

Stakeholder impact



Sub-Type

Acute Physical,
Chronic Physical

Climate scenario analysis



Sage has a number of centralised public cloud providers, as well as hosting services. This infrastructure could be vulnerable to persistent and extreme weather events. These events could become more frequent, reducing service availability and customer experience.

Sage considers climate risk in the same way as other risks at hosting sites. As a cloud-based software provider, we recognise that the resilience and security of our services are of critical importance to our customers. Sage works with a variety of hosting providers to provide hosting services to our customers and to support our internal enterprise applications, and has limited visibility of cloud providers' climate risks and resilience levels. For hosting sites, an important next step is to collect and assess actual GPS co-ordinates, risk plans and availability zones from a climate perspective. Sage will continue to work with our providers to ensure that all operations are resilient, and existing business continuity plans are addressing climate change as a risk factor.



Opportunities

Retaining and Hiring Superior Talent

Time horizon

Short to medium term

Stakeholder impact











Sub-Type

Efficient and Mindful
Workforce

It is increasingly important for employers to demonstrate sustainability as a cultural value. This can help attract and retain environmentally conscious talent. A more climate-informative hiring process can show how active Sage is in retaining and attracting talent.

We will continue to focus on Sage's purpose of knocking down barriers so everyone can thrive. To do this, we will continue to create a more sustainable future for our colleagues, customers, shareholders, and society, through our Sustainability and Society strategy, delivering on our values and protecting the planet.



Risks and opportunities identified	Business impact	Mitigation and adaptation	Maturity
Opportunities			
<p>Renewable Energy Procurement</p> <p>Time horizon Short to medium term</p> <p>Stakeholder impact</p>  <p>Sub-Type Energy Source</p>	<p>Sage could ingrain renewable energy provision into our facility management plans. This would incentivise Sage building managers, landlords, and hosting services to develop and innovate more carbon efficient buildings. The combined pressure from Sage, its peers, and society can help reduce carbon emissions and costs.</p>	<p>Working with our property teams and landlords, our Sustainable Property strategy will enable Sage to transition our property estate to clean, low-carbon sources of energy, supporting our ambition to reduce emissions by 50% by 2030 and achieve Net Zero by 2040.</p>	
<p>Site Strategy</p> <p>Time horizon Short to medium term</p> <p>Stakeholder impact</p>  <p>Sub-Type Resource Efficiency</p>	<p>The Covid-19 pandemic has shown that office-based work is not business critical. This presents an opportunity to consolidate some sites and facilities due to lower footfall, ultimately helping to reduce the business's carbon footprint, operational costs, and vulnerability to extreme weather events.</p>	<p>Sage will continue to review our property strategy to reflect changing business needs, including the risks and opportunities associated with climate change.</p>	
<p>New Products and Services</p> <p>Time horizon Short to medium term</p> <p>Stakeholder impact</p>  <p>Sub-Type Products and Services</p>	<p>Climate change demands are presenting a new opportunity for Sage to develop products and services for its SMB customers' that will help them tackle the challenges of climate change and put sustainability at the core of their business.</p>	<p>Sage has a unique opportunity to help accelerate global climate awareness and action, whilst actively managing and reducing the long-term climate-related risks posed to the Group.</p> <p>In 2022, we announced the acquisition of Spherics, a carbon accounting solution to help businesses easily understand and reduce their environmental impact. The acquisition reinforces Sage's commitment to sustainability, in line with its purpose of knocking down barriers so everyone can thrive.</p>	
<p>Enhanced Brand</p> <p>Time horizon Short to medium term</p> <p>Stakeholder impact</p>  <p>Sub-Type Reputation</p>	<p>Sage has a unique opportunity to help SMBs fight climate change and be their voice for the future, supporting them when it comes to lobbying for change.</p>	<p>Sage has pledged to fight climate change by halving its own emissions by 2030 and becoming Net Zero by 2040, by supporting SMBs to get to Net Zero, and by advocating for policy and regulatory frameworks to support the transition to a low-carbon economy. We recognise that it is important we demonstrate progress against our commitments. Further information can be found within our FY22 Sustainability and Society Report.</p>	

B Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning

Substantial progress has been made under this thematic area. Building upon the risk and opportunity screening exercise in FY21, Sage prioritised four material risks based on impact scale and time horizon: three physical (Damage to Facilities, Hosting Resilience, and Workforce Productivity) and one transitional risk (Changing Customer Behaviour and Needs) which were modelled under a 1.5°C and 4°C warming scenario.

Completed in 2022, the modelling examines the vulnerability of Sage operations to changing physical and transitional climate risks (heatwaves, coastal flooding, river flooding, cyclones, water stress and climate impact on GDP) across a long-term time horizon up to 2050.

We will continue to focus on mitigating the climate risks that emerged as material as part of our scenario analysis while we also explore the opportunities.

We believe Sage is uniquely positioned to help accelerate global climate awareness and action, whilst actively managing and reducing the long-term climate-related risks posed to our company.

The acquisition of Spherics, a carbon accounting solution, will help small businesses more easily understand and reduce their environmental impact.

The acquisition demonstrates Sage's commitment to sustainability, and its ambition to knock down barriers for SMBs and support them in their journey towards Net Zero.

In the table above, we provide an overview of risks, business impacts, mitigating activities, and opportunities created through adapting to certain impacts.

C Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

Climate modelling approach

Working with our environmental partners EcoAct, climate scenario analysis was undertaken to evaluate our most material physical and transition risks under high and low-carbon scenarios. We have set out the modelling approach and identified findings below.

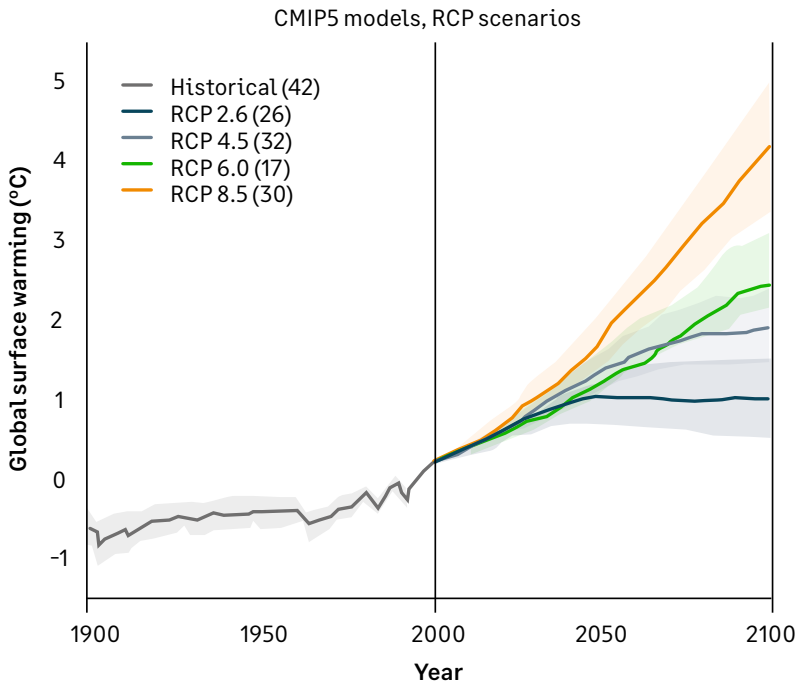
Physical Scenario and Transition Scenario

- To determine the exposure of Sage sites to climate risks (Hosting Resilience, Damage to Facilities and Workforce Productivity), we used regional climate models RCP2.6 (1.6°C-2°C) and RCP4.5 (2.1°C-3°C) and RCP8.5 (3.1°C-4°C) forecasting to 2050, as explained in the below graph.
- For the transition risk (Changing Customer Behaviour and Needs), we used the Network for Greening the Financial System (NGFS) scenario framework, analysing results under both low and high-carbon scenarios using the Below 2 Degrees (1.7°C+ temperature implied) scenario and the Current Policies scenario (3°C+ temperature impacted) forecasting impacts until 2100.
- The NGFS model uses these two scenarios to assess the impacts of GDP under low and high-degree warming. The model results show a percentage of GDP change.

- Vulnerability interviews were then performed with senior stakeholders from across the business, including Property, Cloud Operations, People and Product teams, to determine the sensitivity and adaptability of Sage sites/countries to the risks.

A range of physical indicators were used, including within our modelling approach:

- Summary of physical indicators
 1. Cooling degree days
 2. Heatwaves
 3. Water stress
 4. Cyclones
 5. Coastal
 6. River flooding



Note:

1. RCP = Representative concentration pathway. RCP2.6, RCP4.5 and RCP8.5 are projections of greenhouse gas emissions and concentrations defined by the International Panel on Climate Change (IPCC).

● RCP8.5—Business as usual (~4°C)

We are currently on a pathway to 3–4°C of warming above pre-industrial levels (“business-as-usual”). A 4°C pathway results from climate inaction and would lead to more severe physical risks.

● RCP4.5—Slowly declining emissions (~2.4°C)

According to this scenario, climate policies are invoked to limit emissions and all nations undertake emissions reductions simultaneously and effectively. Reductions would be slower than in scenario 2.6. A 2–3°C pathway would still result in an increase in physical climate risks.

● RCP2.6—Slowly declining emissions (~2°C)

The latest climate science suggests we should limit warming to well below 2°C, with efforts to limit this to 1.5°C above pre-industrial levels. A 2°C pathway results from rapid societal/political action and strongly declining emissions. This would still lead to an increase in physical climate risks.

Climate modelling—What we learnt

Physical risk—Workforce Productivity and Damage to Facilities:

though an analysis across all Sage office sites, ten of these sites are identified as medium-high risk of climate impact under a future 4°C warming scenario, with water stress being the primary factor across most sites. Sage vulnerability was considered low, mitigated through proven adoption of hybrid working and distribution of staff across these sites.

Physical risk—Hosting Sites: a review of 79 Sage product (supporting our customers) and enterprise (supporting our internal enterprise applications) hosting locations identified 36 sites, across all locations, with medium risk of climate impact under a future 4°C warming scenario, across all indicators. Stress and extreme heat were identified as the primary risk factors. Sage’s vulnerability was considered low-medium, mitigated through the existing resilience and business continuity plans.

Transition risk—Changing Customer Behaviours and Needs:

the analysis focused on the regional variations in GDP growth due to climate risk over a long-term (2100) horizon. This was expressed as a relative percentage deviation from a baseline GDP growth scenario. GDP impact is seen to be highest in South Africa and US (6% relative reduction), with the UK and Ireland impacted by 1-2% compared with modelled growth forecasts. Sage’s vulnerability was considered low, given the limited relative impact of “global” GDP growth on Sage’s performance.

Resilience of our strategy to climate risk

- The work done to date did not highlight severe strategic risk to Sage resulting from climate change in the short to medium term. However, we recognise further work is required to expand the quantification of the financial impact at this stage. We also recognise that climate related risks are not static. We will continue to actively monitor climate related risks and opportunities as the models and our understanding evolves.
- Should climate-related risks arise, Sage has a range of measures and activities in place to manage identified climate change impacts, as detailed in the following pages.
- Sage has pledged to fight climate change and help protect the planet, which includes commitments to reducing our environmental impact and those of our value chain. Our commitment to our Protect the Planet strategy is authentic and we will continue to transparently report on progress in our TCFD disclosures and our Sustainability Report.

Risk management

Disclose how the organisation identifies, assesses, and manages climate-related risks.

Risk management summary

What we did in FY22	Next steps
<p>A <input checked="" type="checkbox"/> External assurance undertaken to review climate-related risks and opportunities against industry best practice.</p> <p><input checked="" type="checkbox"/> Completed climate scenario analysis across three physical risks and one transitional risk.</p>	<p><input type="checkbox"/> Continue to monitor and assess emerging climate risks across the value chain.</p>
<p>B <input checked="" type="checkbox"/> ESG approved as a Principal Risk, and Climate Change placed as a sub-risk.</p>	<p><input type="checkbox"/> Broaden stakeholder engagement beyond our own operational environment, taking input from a range of external parties.</p> <p><input type="checkbox"/> Develop and further integrate climate mitigation and adaptation actions.</p>
<p>C <input checked="" type="checkbox"/> Climate risk vulnerability integrated into existing risk management and business continuity planning frameworks.</p>	<p><input type="checkbox"/> Continue to improve the maturity and alignment of climate-related risk for each of our markets and the Group.</p>

A Describe the organisation's processes for identifying and assessing climate-related risks

In 2021, Sage started to integrate climate-related risks as part of our Enterprise Risk Management policy and framework. The process maintains a consistent approach to the management of climate-related risks, in line with all other risks managed across the business, including existing and emerging regulatory requirements.

We recognise the impact and materiality of physical and transitional risks will be dependent on internal and external factors, and these will evolve over time.

Physical risks are expected to increase through more severe and frequent extreme weather events, as demonstrated through recent heatwaves within Europe during 2022.

Equally, Sage expects transitional risks to have an increasing impact on other Principal and emerging risks, as the pace of transition to Net Zero increases.

In FY21, we identified a list of climate risks and opportunities, using a combination of regulatory guidance, risk, and TCFD best practice and internal expert judgement, supported by our environmental consultants EcoAct.

During FY22, we completed climate scenario analysis across four risks to explore and assess the resilience of our business to climate change.

Recognising the uncertainty around the timing in which risks from climate change may materialise, initial prioritisation was given to those physical and transition risks deemed most material to the Group's risk profile.

This has helped develop our understanding of which risks could potentially have the largest impact on Sage across different time horizons and the steps to better manage and adapt to these risks.

B Describe the organisation's processes for managing climate-related risks

The Board approved ESG as a Principal Risk, demonstrating the importance of the environment and climate change to Sage and ensuring its integration within the Enterprise Risk Management Framework (see page 103).

As a Principal Risk, it is assigned an executive owner, our Chief People Officer.

The executive owner is responsible for the overall management of the risk, ensuring that adequate controls are in place and that the necessary action plans are implemented should the risk be outside of Sage's risk appetite.

Sage operates a formal risk governance structure to ensure risk management is at the forefront of decision making. Governance arrangements allow for clear points of escalation, while ensuring adequate oversight is in place to manage and mitigate risk exposures.

More information regarding the Group risk management approach can be found in the Risk Management section of this report on pages 90 to 95.

C Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management

ESG risks, including the associated climate-related risks, are managed and assessed as part of our Principal Risk assessment process, aligned to our Enterprise Risk Management Framework.

In addition, due to the nature of the climate-related risks to our business and strategy, many elements are already captured within other Principal Risks in our existing Enterprise Risk Management Framework, such as Understanding Customer Needs and Developing and Exploiting New Business Models. This approach enables us to capture a more holistic picture of the climate-related risks.

Supported by our central Sustainability and Society team, functions across Sage are responsible for identifying, assessing, and managing different types of climate-related risks within their respective areas of responsibility. For example, climate risks associated with cloud hosting are considered by the Sage Product team, whereas physical risks to the built environment resulting from extreme weather are considered by the Sage Property team.

Metrics & targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Metrics and targets summary

What we did in FY22	Next steps
<p>A <input checked="" type="checkbox"/> Developed our Net Zero strategy to underpin our near-term climate commitments.</p>	<p><input type="checkbox"/> Publish progress against our Science Based Target commitments.</p>
<p>B <input checked="" type="checkbox"/> Expanded our emission scope to cover all of Scope 3 categories, including investments and use of sold goods.</p>	<p><input type="checkbox"/> We will continue to improve the calculation of GHG emissions, with an increased use of Supplier primary data sources to improve the accuracy of our Scope 3 calculations, sample data to support home-working and commuting calculations, and the development of a use of sold goods calculation model.</p>
<p>C <input checked="" type="checkbox"/> Submitted our Science Based Target for validation, committing to reducing emissions across Scope 1, 2, and 3 by 50% by 2030, from a 2019 baseline.</p>	<p><input type="checkbox"/> We will incorporate additional metrics related to the physical and transition climate risks managed under our Enterprise Risk Management Framework. Metrics under consideration include the percentage/volume of hosting and office locations where climate risk is integrated into existing resilience and business continuity planning.</p>

A Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process

The TCFD recommends that organisations disclose the metrics and targets they use to assess and monitor climate-related risks and opportunities, including their Scope 1, 2, and 3 emissions.

Our Net Zero strategy is underpinned by our commitment to become Net Zero in our operations by 2040, and reduce our emissions by 50% by 2030 across Scope 1, 2, and 3 from a 2019 baseline. To support the achievement of our near-term commitment, we submitted our target for verification with the Science Based Targets Initiative (SBTi) in June 2022.

Sage has been reporting on energy and carbon emissions since 2018, providing us with a robust baseline from which to plan our journey to Net Zero. Our carbon emissions calculations are also subject to independent limited assurance. Our most recent global emissions footprint and targets can be found on pages 17 and 49 to 51 of our Sustainability Report.

This strategy will include metrics to monitor progress against all emissions reductions. Absolute energy and GHG emissions metrics are currently used to track progress against emissions targets.

Our strategy is focused on four pillars of activity, as illustrated in on page 65 which underpin our 2030 commitments, and provide a platform for achieving Net Zero in 2040.

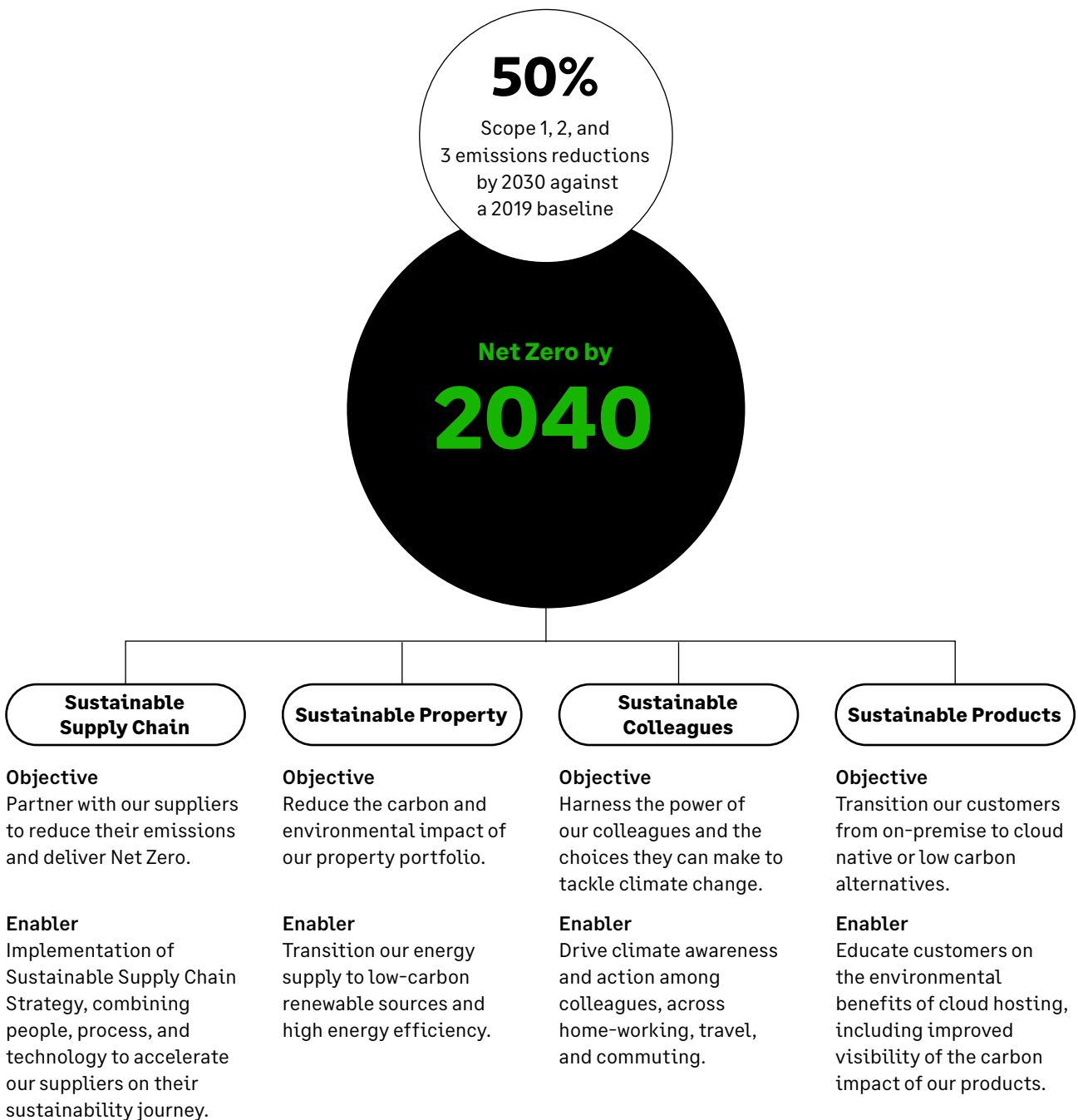
Executive remuneration

At the 2022 AGM, shareholders approved the current Remuneration Policy which incorporates ESG priorities in the executive long-term incentive plan. The Performance Share Plan (PSP) outcomes for the Executive Directors are based on a framework of performance measures and targets, set each year by the Remuneration Committee. A proportion of the Executive Directors' PSP awards each year are driven by strategic non-financial measures; in FY23 this includes a measure relating to climate. This measure captures a specific GHG reduction ambition, linked to our 2030 aim of reducing our emissions by 50% from the FY19 baseline.

Read more in our Directors' Remuneration Report on pages 148 to 181.

Our Net Zero strategy

Our Net Zero strategy sets out a range of actions to deliver a reduction pathway in line with the 1.5°C ambition of the Paris agreement. Our primary focus is absolute emissions reductions to achieve our 2030 50% reduction target in alignment with the SBTi, excluding offsetting.



TCFD disclosure continued

B Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions and the related risks

Sage calculates and discloses emissions from our Scope 1 and Scope 2, in compliance with Streamlined Energy and Carbon Reporting (SECR) regulations.

Scope 1 and 2 emissions: UK and global¹

	Current reporting year Oct 2021—Sept 2022		Previous reporting year Oct 2020—Sept 2021	Previous reporting year Oct 2019—Sept 2020		
	UK and offshore area	Global (excluding UK and offshore area)	UK and offshore area	Global (excluding UK and offshore area)	UK and offshore area	Global (excluding UK and offshore area)
Total GHG emissions data						
Emissions from activities which the Company owns or controls, including combustion of fuel and operation of facilities (Scope 1)/tCO ₂ e	250	548	666	395	874	2,110
Emissions from the purchase of electricity, heat, steam, or cooling by the Company for its own use (Scope 2 Indirect) Location-based emissions (tCO ₂ e)	652	2,853	1,110	3,216	1,180	5,927
Scope 2 (Indirect) Market-based emissions (tCO ₂ e)	3.3	2,428	162	3,138	247	6,004
Total gross Scope 1 and location-based Scope 2 emissions (tCO ₂ e)	902	3,401	1,776	3,611	2,054	8,036
Energy consumption* used to calculate above emissions (kWh)	4,276,721	10,479,910	8,636,694	9,899,169	9,203,396	21,259,169
Carbon intensity ratio: location-based CO ₂ e emissions reported above normalised to tCO ₂ e per total GBP £1,000,000 revenue (Scope 1 and 2)** (tCO ₂ e/revenue)	2.2	2.2	4.7	2.5	5.4	5.3

1. The table sets out Sage's mandatory reporting on greenhouse gas emissions and global energy use pursuant to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the SECR under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

* Energy consumption includes all energy use related to Scope 1 and 2.

** Global revenue in FY22 is £1,949m for Sage during the reporting period. It was £1,846m for the previous year's reporting period.

Sage also screens and discloses emissions across all relevant Scope 3 categories.

Further detail on our Scope 1, 2 and 3 GHG emissions and protocol aligned methodology and emissions can be found in our Sustainability and Society Report on pages 49 to 51.

Energy Efficiency Actions

We continued to manage our sites effectively and efficiently in FY22. A list of the energy efficiency actions which took place in FY22 are found below:

- We have completed the first phase of our Sustainable Building Plan by completing energy audits of key offices. We are currently developing investment case options for future energy reduction projects.
- Support for electrification of company cars—we aim to be fully electric by 2030 and are supporting colleagues through our Electric Vehicle Salary Sacrifice Scheme.
- We continue to make changes to our office portfolio as part of our Office Rationalisation Plan, by moving to smaller more efficient offices and reducing the size of current offices e.g. closing our Irvine and Toronto offices and moving colleagues from Bytom (226 sqm) in Poland to Katowice (39 sqm), a smaller and therefore less energy intensive office space.
- We have already transitioned close to half of our offices to renewable energy contracts. Our Sustainable Property strategy will continue to improve the energy efficiency of our buildings, whilst transitioning buildings to clean low-carbon sources of energy. Sage has seen a year-on-year increase of certified renewable energy and for FY22 Sage reached 45%, an increase of 14% from FY19.
- In Mohali, India, 200 kWp Solar PV was installed in 2022 with another 100 kWp to be confirmed during FY23.
- The IT department continued their Reuse, Resell, Recycle policy. This involves collecting old equipment and ensuring it is upcycled and recycled. Sage sells

the equipment to an external party and donates the proceeds to charity. The initiative raised £50k, meaning we were able to donate £25k to United Nations High Commissioner for Refugees (The UN Refugee Agency) and £25k to Polish Humanitarian Action.

- We continue to use LED lighting where possible and enforce energy saving activities such as sensor lighting and automation, HVAC control automation and energy efficiency measures.

Methodology

Our methodology underlying our disclosed emissions remains consistent with the previous year and is based on the Environmental Reporting Guidelines: including mandatory greenhouse gas emissions reporting guidance (March 2020) issued by the Department for Business, Energy & Industrial Strategy (BEIS). This methodology is consistent with the World Resources Institute's Greenhouse Gas Protocol Corporate Accounting and Reporting Standard.

We have also used the UK Government emissions factors for company reporting (published by BEIS in 2022), combined with the most recent International Energy Agency (IEA) international conversion factors (2021) for non-UK electricity within our reporting methodology. For Scope 3 emissions sources, we have used a combination of the Comprehensive Environmental Data Archive (CEDA version 6) and UK government factors. As our data collection improves, we aim to collect more supplier specific data. For the first time in FY22, our purchased goods and services calculation has used supplier specific data from CDP. We aim to increase the proportion further in subsequent years through the CDP supply chain questionnaire.

In some cases, we have extrapolated total emissions by using available information from part of a reporting period and extending it to apply to the full reporting year. For example, this has occurred where supplier invoices for the full reporting year were not available prior to the publication of this year's Annual Report and Accounts. Extrapolations have taken place based on a hierarchy of data availability in line with the Greenhouse Gas Protocol's (GHGP) guidance for carbon accounting. For further details, our methodology document can be found at www.sage.com/investors.

Reporting period

Our Mandatory Greenhouse Gas reporting period is 1 October 2021 to 30 September 2022 and is aligned with our financial reporting year.

Organisational boundary & responsibility

We report our emissions data using an operational control approach to define our organisational boundary which meets the definitional requirements of The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the UK Streamlined Energy & Carbon Reporting (SECR) regulations 2019 in respect of the energy consumption and emissions for which we are responsible. Under this approach, we have accounted for 100% of GHG emissions from operations over which Sage has control.

Carbon intensity

To express our annual emissions in relation to a quantifiable factor associated with our operational activities, we have used 'annual revenue' in our intensity ratio calculation as this is the most relevant indication of our growth and provides for a good comparative measure over time.

C Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

Our strategy is underpinned by our commitment to Net Zero

We use climate targets across Scope 1, 2, and 3 to measure and monitor performance in managing climate-related risks. In 2022 we submitted our targets for validation with the SBTi.

To demonstrate our commitment to fight climate change we have embedded climate targets within our Directors' Remuneration Policy (see pages 148 to 181).