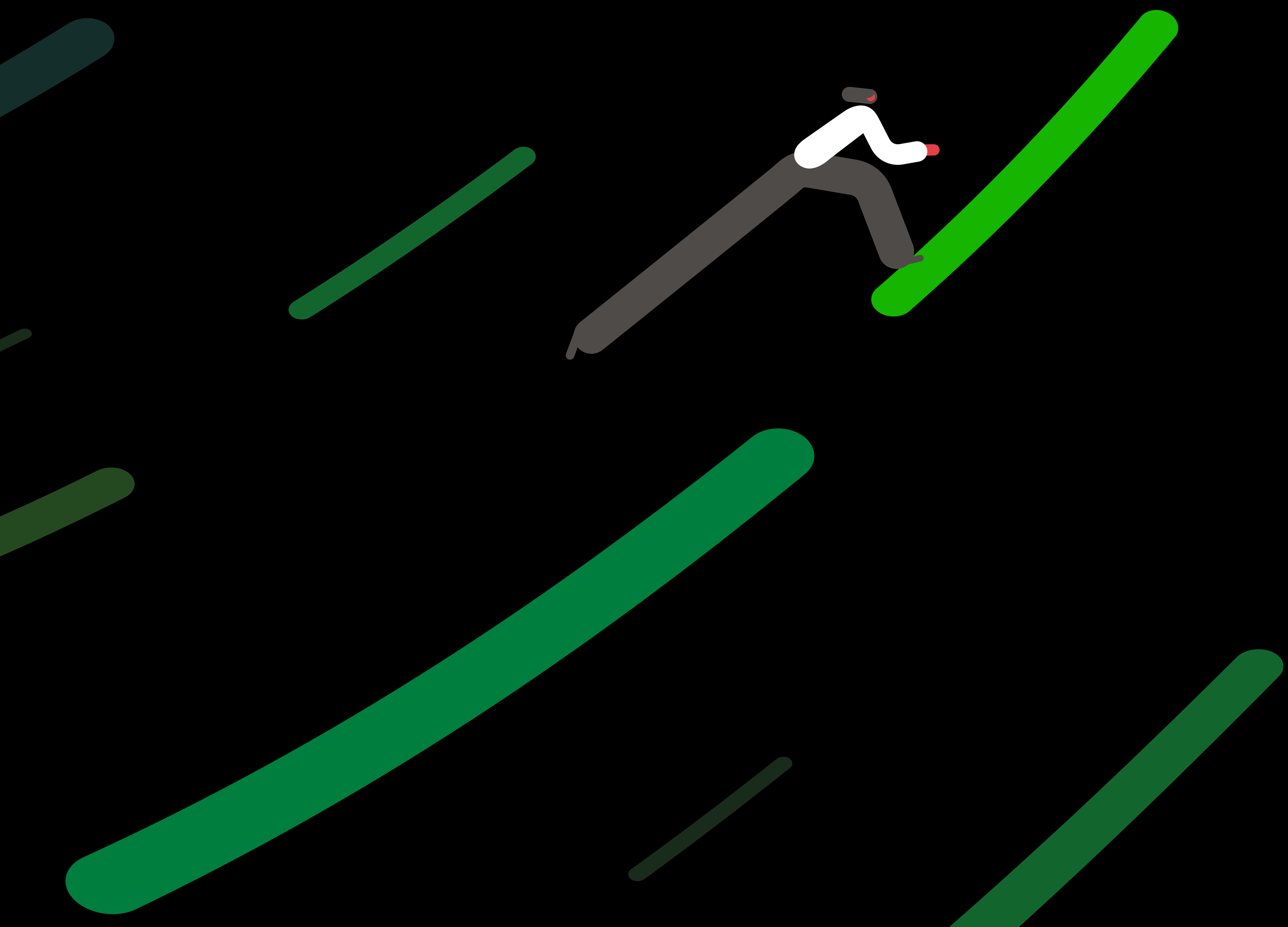
Annual Report and Accounts 2022

Adapt. Innovate. Grow.



Helping everyone flow

Sage exists to knock down barriers so everyone can thrive, starting with the millions of small and mid-sized businesses (SMBs) served by us, our partners and accountants. Customers trust our finance, HR and payroll software to make work and money flow. By digitising business processes and relationships with customers, suppliers, employees, banks and governments, our digital network connects SMBs, removing friction and delivering insights. Knocking down barriers also means we use our time, technology, and experience to tackle digital inequality, economic inequality and the climate crisis.

Purpose

To knock down barriers so everyone can thrive

Ambition

To be the trusted network for small and mid-sized businesses—an integrated experience of digital and human connections

Strategic priorities

We have five strategic priorities, which underpin our purpose and help us to achieve our ambition.

Scale Sage Intacct

See pages 26 and 27

Expand medium beyond financials

See pages 28 and 29

Build the small business engine

See pages 30 and 31

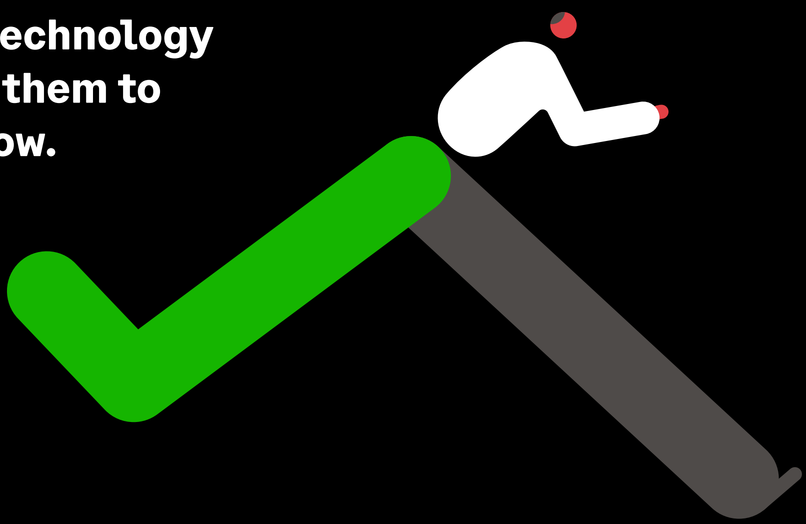
Scale the network

See pages 32 and 33

Learn and disrupt

See pages 34 and 35

Sage has introduced millions of customers to cloud technology and software—helping them to Adapt, Innovate and Grow.



Stakeholder promises

Colleagues
We are committed to people, driven by innovation, energising everyone to make a difference.
See page 70

Customers
We build every experience with human insight and ingenuity.
See page 72

Society
We tackle digital inequality, economic inequality and the climate crisis, using our time, technology and experience.
See page 74

Shareholders
We target sustainable growth in shareholder value.
See page 76

Values

We do the right thing

Human
We make connections with customers, partners and colleagues, through empathy and care.

Bold
We are curious, courageous, ambitious and creative.

Simplify
We strip away complexity.

Trust
We deliver our promises to customers, colleagues, society and shareholders.

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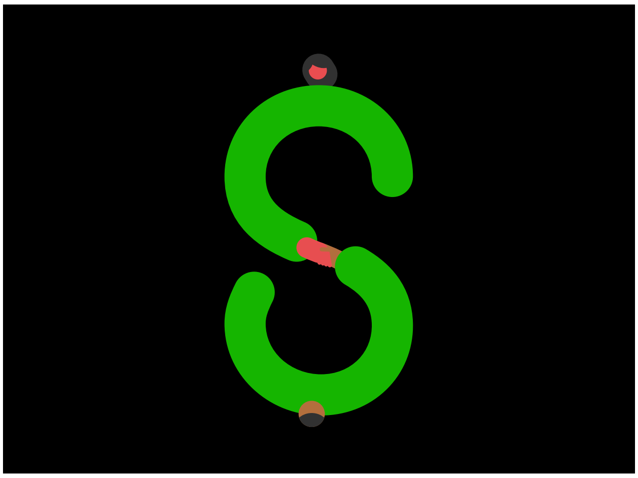

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Read about how we are driving growth through our five strategic priorities.

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Find out how our approach to effective corporate governance helps drive long-term value for all our stakeholders.

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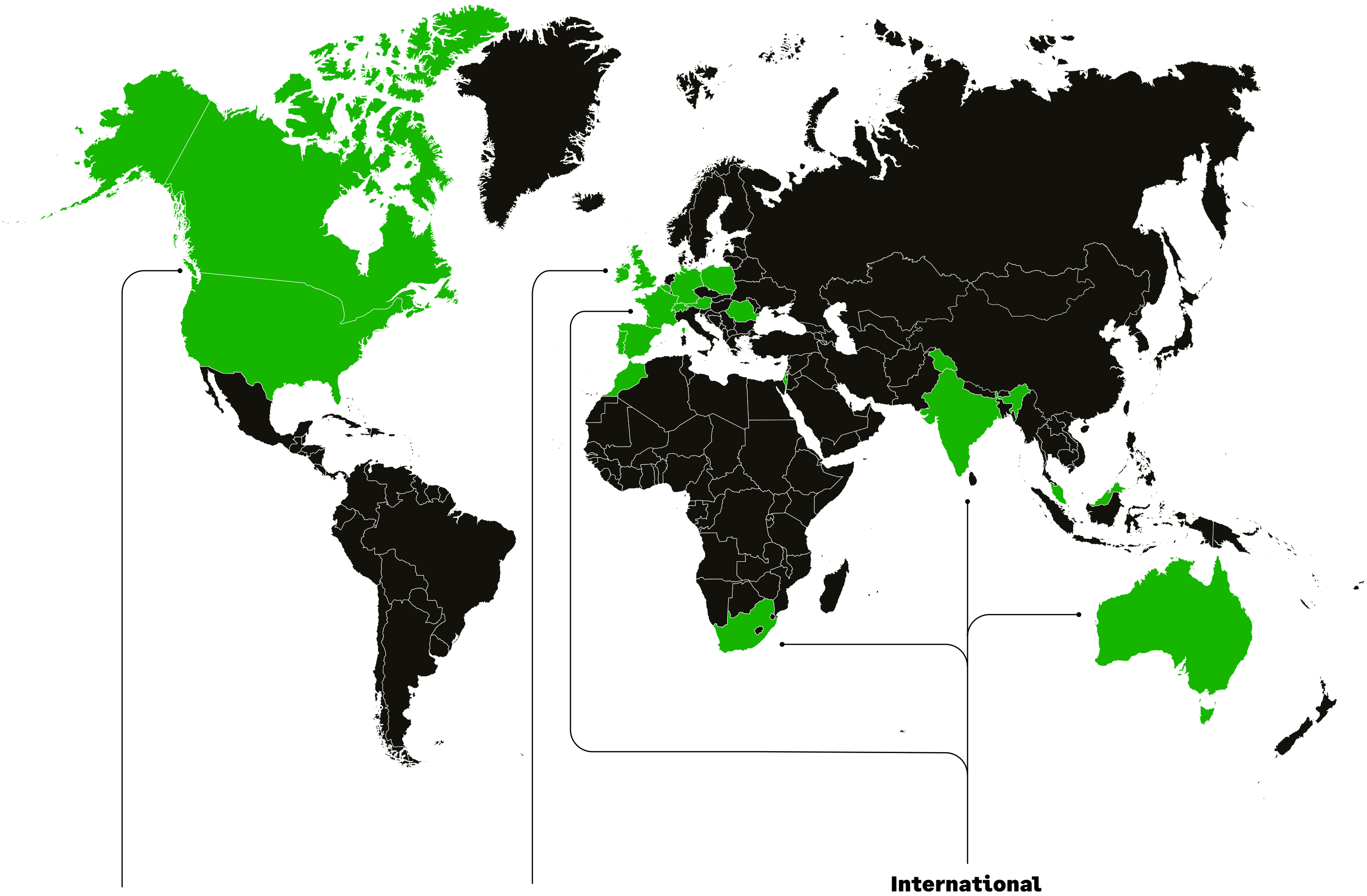
At a glance

About Sage

Sage exists to knock down barriers so everyone can thrive, starting with the millions of small and mid-sized businesses served by us, our partners and accountants.

Our global reach

Sage serves millions of customers around the world:



North America
US and Canada

42%

of total organic revenue

Northern Europe
UK and Ireland

22%

of total organic revenue

International
France, Iberia, Central Europe, Africa and APAC

36%

of total organic revenue

FY22 total organic revenue £1,924m

A global leader

Countries:

19

Colleagues globally:

11,574

Recurring revenue:

95%[1]

ESG credentials

MSCI:

AAA

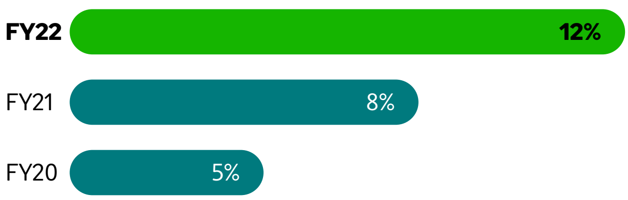
Glassdoor score:

4.2

Sage Foundation volunteering hours:

149,409

Accelerating growth in Annualised Recurring Revenue (ARR)



Sage Business Cloud penetration: moving customers to the cloud

ARR growth has accelerated through the acquisition of new customers and the successful migration of existing customers to subscription and Sage Business Cloud, our portfolio of unified cloud native and cloud connected solutions for SMBs. See pages 16 to 19 for further details on our products.

1. As a percentage of total organic revenue.

Our year in numbers

Financial highlights

Organic total revenue

2022 **£1,924m**

2021 £1,809m

Organic total revenue of £1,924m grew by 6%, reflecting a 9% increase in recurring revenue, partly offset by a decline in Other revenue (SSRS), in line with our strategy.

Statutory revenue

2022 **£1,947m**

2021 £1,846m

Statutory revenue of £1,947m grew by 5%, reflecting good levels of organic growth in all regions, together with a foreign exchange tailwind, partly offset by disposals.

Organic operating profit

2022 **£383m**

2021 £353m

Organic operating profit grew by 8% to £383m, with margin increasing to 19.9% from 19.5% in FY21, driven by operating efficiencies as we focus on scaling the Group.

Statutory operating profit

2022 **£367m**

2021 £373m

Statutory operating profit decreased by 2% to £367m due to changes in recurring and non-recurring items, including higher net gains in the prior year from disposals.

Underlying basic EPS

2022 **25.74p**

2021 23.79p

Underlying basic EPS increased by 8% to 25.74p, reflecting the increase in underlying operating profit and a reduction in the number of shares outstanding following the Group's recent share buyback programme.

Dividend

2022 **18.40p**

2021 17.68p

The total dividend for the year increased by 4% to 18.40p, reflecting continued strong business performance and cash generation.

About our non-GAAP measures and why we use them
Throughout the Strategic Report we quote two kinds of non-GAAP measure: underlying and organic. Underlying measures are adjusted to exclude items which in management's judgement need to be disclosed separately by virtue of their size, nature or frequency to aid understanding of the performance for the year or comparability between periods.

Organic measures allow management and investors to understand the like-for-like performance of the business.

Full definitions of underlying and organic can be found within note 2 of the financial statements. Reconciliations of statutory revenue, operating profit and basic earnings per share to their underlying and organic equivalents are in the Financial review starting on page 82.

Non-financial highlights

Sage Foundation to raise $5 million by 2030

$1m — $5m

During FY22, a bold new fundraising challenge was set for Sage colleagues, their families and our partners—to raise $5m for good causes by 2030. We have raised $1m towards our target.

Young people trained in STEM skills

4,750 — 14,000

Sage has a commitment to train more than 14,000 young people in Science, Technology, Engineering and Mathematics (STEM) skills.

13,871

Entrepreneurs supported in developing countries to grow sustainable businesses.

Net Zero

Targeting Net Zero by 2040 across our Scope 1, 2 and 3 emissions, with a mid-term goal to halve our emissions by 2030[1].

Sage Foundation

Our volunteering, fundraising, grant-giving, skills training and other charitable and community work all come together under the global banner of Sage Foundation. It is an integral part of our culture at Sage, and is regularly cited by colleagues as one of the reasons they enjoy working here.

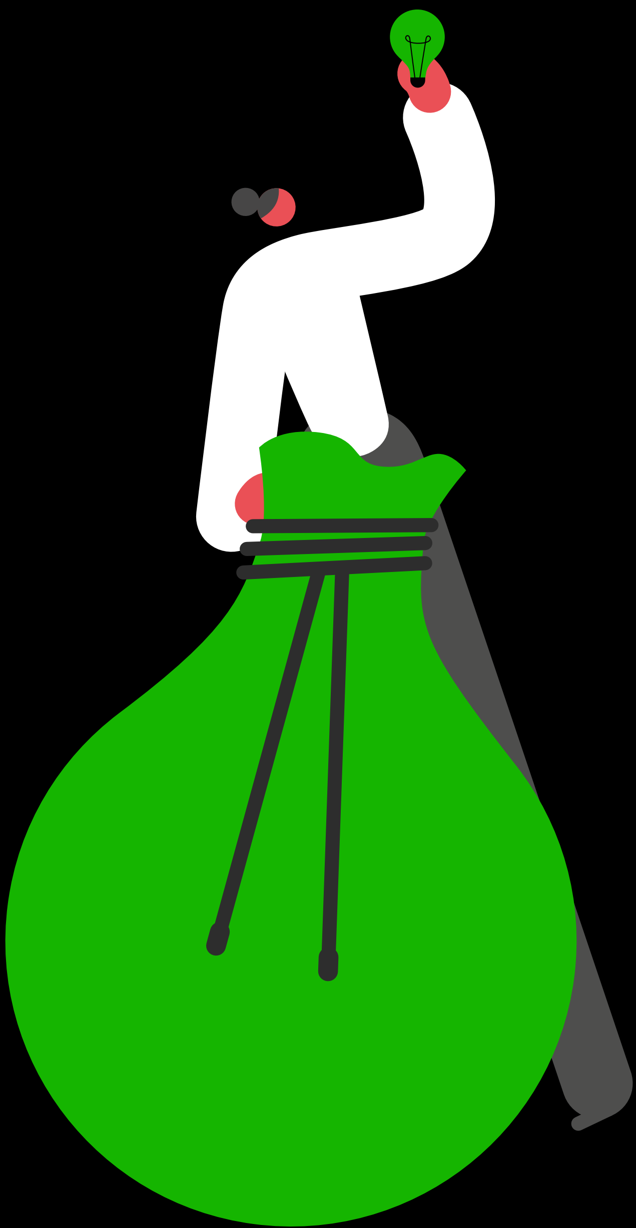
Sage Foundation gives every colleague five days of paid volunteering leave every year to spend time knocking down barriers locally, supporting causes that are important to them. Through strategic partnerships, Sage Foundation provides support to underrepresented groups to grow sustainable businesses, giving young people access to STEM skills and knocking down barriers to entrepreneurship in the developing world.

1. Against a 2019 baseline.

Building sustainable shareholder value

Sage provides millions of customers around the world with solutions that remove friction from their accounting, people, and payroll processes. Our solutions deliver business insights and give them a competitive edge.

The breadth of our business provides us with unique visibility into small and mid-sized businesses globally, enabling Sage to better understand and serve our customers' needs. Our scale and experience form the foundations for our sustainable growth, and are core to our investment case.



Unique assets and capabilities

- We serve a strong and loyal customer base through Sage Business Cloud. These customers can connect to a range of cloud services as part of Sage's digital network, leading to deeper customer relationships and higher lifetime values.
- Our people differentiate Sage through their dedicated and hands-on approach to solving customer problems, ensuring our technology and service retain a human touch.
- Our well-established partner network of accountants and resellers, together with a growing ecosystem of Independent Software Vendors (ISVs), enhances our capabilities and reach.

The trusted network for SMBs

- Sage connects businesses with their customers, employees, suppliers, banks and governments through its digital network. We have a unique advantage in building this network, given the size of our customer base and our reputation as a trusted adviser.
- Our digital network is here today, enabling connections between participants through the services we offer. These services save customers time and money, removing friction from their processes.
- By scaling the network, we will accelerate the network effect through increased participation, leveraging insights to deliver more innovative AI-powered services.

Investing to scale the business

- We are significantly accelerating revenue growth, supported by continuing investment, and expanding our organic operating margin.
- Through our focus on innovation, we are enriching our cloud solutions with AI and machine learning capabilities, making them easier to use and more compelling for customers.
- By delivering on our ambition to be the trusted network for SMBs, we are focused on scaling the Group, and growing revenue and earnings in absolute terms.

Financially robust position

- We have a high-quality revenue base which is 95% recurring in nature, with 75% from software subscription contracts.
- Sage is a highly cash-generative, low capital intensity business, and has achieved underlying cash conversion of over 100% for each of the last four years.
- We balance the need for organic and inorganic investment with returns to shareholders through dividends, supplemented by share repurchases where appropriate.

Consistent execution driving growth

Andrew Duff
Chair

Introduction

FY22 was an important year for Sage, as sustained investment in the business led to a marked acceleration in revenue growth as well as organic margin expansion. A sharp focus on strategic execution helped the Group achieve a number of significant milestones, including the successful launch of our refreshed brand, the introduction of new cloud native solutions across our markets, and several strategically important acquisitions and partnerships. With Sage's disposal programme now complete, the Board is committed to scaling the Group, and we have made substantial progress in FY22, in terms of both revenue and earnings.

As I reflect back on my first year as Chair, our colleagues should justly be proud of all they have achieved, despite the disruption of Covid-19 and increasing economic and geopolitical uncertainty. Their energy, enthusiasm and commitment are evident in all my interactions across the Group and are the engine for Sage's success.

Strategic framework for growth

At the beginning of the year, the Board adopted a new strategic framework, governed by our purpose—to knock down barriers so everyone can thrive. This purpose underpins everything we do, in full consideration of our customers, colleagues, society and shareholders alike, and recognises the broader economic and social significance of a thriving SMB sector. SMBs are the heartbeat of all the economies in which we operate—and their resilience and resourcefulness during a period of great challenge and hardship over recent years are testament to the commitment and ambition of their owners and employees. Serving their needs is central to the sustainability of the Group, as we create solutions that make our customers' lives easier, while fostering a culture of innovation and inclusion.

At the heart of the Group's strategy is our ambition—to be the trusted network for SMBs. The digital network we are building connects organisations with their employees, suppliers, customers and regulatory authorities, delivering value by creating experiences that connect, remove friction and fuel confidence. Sage has made strong progress in FY22 towards realising this ambition, through a disciplined focus on five strategic priorities. You can read more about our progress on pages 24 to 35.

Financial performance

Our FY22 financial results demonstrate the sustainable growth engine that we are building at Sage. Organic recurring revenue grew by 9%, while annualised recurring revenue (ARR) increased by 12%. The principal driver continues to be the success of Sage Business Cloud, with recurring revenue growth of 24%. Within this, cloud native solutions performed particularly well, growing by 41%. The quality of the Group's revenue has continued to improve, with recurring revenue now representing 95% of organic total revenue, and subscription revenue representing 75%. Organic operating margin increased from 19.5% to 19.9%, trending upwards following a period of additional strategic investment to accelerate growth. Underlying basic earnings per share increased by 8% to 25.74p.

The Group remains strongly cash generative with underlying cash conversion of 107%. During the year, Sage completed the acquisition of several complementary businesses, including Brightpearl, Futrli and Lockstep, which broaden the Group's capabilities and reach while accelerating the development of the digital network. Sage also concluded the share buyback programme that was started in FY21, totalling £600m and reflecting the proceeds from recent disposals. In line with our progressive dividend policy, the Group is proposing to increase the total dividend for the year by 4% to 18.40p.

The Board in FY22

Strong corporate governance is central to the Board's philosophy and approach, and we maintain the highest standards across the Group, as set out in the UK Corporate Governance Code 2018.

It has been pleasing to return to a more normal working environment, with the Board able to meet in person, helping us to engage effectively with one another and with key stakeholders during the year. Engagement activities included visiting the Group's operations in key jurisdictions and participating in talent review sessions and colleague roundtables. As Chair, I participated in several such activities, including meeting Sage colleagues from around the world as well as other stakeholders to gain a deeper understanding of our business and culture.

In July 2022, Irana Wasti decided to step down from the Board after two years as a Non-executive Director to pursue another executive opportunity. We are grateful to Irana for the valuable contribution, knowledge and industry expertise that she brought. I strongly believe that diversity in all its forms leads to more productive and balanced Board discussions, and maintaining a diverse and inclusive Board is a key priority. This includes meeting our targets for gender diversity, while at the same time ensuring that all Board appointments are made on merit. In line with this objective, the Nomination Committee initiated a search for two Non-executive Directors during the year. The Board was delighted to recently announce that Maggie Chan Jones will join as a new Non-executive Director on 1 December 2022. Maggie brings with her deep international marketing and brand experience, which will highly complement the skills we already have on the Board. We look forward to announcing progress on the remaining Non-executive Director search in the near future.

During the year, we appointed our fourth Board Associate, Derek Taylor, Senior VP Client Services and Sales for Sage Intacct, who is based in San Jose. The Board Associate role continues to serve as a powerful means for the Board to hear the voice of colleagues, as well as generating a greater understanding of the role of the Board throughout the business.

Our people and values

Key to the success of Sage is our collaborative team of people and the culture they embody. Doing the right thing for our customers, colleagues and society is something we are proud of, and we believe this directly contributes to our growth. During the year we updated our values to complement our evolved strategic framework and focus on the attributes of being bold, being human and acting with empathy, simplifying where possible to strip away complexity, and developing trust among our stakeholders.

Sage has continued to be recognised as a great place to work based on colleague feedback, receiving awards from organisations including Comparably in the US, Glassdoor in the UK and Kununu in Germany.

Sustainability and society

Our Sustainability and Society strategy places a strong emphasis on our Environmental, Social and Governance (ESG) responsibilities, supporting sustainable and inclusive economic growth so everyone can thrive. The Sage Foundation plays an important role in implementing this strategy by mobilising Sage colleagues, their families and our partners, to donate their time and resources to support charitable and environmental causes.

To help tackle the climate crisis, Sage is targeting net zero carbon emissions by 2040, with a 50% reduction by 2030, against a 2019 baseline. During the year the Group submitted its Science-Based Target for validation, made progress towards its Scope 1 and 2 emissions reduction, and engaged with suppliers to reduce Scope 3 emissions. As signatories to the Task Force on Climate-related Financial Disclosures, we are committed to providing consistent information to our stakeholders, and our TCFD disclosure can be found starting on page 50.

Our ESG performance has been recognised by third parties, with MSCI upgrading Sage to "AAA" ESG rating in May 2022, indicating that we are a leader in the software and services industry in managing the most significant ESG risks and opportunities.

Looking forward to FY23 and beyond

On behalf of the Board, I would like to thank all of our colleagues who have continued to work tirelessly to help our customers and our communities thrive. The external environment remains uncertain but, as we enter FY23, we will remain resolutely focused on executing our strategy, building on the strong position and good momentum we achieved this year. I firmly believe that our clear purpose, great talent and strong culture, combined with ongoing investment across the business, will enable us to continue to deliver sustainable growth for the benefit of shareholders and all our stakeholders.

The Board's statement in respect of matters pertaining to section 172(1) of the Companies Act 2006 is set out on page 78.

Further insight into the activities of the Board for FY22 can be found on page 121.

Andrew Duff
Chair

Giving people building business the confidence to flow

Steve Hare
Chief Executive

CEO Steve Hare discusses Sage's achievements in FY22 and the Group's priorities in FY23 and beyond.

Q How would you summarise the past year for Sage?

Sage has had a strong year. By living our purpose, we've continued to knock down barriers for millions of customers, providing solutions that make their lives easier by simplifying processes, unlocking productivity and building resilience.

As a result, we significantly accelerated revenue across all key products and regions, with ARR exceeding £2bn for the first time. We also expanded our organic operating margin, and delivered strong cash flow. At the same time, we made good progress across all our strategic priorities—delivering innovation and adding greater value for customers.

Our success reflects the significant investment we've made over the last few years, particularly in sales & marketing, technology and innovation. This investment has enhanced our product offering, while ensuring we have strong distribution channels in place to drive growth.

During the year, we launched new cloud solutions across our markets, driving further growth across Sage Business Cloud. We refreshed our brand, positively repositioning Sage in the eyes of customers and bringing Sage to new audiences. And we welcomed several new businesses and solutions to the Sage family through acquisitions, providing us with valuable new capabilities.

Finally, through partnerships with the likes of The BOSS Network, Kiva and ACE, we knocked down barriers for thousands of entrepreneurs in underrepresented communities.

I am proud of the Group's achievements in FY22, and would like to thank our colleagues and all our partners—including accountants, resellers and ISVs—for everything they have done to help our customers and communities navigate the challenging economic environment and deliver a very successful year for Sage.

Q How did Sage perform financially In FY22?

Sage achieved organic recurring revenue growth of 9% to £1,824m, underpinned by a 24% increase in Sage Business Cloud revenue to £1,261m. Regionally, North America increased recurring revenue by 14% to £779m, driven by Sage Intacct and cloud connected solutions, while Northern Europe grew recurring revenue by 7% to £419m, largely through a strong cloud native performance. In our International region, recurring revenue increased by 6% to £626m, reflecting growth across the Sage Business Cloud portfolio. Organic total revenue grew by 6% to £1,924m.

Organic operating profit increased by 8% to £383m, while organic operating margin was 20%, trending upwards on the prior year driven by operating efficiencies.

Reflecting strong progress, 95% of the Group's revenue is now recurring, with 75% coming from software subscriptions. Importantly, we've also continued to drive up Sage Business Cloud penetration, by 8 percentage points in FY22 to 75%. Sage Business Cloud customers can connect to a range of cloud services as part of Sage's digital network, leading to deeper customer relationships and higher lifetime values.

Q What were the main drivers of growth?

Growth accelerated during the year in all regions, driven by success across Sage Business Cloud, in accounting, payroll and HR. Sage Intacct performed outstandingly, with continued strength in the US together with accelerating growth outside the US, where the product has been more recently launched. Other cloud native solutions such as Sage People, Sage Accounting and Sage HR also performed strongly. In addition, our cloud connected solutions Sage 200 and Sage 50 were significant contributors to growth.

As a result, Sage's ARR increased by 12% to £2,027m, with growth balanced between new and existing customers. This was underpinned by cloud native ARR growth of 38% to £530m. In total, Sage has added £180m of ARR through new customer acquisition over the last 12 months, up from £140m a year earlier.

Across the Group, customer renewal rates have been strong. Our renewal rate by value of 101% is ahead of last year, reflecting a strong performance in customer add-ons and targeted price rises, together with a continued focus on customer retention.

Q How important is your purpose and ambition in driving the Group's success?

Our purpose and ambition are fundamental to our strategy. Our purpose is to knock down barriers so everyone can thrive, and it has never been more important. As we remove friction and make life easier for SMBs, they in turn have a positive effect on the economies and communities in which they operate.

Our ambition, which expresses how we serve our purpose, is to be the trusted network for small and mid-sized businesses. This digital network connects our customers to the individuals and organisations they need to interact with, providing features and services that facilitate the smooth flow of work and money. We drive our ambition through five strategic priorities.

Q Could you describe the progress you are making towards your strategic priorities?

Our strategic priorities are the areas that have the greatest impact on our growth, and we are making strong progress towards all of them:

- We are scaling Sage Intacct through multiple initiatives targeting richer functionality and a broader reach, leading Sage Intacct's ARR to grow by a third in the US and by 150% outside the US in FY22.
- Beyond financials, new solutions such as Sage People Payroll in the US and UK, are also driving growth.
- Sage for Accountants, adopted by over 2,000 accountancy practices in the UK since launch in November 2021, is helping to build the small business engine.
- We are scaling the network by growing Sage Business Cloud penetration and launching new cloud native products. We will soon bring Sage Intacct to continental Europe, starting with France.
- We are accelerating the pace of innovation, leveraging the power and scale of the Sage digital network to drive disruptive new technologies powered by AI and machine learning.

You can read more about each of these strategic priorities on pages 26 to 35.

Q What is the Sage digital network and why is scaling it such a focus?

The Sage digital network connects organisations with everyone that they need to connect with—for example customers, suppliers, banks and governments—digitising business relationships and removing friction from their processes. The network enables Sage to develop and provide innovative services and solutions, and scaling the network accelerates this process as it creates a virtuous circle, with more data enabling better services to deliver richer experiences.

Our unique advantage in building this network is our size: Sage already has millions of customers around the world with the ability to connect to and participate in the network, making it more attractive for others to join. Our extensive partner and ISV ecosystem extends the proposition and drives further scale by offering more cloud-based services within the digital network.

Importantly, the digital network is here today and is already benefiting customers. For example, our banking service enables customers to automate bank reconciliations through more than 11,000 financial institutions. Our AI-driven outlier detection service leverages the power of the network to increase the accuracy of general ledger transactions. And we have just launched an innovative service, also driven by AI, to automate the accounts payable process, saving customers time and money and creating trust by reducing human error. We see a substantial opportunity in this area, and we are excited both by our progress to date and the potential that lies ahead of us.

Our five strategic priorities help drive the growth and long-term success of the Group.

Scale Sage Intacct

Accelerate the expansion of Sage Intacct in existing and new markets.

See pages 26 and 27

Expand medium beyond financials

Broaden the value proposition for mid-sized businesses.

See pages 28 and 29

Build the small business engine

Create a scalable digital 'engine' to acquire and serve small business customers.

See pages 30 and 31

Scale the network

Increase participation in Sage's digital network and accelerate the network effect.

See pages 32 and 33

Learn and disrupt

Build innovative solutions underpinned by a culture of continuous learning and disruption.

See pages 34 and 35

"We have consistently delivered against our strategic priorities, and growth is now accelerating. Small and mid-sized businesses are adopting digital solutions faster than ever, and Sage is ideally positioned to support them."

Q How has your refreshed brand been received?
I am delighted with the response from our customers, partners and colleagues, as well as from the wider market. Our refreshed brand is a symbol of change, and it's making a real difference to how Sage is perceived and is supporting our growth.

The refreshed brand proposition reflects the simplicity and confidence we deliver to customers through our easy-to-use solutions, backed by expert human advice, helping them make better and faster decisions.

To support the roll-out and drive brand awareness we have partnered with major sporting competitions including The Hundred cricket, Major League Baseball and the Six Nations Rugby to deliver data-led insights to viewers and fans. Recognising the success of the brand refresh, Sage was shortlisted for the Marketing Week Awards Brand of the Year 2022.

Q Can you talk about how Sage's recent M&A transactions benefit the Group?
Acquisitions complement our organic investments by bringing new technology, capabilities and talent into the Group, and accelerating our strategic progress:

- The acquisition of Brightpearl extends Sage Intacct's vertical reach, providing new capabilities in the retail and ecommerce sector.
- Futrli is aimed at supporting SMBs and accountants to better understand their current and future cash flow.
- To accelerate our digital network strategy, we acquired Lockstep, adding accounts receivable automation capabilities as well as infrastructure connecting non-Sage customers to the Sage digital network.
- Spherics provides an innovative carbon accounting solution which supports customers on their journey to net zero.

In November 2021, we disposed of Sage's business in Switzerland, and in April 2022 we sold Sage's South African payroll outsourcing business, completing the Group's disposal programme.

Q How does Sage foster an inclusive and high-performance culture?

I am passionate about maintaining a vibrant, engaging culture that enables colleagues as individuals, and the Group as a whole, to thrive. Our values are key to this—they were co-created with colleagues, and we took time during the year to fully embed them within the business. They are straightforward, easy-to-remember words and phrases—trust, simplify, human, bold, we do the right thing—that really do guide our everyday actions.

Our values also drive a high level of ambition and accountability among colleagues. Underpinning this is our focus on wellbeing, which helps us attract talent and drives sustainable high performance. We provide resources and support across four key pillars: healthy mind, healthy body, healthy finances and healthy communities. Our Flexible Human Work initiative gives teams a clear framework for flexible working and encourages an experimental, collaborative mindset—so we can deliver the best outcomes for our customers and achieve amazing things together.

Increasing diversity, equity, and inclusion (DEI) at Sage is also a priority. For us to deliver on that purpose, we aim to build a workforce that fully represents the many different cultures, backgrounds and viewpoints, of our customers, partners, and communities. Our focus remains squarely on removing bias, driving equity, and increasing diversity at all levels of our business.

Sage continues to be recognised as a great place to work, receiving awards from organisations including Comparably in the US, Glassdoor in the UK and Kununu in Germany. Our Glassdoor score of 4.2 has improved over the year and is in line with target.

Q What role does sustainability play at Sage?

Sage serves SMBs which form the foundation of economic prosperity and support livelihoods around the world. Through our Sustainability and Society strategy, we aim to extend this support beyond customers, helping to drive inclusive economic growth so everyone can thrive.

The Sage Foundation continues to play a vital role in this strategy, creating opportunities for Sage colleagues, their families and partners to donate 150,000 volunteer hours and raise almost £1 million in FY22 to support good causes.

To help tackle economic inequality, we have supported over 13,000 entrepreneurs in underserved communities with loan funds and grants through our partnerships with Kiva and The Boss Network. In addition, to address digital inequality, we have helped develop STEM skills in almost 5,000 young people in deprived communities across northeast England, through our partnership with the Institution of Engineering and Technology.

We are targeting net zero carbon emissions by 2040 and a 50% reduction by 2030, against a 2019 baseline. During the year the Group submitted its Science-Based Target for validation. We also recently acquired Spherics, an innovative carbon accounting solution, supporting our customers in their own net zero journeys.

As part of this, we partnered with the Association of Chartered Certified Accountants and the International Chamber of Commerce at COP26 to issue a report calling on policymakers and large companies to standardise and simplify carbon reporting and accounting for SMBs.

In May, MSCI upgraded Sage's ESG rating to 'AAA', indicating we are a leader in the software and services industry in managing the most significant ESG risks and opportunities.

Q What should we expect in FY23 and beyond?

We have had a strong year in FY22, and we enter FY23 with momentum. Our solutions are mission-critical to SMBs globally, and by streamlining processes and unlocking productivity, they help SMBs achieve more with less. Looking ahead, our clear focus is to scale the Group, driving sustainable growth in both revenue and earnings through innovation powered by the Sage digital network.

For FY23, we expect organic recurring revenue growth to be ahead of last year driven by strength in Sage Business Cloud, and other revenue (SSRS) to decline in line with our strategy. Operating margins are expected to trend upwards in FY23 and beyond, as we focus on efficiently scaling the Group.

While we are mindful of the macroeconomic uncertainties, I am confident that our resilient business model together with our strategy for delivering efficient growth will enable us to create further long-term value for all our stakeholders.

Strategic Report

Our Strategic Report on pages 4 to 105 has been reviewed and approved by the Board.

Steve Hare
Chief Executive

Award-winning solutions

Our solutions, whether cloud native or cloud connected, enable businesses to be more productive, resilient and flexible. We are continuously innovating to enrich these solutions, not just adding better features but providing a network of applications and services that make it easier for customers to connect, collaborate and do business.

Sage serves millions of small and mid-sized customers around the world

Small businesses

Small customers are typically owner-run businesses with individuals or small teams responsible for finances and human resources. They are looking to automate accounting and compliance while managing costs and cash flow. Our solutions are tailored to their specific needs, enabling them to prioritise their time and stay on top of evolving regulations.

Mid-sized businesses

Mid-sized customers are often scaling and transforming, with functions structured around specialist teams and departments. They are focused on growth and efficiency, requiring insight and automation. Our solutions give finance and HR professionals insights to help their organisations analyse, strategise, and improve forecasting, by streamlining their workflows.

Sage Business Cloud

Sage Business Cloud is a portfolio of unified cloud native and cloud connected solutions for SMBs and accountants, enabling customers to be more productive, resilient and flexible. This is supported by a rich and robust marketplace of ISV apps and emerging tech across AI, machine learning and automation.

Cloud connected solutions

Cloud connected solutions combine the power and productivity of the desktop with the freedom and security of the cloud.

Small businesses
Sage 50cloud

Mid-sized businesses
Sage X3
Sage 200cloud

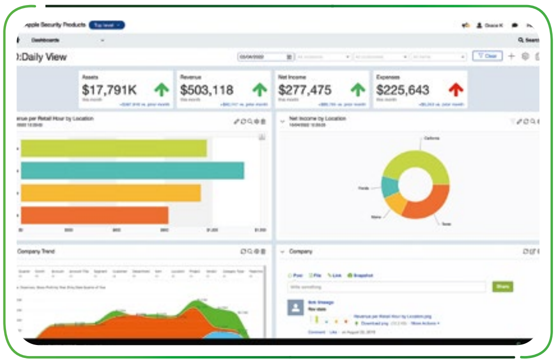
Cloud native solutions

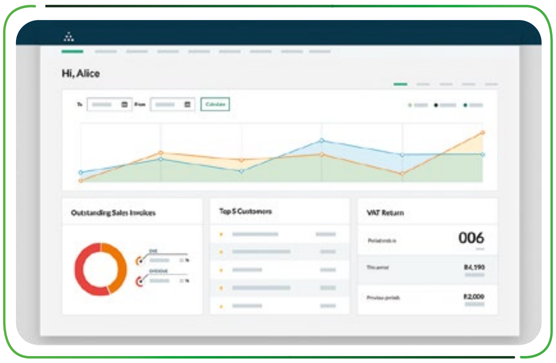
Cloud native solutions offer anytime, anywhere availability, automatic updates and full access to a wide ecosystem of partners and ISVs, in a hosted environment.

Small businesses
Sage Accounting
Sage Payroll
Sage HR

Mid-sized businesses
Sage Intacct
Sage People

Our products in action





Sage Intacct

Sage Intacct helps organisations thrive in today's digital world with proven cloud native solutions across accounting, planning, analytics, and payroll. The powerful cloud platform offers deep multi-dimensional insight and AI-powered automation which enables organisational agility.

Sage Intacct is the first and only preferred provider of financial applications of the AICPA, ranked highest in customer satisfaction by G2 and recognised as a leader by industry analysts. Sage Intacct is named a Leader in IDC MarketScape: Worldwide SME-focused Subscription and Usage Management Applications 2022 and the IDC MarketScape: Worldwide SaaS and Cloud-Enabled Midmarket Finance and Accounting Applications 2020.

It enables data-driven finance teams to automate complex processes, speed up the close, consolidate multiple legal entities in minutes, become GAAP compliant, and make strategic decisions using built-in, customisable reporting and dashboards. As Sage Intacct customers' businesses grow, AI-driven automation helps organisations continue to scale.

Trusted by thousands of customers across the US, Canada, Australia, the UK and South Africa, Sage Intacct serves mid-sized businesses, focusing on service-centric industries as well as construction and real estate, manufacturing and wholesale distribution, ensuring the product strategy is tightly focused on customer needs.

"Sage Intacct met our needs and is a game-changer for us. It has completely improved our trajectory... we're emboldened to seek new opportunities for growth."

Bonnie Forssell
CFO, Vitamin Angels

Sage Accounting

Sage Accounting is a unique proposition that ensures small businesses, accountants and bookkeepers can manage their customer data, accounts and people all in one cloud native solution.

It allows customers to quickly and easily create and track invoices, track cash flow, accept payments, record transactions, automate admin, capture expenses, and much more. This is supported by award-winning 24/7 product support, online or on the phone.

Sage Accounting is designed for small business owners and sole traders operating in any industry—from professional services to construction to retail.

HMRC recognised and Making Tax Digital (MTD) ready, Sage Accounting also supports customers to stay compliant through every stage of MTD for Income Tax Self-Assessment and VAT.

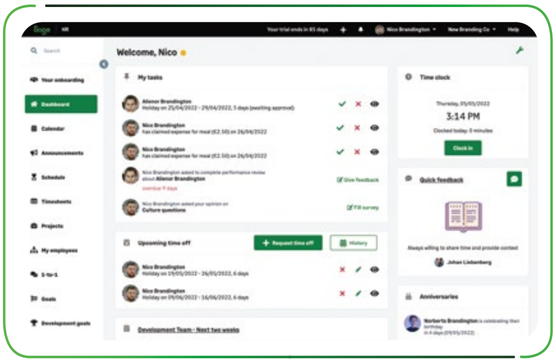
"Sage Accounting is so seamless—I can use my phone or my iPad, I can easily access my accounts. I can focus more on my business, and deliver great service to my customers."

Janice B. Gordon
Scale Your Sales

"I would recommend Sage Accounting to any accountancy practice."

Emily Smith
Finlayson

Our products continued



Sage People

Sage People is our global cloud HR and people management solution designed for customers with 200—5,000 employees. It empowers leading multinational, mid-size organisations to build great employee experiences that truly engage and inspire their people.

A cloud HR and people system that allows businesses to effectively respond to changing priorities, Sage People uses powerful automation, comprehensive analytics, and flexible workflows to ensure global workforces can adapt and thrive, whilst staying connected.

"Sage People has really played into our strategy to make our employees more flexible and agile in terms of where, and how they can work."

Gaynor Bailey
Head of Operations and Employee Engagement, Channel 4

"We chose Sage People for its awesome workforce experience interface. It had the potential to amplify our 'actively caring culture' and get employees excited about it."

Will Tedrow
HR Director, Youth Dynamics Inc

Sage Payroll

Sage Payroll, the UK's number one payroll provider, helps small businesses manage their payroll with confidence. It is an intuitive, cloud-based solution that helps customers to run their payroll reliably and flexibly, including pensions filing and HMRC submissions and compliance.

Accessible online anywhere, Sage Payroll allows customers to quickly and easily create employee records and pay people in simple steps. It is designed for sole traders and small businesses operating in any industry.

"I can manage leave and track my staff, which makes my work a lot easier. Sage Payroll played a big role— it made a big difference."

Aisha Gassangwa
HR Manager, Newscafe

Sage HR

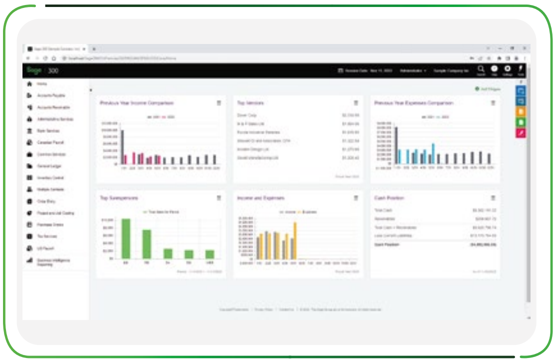
Sage HR is designed to make people management easier and helps teams perform at their best.

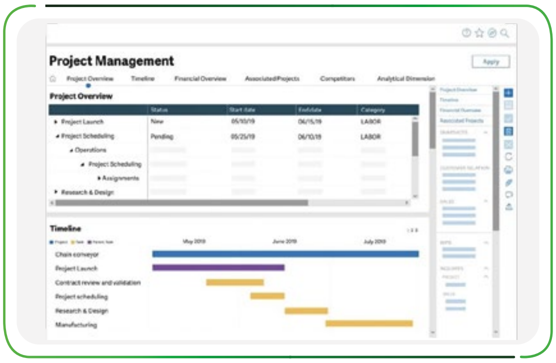
Sage HR is best suited to small and mid-sized businesses for work on site or on the go. Targeting those that require a turnkey, modular, low-cost and easy to install solution, Sage HR offers core record management, leave management, staff scheduling and expenses services.

The intuitive design carries over to the Sage HR app so that employees, managers, and HR people can submit and manage time off, expenses, feedback, payslips and more from a desktop or mobile device.

"It was a pretty easy choice to go with Sage HR; the price was competitive, and the service was better and more personal than the competition."

Elizabete Dikmane
HR Manager, Sonarworks





Sage 50cloud and Sage 200cloud

Our range of cloud connected accounting solutions for small and mid-sized businesses combine the freedom and security of the cloud with the power and productivity of the desktop. The Sage 50cloud and Sage 200cloud franchises enable customers to control their business and gain complete visibility over their finances and operations.

Sage 50cloud is targeted at small businesses who seek the familiarity and trust of desktop software alongside the connectivity of the cloud.

Mid-sized businesses need access to data insights and analytics to make the right decisions that enable growth. Sage 200cloud—a term we use to describe Sage 100cloud, Sage 200cloud and Sage 300cloud—offers customisable solutions to meet the needs of mid-sized customers, all connected to the cloud.

> "We needed a multi-currency platform that could handle the volume and the multi-warehouse costing. With Sage 300cloud, Simpli Home has scaled to meet unprecedented demand, as huge amounts of data can be handled very quickly."

Yoram Weinreich
Co-President, Simpli Home

Sage X3

Sage X3 provides fast, intuitive and tailored business management solutions for product-centric organisations looking to thrive and stay competitive in the face of growing complexity. It is designed for customers with 200 to 2,000 employees, or those with more complex operational needs.

This solution transforms how organisations manage people, processes and operations, allowing them to embrace change at speed. From procurement to warehousing, production, sales, customer service, and financial management, Sage X3 introduces better ways to manage your entire business, on a global scale. It delivers end-to-end business management across multiple verticals.

With multi-language, multi-legislation and multi-currency capabilities, Sage X3 delivers comprehensive business management capabilities from supply chain management to manufacturing through to HR and payroll management capabilities. Customers have the option to complement X3 with multiple add-on solutions providing additional industry-specific functionality, tailored to their needs.

Cloud service offerings include a selection of deployment options across Private Cloud or Public Cloud. For customers not wanting to work in the cloud, Sage X3 can also be hosted or deployed on-premise.

> "Sage X3 gives us the one true view of what is going on in our environment. Sage X3 helps us to thrive as it gives us better visibility of what's actually going on in our company."

Andrew Domino
S&S Hinge

Our market opportunity

Sage's market position

Sage has a global market presence, serving a diverse customer base of SMBs across North America, Europe, Africa and Asia-Pacific. The breadth and scale of our business provides us with unique visibility into small and mid-sized business trends globally, giving Sage a deep understanding of our customers' needs. Digitalisation is driving the rapid adoption of new cloud solutions, with SMBs investing in software to automate workflows, gain better business insights and comply with regulatory obligations. Our trusted portfolio of accounting, HR and payroll solutions positions us well to support them.

Global SMB trends

SMBs play a significant role in the global economy, representing an estimated 99% of firms and 70% of all jobs in OECD countries. While the current global macroeconomic environment presents challenges, including high inflation and skills shortages, most SMBs are confident in the long term, and investing in new technology to help them cope with these challenges remains a key priority. This investment delivers efficiency and productivity gains that help mitigate inflationary pressures and ensure SMBs are better equipped for the future. The trend of digitalisation is driving strong growth in our markets, as SMBs seek new ways to connect with customers and to make their organisations more resilient and flexible.

Our addressable market

The total addressable market (TAM) for Sage is forecast to be around $47bn in 2023 and over $51bn in 2024, growing at an annual rate of nearly 10%. Included within this TAM is accounting and financial management software, ERP, HR, and payroll applications for businesses with up to 2,000 employees, together with accountant practice management, taxation and compliance software, across both cloud and on-premise deployments.

Total addressable market and total growth
Source: Company estimate based on external sources

Addressing the market opportunity through technology

Our technology strategy reflects the environment in which our customers are operating and enables us to support them through change. This strategy, built on four key pillars, helps us capture the current market opportunity while positioning our products and solutions for long-term success.

1

Digital transformation

SMBs continue to invest more in digital technology as they look to automate processes, gain better business insights and comply with regulation. Beyond enhancing competitiveness and efficiency, digital transformation is also an enabler of new types of businesses.

The role we play:

The Sage digital network enables transformation in the digital era by creating connections between people, technology and data. It connects our customers to the individuals and organisations they need to interact with, providing features and services that facilitate the smooth flow of work and money.

2

Elevate human work

By replacing low-value repetitive work, digital transformation, and its associated technology empowers humans to work on higher-value tasks that are more ideally suited to humans, such as decision making, collaboration, analysis and managing exceptions.

The role we play:

We create solutions that make our customers' lives easier, removing friction from their processes and delivering insights. By scaling and developing the Sage Digital Network, more customers generate more data, which, in turn, powers the insights that we need to develop more compelling AI-driven features, leading to better customer experiences.

3

Sustainability

As technology develops, becoming more available and less expensive, there is a responsibility incumbent upon technology providers to conduct their business in an environmentally and a socially responsible way.

The role we play:

We understand the importance of social and environmental responsibility. Sage's success depends on our ability to engage effectively and work constructively with all of our stakeholders. As we grow our business, and support our customers in growing their businesses, we will also use our time, technology and experience to tackle digital and economic inequality and the climate crisis.

4

Trusted technology

Our customers are increasingly aware of the value of the data they own, and what it can do for them. Data privacy and security are critical to them and they expect their data to be handled transparently and fairly.

The role we play:

The trusted solutions offered by Sage across finance, HR and payroll position us well to support our customers. As we increase automation, we must also increase trust, which is why our digital network architecture gives individuals far greater control over the privacy of their own data. The network itself can also increase trust between all participants.

Creating value for our stakeholders

Inputs

Customer base
The breadth of our customer base around the world gives us a unique insight into the needs of SMBs.

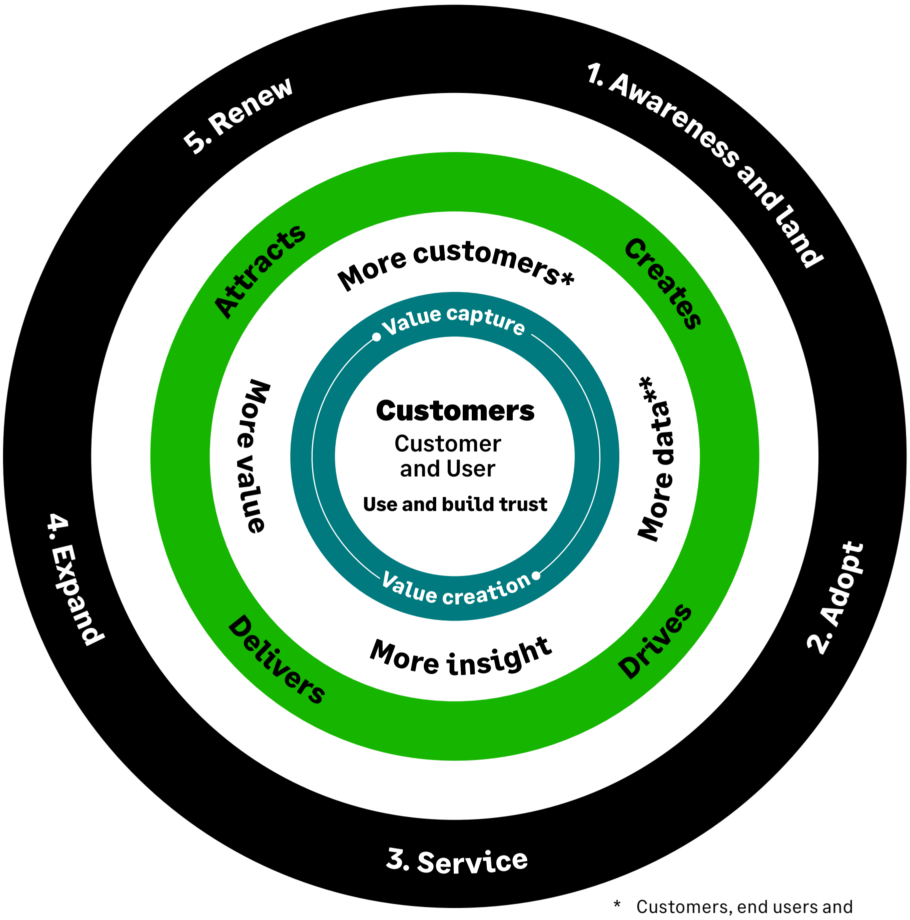
Trusted advisor
Sage is a trusted brand providing market-leading customer service, which in turn generates loyalty and advocacy among customers.

People
Caring and engaged colleagues are committed to driving success for our customers.

Ecosystem
Sage is expanding scale and reach through our ecosystem of accountants, resellers and technology partners.

Innovation
We are investing to ensure our products are ahead of the curve in a changing technology landscape.

How we attract and retain customers



* Customers, end users and ecosystem participants
** Volume, variety and velocity

Underpinned by the Digital Network

More customers
Adding customers, end users and ecosystem participants will improve the network effect and allow Sage to scale new value propositions. Ecosystem participants (attracted by customer volumes) act as amplifiers of the network effect.

More data
With more data and data types from network participants, Sage can capture data flows and transactions both within and outside the network.

Outputs

1. Awareness and land
Attract new customers to Sage through brand awareness, targeted campaigns and the sage.com website. Offer guides and trials to prospective customers.

2. Adopt
Sign new customers up to Sage Business Cloud on subscription. For some solutions, Sage or its partners provide training and onboarding to get customers started.

3. Service
Provide multi-channel digital and human customer support to enhance the customer experience, offering regular check-ins and conducting feedback surveys.

4. Expand
Enable Sage Business Cloud customers to benefit from our expanding portfolio of cloud-based solutions and services. This increases the value of Sage Business Cloud and enables Sage to deepen customer relationships and scale its business.

5. Renew
Create a seamless experience for customers that drives higher satisfaction, helps retain customers and increases adoption of Sage solutions. New customers are attracted to the network through recommendations and advocates.

Customers
101%
renewal by value

Colleagues
79
eSat (employee satisfaction)

Community
149,409
Sage Foundation volunteer hours spent helping our communities

Shareholders
9%
high-quality organic recurring revenue growth

107%
underlying cash conversion

18.40p
total dividend for the year

More insight
Data drives the development of solutions through a combination of understanding customer problems and deploying data science capabilities. This is enabled by a culture of experimentation and innovation.

More value
Solutions are delivered to enhance the customer experience, and create value for customers and Sage.

Strategic priorities

Driving growth

Our five strategic priorities focus our activities on key initiatives that help drive the growth and long-term success of the Group.

Scale Sage Intacct

Objective

Accelerate the expansion of Sage Intacct in existing and new markets

Sage Intacct forms the heart of our cloud native financial management proposition for mid-sized businesses, in a fast-growing market driven by rapid digital transformation. It provides finance professionals with a powerful cloud financial management platform that brings significant benefits to its customers in terms of productivity and business insights.

Growth in Sage Intacct has accelerated as we have invested in the core product, developing its vertical and geographic reach (including through the acquisition of Brightpearl and the launch of Sage Intacct Manufacturing in France and the UK), and expanding distribution in key markets across the Group.

We will continue to grow the Sage Intacct customer base and addressable market. We are deepening its capabilities in existing verticals, expanding into new verticals—both directly and with partners—and accelerating international growth. We're also focused on driving earlier adoption of Sage Intacct, reducing up-front costs for customers and accelerating time to value, streamlining the customer journey.

Success measure

- Growth of Sage Intacct across the Group

Expand medium beyond financials

Objective

Broaden the value proposition for mid-sized businesses

Sage has a well-established position providing financial management solutions to mid-sized businesses around the world. We see a compelling opportunity to expand into adjacent areas, in line with the enlarged remit of today's CFO, and deliver benefits to customers beyond core accounting. We will achieve this by automating and adding value to a broader set of business processes, and through delivering improved data accuracy and insight.

Customers can already benefit from powerful, integrated tools such as Sage Intacct Planning to streamline the budgeting process, as well as a wide range of add-on modules and services provided by partners. We have also launched an AI-driven service to automate accounts payable processes for Sage Intacct customers in the US, while Sage People offers a versatile cloud HR and people management system.

Through a combination of organic and inorganic development, Sage will continue to broaden its value proposition for mid-sized businesses to support their digital transformation.

Success measure

- Renewal rate by value

KPIs

Read more page 36 to 37

Sustainability

Underpinned by our strong commitment to our sustainability strategy

Build the small business engine

Objective

Create a scalable digital 'engine' to acquire and serve small business customers

Sage has invested significantly in building out our Small business suite, delivering a differentiated experience for both end users and accountants.

The benefit of our Small business suite is that it connects the customer's business from the point of product or service delivery at the front-end, right through to the back-end in terms of financial administration, record keeping, payroll and HR services. The unified look and feel, together with streamlined workflows, creates a frictionless experience for customers.

This enables Sage to deliver integrated insights for better decision making, supporting small business growth with a scalable solution. Investing in solutions to help accountants digitise their own practices serves as a key advocacy tool for Sage.

We will continue to enhance the customer experience and focus our efforts on investment in digital marketing capabilities. This will allow Sage to deploy its scalable growth 'engine' in other geographies to leverage economies of scale and best practice.

Success measure

- Small segment revenue growth

Scale the network

Objective

Increase participation in Sage's network and accelerate the network effect

Sage is focused not only on developing solutions for specific business needs and integrating those solutions to provide a unified digital experience, but also on creating a digital network of connections between businesses and their customers, suppliers, employees and regulatory bodies.

Sage has several unique assets and capabilities to help us rapidly scale this digital network and drive sustainable competitive advantage. These include its strong and loyal global customer base; its vibrant partner, accountant, and ISV network; and its brand and reputation. Complementary acquisitions, such as Lockstep, also help us scale the network.

Our priority is to enable and encourage participation in the digital network, migrating customers to Sage Business Cloud so they can enjoy an expanding number of cloud-based digital services, delivered either by Sage or through our ISV ecosystem. More digital network participants contributing more data will power the insight we need to build more innovative customer experiences, improving our ability to retain existing and attract new customers.

Success measure

- Sage Business Cloud penetration
- Availability and consumption of cloud-based digital services

Learn and disrupt

Objective

Build innovative solutions underpinned by a culture of continuous learning and disruption

Innovation is key to the long-term success of Sage. By providing the opportunity to create actionable insights through data, the Sage digital network is a key enabler of innovation. Sage will continue to invest in the technology and capabilities that underpin it.

Sage is accelerating momentum in AI and Machine Learning, and driving disruptive new technologies. In February, we released the first and only mid-market cloud accounting solution that uses AI to increase confidence in the accuracy of general ledger transactions. This solution is enabled by our outlier detection engine. We continue to work with partners, including Tide and Experian, to deliver innovative services to small businesses and consumers.

As we continuously improve our innovation capability and culture—complementing these with partnerships, investments and acquisitions—we can use early learnings from disruptive trends to help inform our investment choices.

Success measure

- Network-powered solutions launched
- Technology acquisitions, investments and partnerships

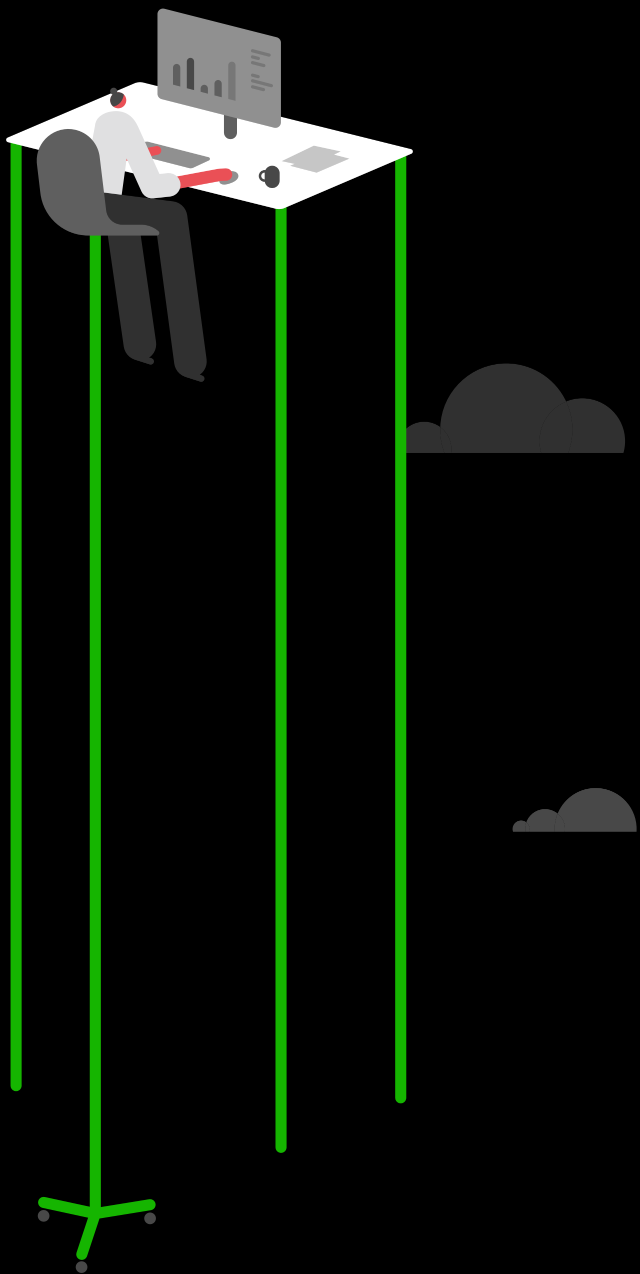
Protect the Planet
Read more page 47

Tech for Good
Read more page 48

Fuel for Business
Read more page 49

1. Scale
Sage Intacct

Objective
Accelerate the expansion of Sage Intacct in existing and new markets.



From growing start-ups to global enterprises, **Sage Intacct** is our best-of-breed, cloud finance software.

Award-winning solution

Sage Intacct is recognised as an award-winning solution, delivering consistent growth in the US and now expanding internationally. The success of Sage Intacct is founded on its approach to micro verticals, which enables us to add capabilities that are very specific to the needs of customers.

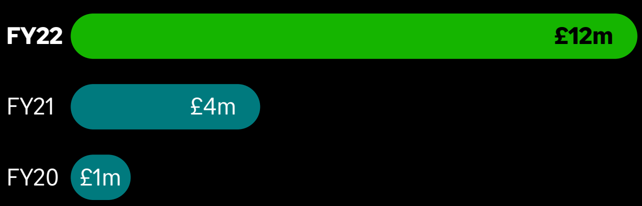
Sage has a clear strategy for future growth across new and existing verticals using the Sage Intacct platform as a foundation for connecting customers with their customers, their suppliers, and their employees, to automate processes and workflows. Having initially focused on core financials and the accounting solutions that businesses need, we have expanded into planning, analytics, payroll and HR as adjacent and complementary solutions. Scaling this approach internationally and driving earlier adoption remains a key priority for Sage.

Progress update:

- Enhanced Sage Intacct's vertical and geographical reach, including through the acquisition of Brightpearl in retail, new features in construction and real estate, and the launch of Sage Intacct Manufacturing in France, the UK and the US
- Sage Intacct Starter Edition launched in the UK, to accelerate new customer acquisition for Sage Intacct by attracting SMBs at an earlier stage
- Continued investment in sales and distribution channels to accelerate growth
- Record number of Sage Intacct new customer wins in FY22

Sage Intacct recurring revenue—US (£m)

Sage Intacct recurring revenue—ex-US (£m)



Case study: American Marketing Association

"With Sage Intacct, we can access real-time info about gross margin, so we've restructured unprofitable events and scheduled more successful ones."

Jeremy Van Ek
COO, American Marketing Association

The American Marketing Association (AMA) provides an essential community for nearly five million marketing professionals seeking education, networking and professional development. Sage Intacct has enabled AMA to drive a better membership experience, providing the right services and resources that its members need. In addition, AMA increased productivity and lowered labour costs by 25% with an all-cloud technology stack. Other benefits include increased ease of access for reporting that sped up decision making and the elimination of data extraction in Excel.

2. Expand medium beyond financials

Objective

Broaden the value proposition for mid-sized businesses.

Sage has a well-established position providing financial management solutions to mid-sized businesses around the world, which creates a compelling opportunity to expand into adjacent areas, in line with the enlarged remit of today's CFO.

Today's CFOs have diversified their responsibilities, embracing non-traditional skills, implementing emerging technologies and championing purpose-led initiatives.

Solving for the enlarged remit of today's CFO

Sage enriches its existing core financials and accounting products by expanding beyond financials with new solutions that address the broader challenges facing CFOs.

Advantages for customers include a reduced need to deploy a mix of point solutions and the ability to simplify their operations. This approach opens opportunities for significant revenue growth while enhancing customer loyalty and increasing lifetime value.

Progress update:

- Launched an AI-driven service to automate manual accounts payable processes for Sage Intacct customers in the US, significantly reducing invoice processing costs and data entry error
- Sage People Payroll launched in UK and US in partnership with Brain and ADP, respectively, bringing integrated payroll functionality to Sage People
- Sage Intacct Planning continues to grow rapidly, surpassing 1,000 customers in the US and Canada

Renewal rate by value

Renewal rate by value on an organic basis. For an explanation of this metric, see page 36.

Case study: Aegis

"The move to Sage Intacct has been a huge turning point for our organisation. Sage Intacct Planning gives us great flexibility to expand our reporting and forecasting and increase visibility."

Kyle MacDonald
Director of Finance and Operations, Aegis

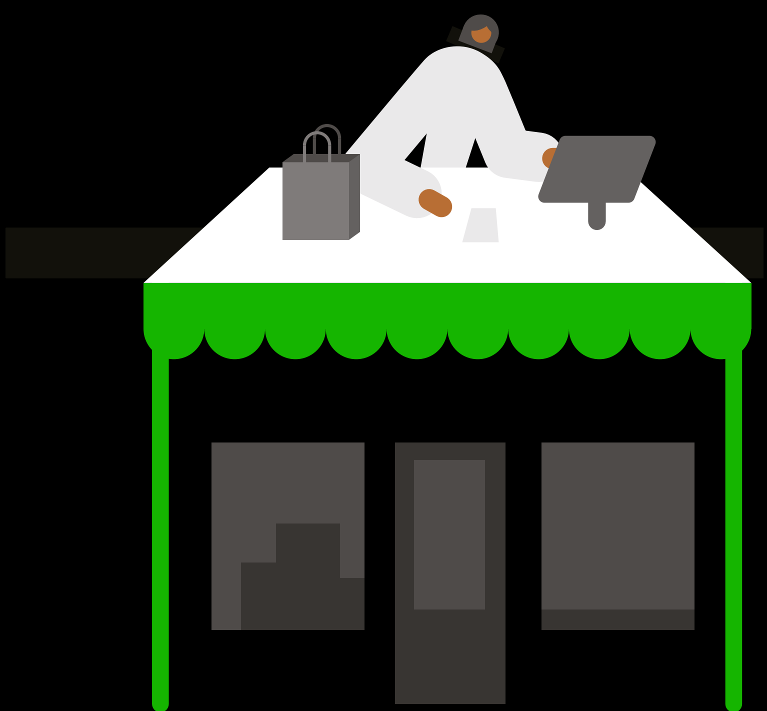
Aegis Project Controls supplies consulting services and technology that help deliver large construction projects on time and on budget. Aegis selected Sage Intacct as its accounting platform in 2018 and then adopted Sage Intacct Planning in 2019. Compared with building budgets in Excel, Aegis spends 25% less time on budget creation with Sage Intacct, while incorporating information of greater scope and detail. Aegis estimates that overall accounting efficiency has risen 5x, while the company has instituted more robust monthly close and reporting processes.

3. Build the small business engine

Objective

Create a scalable digital 'engine' to acquire and serve small business customers.

By investing in customer experience and digital marketing capabilities, Sage is creating a scalable growth 'engine' to leverage economies of scale and best practice.



90%

digital direct customer acquisition in UK

Sage Accounting forms part of our wider suite of solutions for Small businesses, with the ability to easily add capabilities. From HR and payroll to data automation and forecasting products, Sage offers our customers the solutions they need as they grow in sophistication or size.

"Time is a big challenge for me in a busy practice with over 150 small businesses. Through Sage for Accountants, they are all in one easy-to-access place and it allows me to navigate swiftly between each subscription, from data capture to tax submission."

Sarah Riley
Owner, Riley Accountancy

"Sage has listened to the real-life challenges. The great thing is that Sage has worked with accountants to develop a product for accountants."

Martin Tregonning
Tregonning and Co. Ltd

>2,000

UK accountancy practices using Sage for Accountants

A leading proposition for small businesses

Sage has a strong heritage in the small business segment and our differentiated small business suite supports professional users, accountants and business owners. Our deep understanding of the market uniquely positions us to deliver on their challenges and needs with our strategy for growth.

Accountants are a critical component of this ecosystem. They are central to driving our small business growth engine, and Sage is committed to helping them digitise their practices. We acquired GoProposal (client management) at the end of FY21 and Futrli (cash flow forecasting) during FY22, to strengthen the portfolio and deliver a comprehensive end-to-end proposition for accountants, in turn driving greater advocacy.

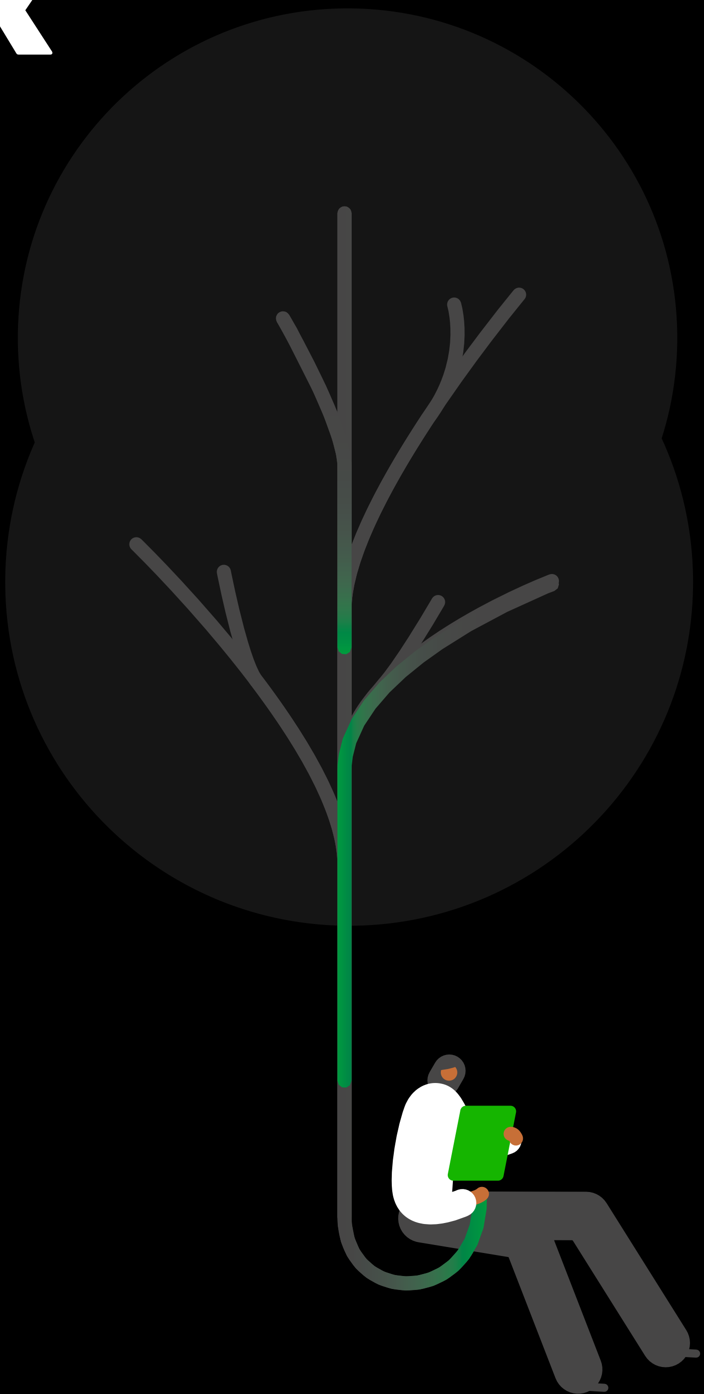
Progress update:

- Launched Sage for Accountants in November 2021 which has attracted over 2,000 accountancy practices in FY22
- Launched SBC Payroll and Sage HR in Canada in August 2022
- In the UK, Sage was recognised on HMRC's official list of software compatible with Making Tax Digital for Income Tax Self-Assessment
- Internationalisation of the UK approach continues, including in South Africa and Canada

4. Scale the network

Objective

Increase participation in Sage's network and accelerate the network effect.



The Sage Digital Network creates connections across business ecosystems, enabling data and work to flow seamlessly. The value of the network grows for each participant as the overall number of participants increases.

11,000

financial institutions connected to enable bank reconciliations

Sage's Digital Network is here today

Thanks to its global scale and access to data, Sage has a significant opportunity to expand its digital network. The network enables Sage to develop and provide innovative services and solutions, and scaling the network accelerates this process as it creates a virtuous circle, with more data enabling better services to deliver richer experiences.

While removing friction by automating and digitising processes is a vital part of our ambition, so are the human relationships, customer support and advice that we provide. The Sage digital network is an integrated experience of both digital and human connections.

Progress update:

- Expanded Sage Business Cloud availability, particularly in International, with recent product launches including Sage Active in France, Sage Accounting in Spain, and Sage HR in Germany, further driving network participation
- Sage Intacct in France launching soon, bringing the solution to non-English speaking markets for the first time
- Acquired Lockstep to accelerate the expansion of our digital network, bringing accounts receivable automation capabilities and other innovative features to the Sage digital network
- Created a new Digital Network business unit, led by Aaron Harris, our Chief Technology Officer, to implement our network strategy

>20m

employees paid globally by Sage Payroll products

Sage Business Cloud penetration

Sage Business Cloud penetration on an organic basis.
For an explanation of this metric, see page 37.

Case study: Scaling the network through the acquisition of Lockstep

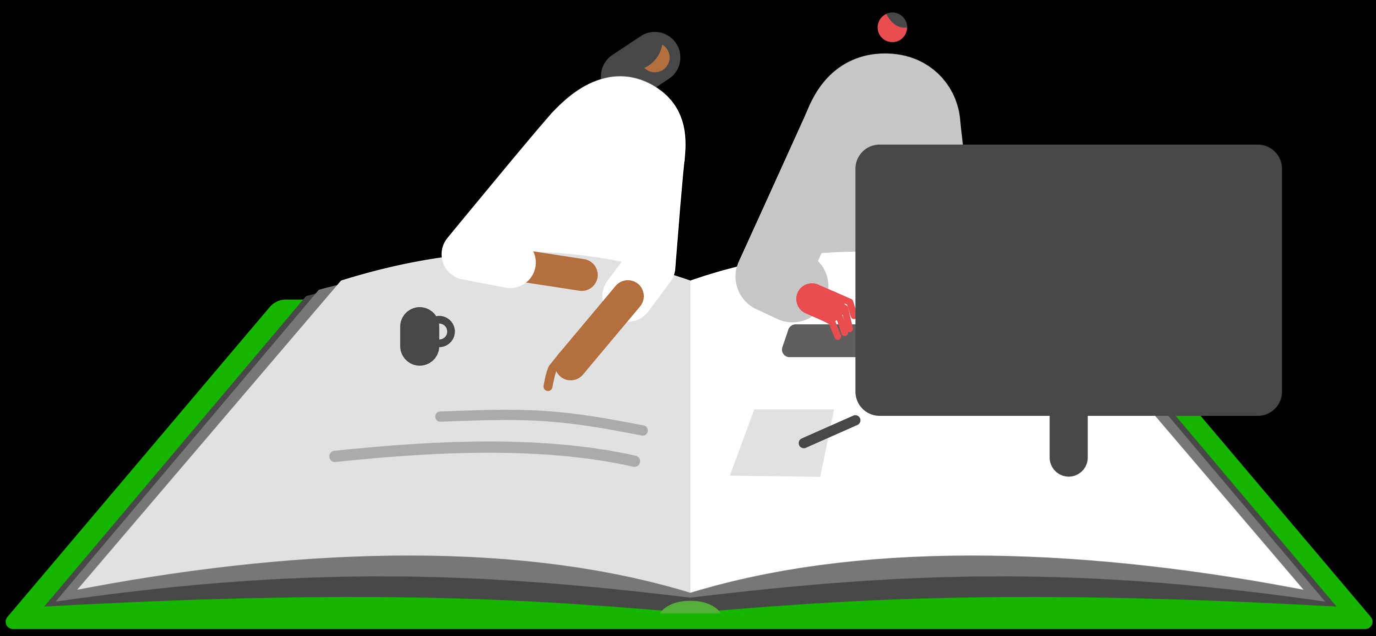
In August 2022, Sage completed the acquisition of Lockstep, a provider of cloud native technology that automates accounting workflows between companies.

Lockstep, founded in 2019, develops products and services that streamline accounting processes, allowing customers to save time, eliminate human error and improve cash flows. Its solutions include applications to automate accounts receivable and accounts payable workflows, deepening the Group's capabilities in the office of the CFO, while its API platform expands the ecosystem by enabling third parties to develop connected services.

The Lockstep platform enables network connections into more than 40 different accounting solutions, and over 26,000 businesses are already part of its ecosystem.

Lockstep's highly experienced management team have joined Sage to help drive the continuing development of our digital network.

5. Learn and disrupt



Objective

Build innovative solutions underpinned by a culture of continuous learning and disruption.

Innovation is key to the long-term success of Sage. By continuously improving our innovation capability and culture, we can ensure that we learn from experimentation and disruption.

Investing in our innovation capability

Continuous innovation is vital to the long-term success of Sage. We are driven to create, learn from, and participate in future disruptive trends. The Sage digital network—and the data and insight it generates—is a key enabler of innovation, and Sage will continue to invest in the technology and capabilities that underpin it.

We continue to grow our team of data scientists and engineers within our AI team, Sage AI Labs, supporting the development of new network powered services.

Progress update:

- Released the first and only mid-market cloud accounting solution that uses AI to increase confidence in the accuracy of general ledger transactions, through our outlier detection engine which has so far attracted over 1,000 customers
- Entered into an expanded partnership with Microsoft, integrating Teams with Sage Intacct and Sage People to simplify approval and collaboration workflows, and making Sage Intacct and Sage Active available on Microsoft Azure as part of our multi-cloud access strategy
- Delivered innovative services to consumers through our partnerships with Experian (wage verification) and Tide (small business banking and accounting)
- Acquisition of Spherics will enable customers to leverage AI in order to understand and manage their carbon emissions

>4m

employees in the digital network able to access our employment verification service in partnership with Experian

Case study: Acquisition of Spherics

In October 2022, Sage acquired 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.

Spherics automates the process of calculating emissions by ingesting data from a customer's accounting software and matching transactions to emission factors to create an initial estimate of their carbon footprint. The software then guides the customer to refine this estimate by submitting further data for a more accurate calculation—supporting SMBs on their journey to Net Zero.

Spherics also helps SMBs apply carbon emission factors to procurement categories (such as delivery, accommodation, electricity and travel) to estimate the associated carbon footprint of a transaction. This approach supports customers with spend-based analysis and aligns with the Greenhouse Gas Protocol, the globally agreed standard for measuring carbon emissions.

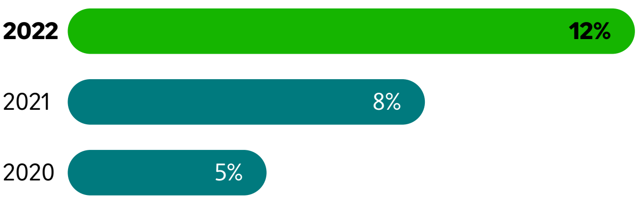
Our key performance indicators

Measuring our progress

Sage has four strategic KPIs that show the impact and progress of strategic execution. These KPIs are disclosed every six months to demonstrate Sage's progress.

Annualised recurring revenue growth

12%



Definition
Defined as the normalised reported organic recurring revenue in the last month of the reporting period, adjusted consistently period to period, multiplied by 12 (FY22: £2,027m ARR).

It represents the annualised value of the organic recurring revenue base that is expected to be carried into future periods, and its growth is a forward-looking indicator of reported organic recurring revenue growth.

Progress
ARR increased by 12% in FY22, accelerating across all regions, reflecting strong growth balanced between new and existing customers.

Renewal rate by value

101%

Definition
This metric tracks the ARR growth from existing contracts over the period (through up-sell, cross-sell, renewal, and migration), offset by churn.

It does not include new customer acquisition or reactivation of off-plan customers and therefore measures the strength of the existing customer base.

Progress
Renewal rate by value of 101% improved from FY21, reflecting good retention rates and strong sales to existing customers.

KEY—STRATEGIC PRIORITIES

Scale Sage Intacct

Expand medium beyond financials

Build the small business engine

Scale the network

Learn and disrupt

Sage Business Cloud penetration

75%

Definition
Defined as recurring revenue from the Sage Business Cloud as a proportion of the recurring revenue from the Future Sage Business Cloud Opportunity. This metric measures progress in the transition of the business to the Sage Business Cloud. Find out more about the portfolio view of revenue on page 82.

Progress
The focus on enabling more customers to connect to Sage's cloud services and ecosystem has resulted in Sage Business Cloud penetration of 75% in FY22.

Subscription penetration

75%

Definition
This is measured as software subscription revenue as a proportion of revenue and shows the progress Sage is making in migrating its customers to subscription (FY22: £1,445m organic software subscription revenue).

Progress
In FY22, subscription penetration reached 75%, reflecting continued focus on attracting new customers and migrating existing customers and products to Sage Business Cloud.

The Sage Culture

"We will only execute on our strategy, and create brilliant experiences for our customers, if we have a culture that enables everyone to perform at their best. The important thing about culture is that it's not owned by any single person or team. It's owned by everyone. Whether you do it intentionally or not, how we each behave—how we show up, work, collaborate with colleagues, connect with customers—that's all part of our culture."

Amanda Cusdin
Chief People Officer

We are committed to building an inclusive, high-performing and accountable culture at Sage. A culture in which every colleague can perform at their best, and that helps us attract and retain the talent we need today, and in the future to achieve sustainable long-term success.

Our listening strategy has been integral to creating our culture and giving colleagues the opportunity to share their experiences and insights. Our twice-yearly pulse surveys help us understand where to focus our efforts to create outstanding experiences for our colleagues, whilst more regular, informal feedback channels and engagement opportunities help us make continual adjustments and respond to colleagues' questions and concerns.

Our values underpin our culture, and this year we refreshed our values to coincide with the launch of our refreshed brand, and support our evolved purpose and strategic framework.

Colleagues were at the heart of the process to create our refreshed values—with 10,000 taking part in a crowdsourcing exercise and many joining focus groups that explored the values in more depth. Colleagues told us what they love about our culture, what they want to retain, and what we need to change to ensure we deliver on our ambition.

'We do the right thing' is our core value. It drives everything we do, and we bring it to life through our four other values: Human, Trust, Bold and Simplify. (See pages 124 to 125 for more on our values.)

In FY23 we'll continue to work with our colleagues and continue to build the culture we need, to bring our purpose to life, help our customers solve their challenges, and deliver on the promise of our brand.

A number of key metrics help us keep track of how we're progressing:

79 eSAT
How happy our colleagues are working at Sage (FY21: 81)

4.2
Glassdoor score—based on independent reviews from our colleagues (FY21: 4.2)

36%
Internal fill rate—how successfully we're providing colleagues with the opportunities to develop their career at Sage (FY21: 37%)

33%
The number of leadership teams meeting our gender diversity target (FY21: 19%)

How we attract, develop and retain the best talent

We believe the most effective way to attract and retain the best talent is by creating a culture and environment that people want to be part of. For Sage, this means creating outstanding colleague experiences, developing everyone to their full potential, and creating a purpose and environment that colleagues are proud to be part of, and where they strive to deliver.

Whom we attract

As a talent-led organisation, whom we attract and how we select talent is critical to our success. Our employer value proposition is designed to attract the best talent—people who align to our values, are inspired by our purpose, and reflect the vast diversity of our customers. In FY22 we amplified our employer brand with colleagues as our biggest advocates, maintaining a competitive Glassdoor score of 4.2.

We use a direct sourcing model to find new hires, and in FY22 continued to expand entry routes into Sage and build out our emerging talent pools. This includes our graduate, apprentice and internship programmes, which have scaled globally, welcoming more early career hires and equipping them with the skills, confidence and network to accelerate into future leaders. Sage is now ranked fifth in the Rate my Apprenticeship Top 100 employers of choice in the UK.

To increase our diversity and break down barriers to employment, we have reassessed our entry criteria and focused on uncovering more talent from under-represented groups. This includes continuing to grow our global Pathways programme which helps those facing barriers to employment, such as people living with a disability or returning to work after a career break, to achieve work readiness and access career opportunities. 45 colleagues were recruited via our Pathways programme this year.

Developing everyone's potential and enhancing performance

To create a future-fit workforce and heighten our performance culture, we must continually reinvest in our people to provide them with the tools and environment to achieve their full potential. In FY22 we evolved our Learning and Development function to create more strategic and targeted learning opportunities for all colleagues. This has increased our focus on internal talent mobility, succession planning, and targeted development through our new Learning Academies, such as the Cloud Academy for our product development teams.

To strengthen our leadership capability and develop leaders of today, and tomorrow, we broadened our leadership development programmes, which has enhanced and deepened our succession pipeline, aligned to our long-term strategic priorities and commercial focus areas (see table below).

We've launched a new Sage internal Talent Marketplace, to increase talent mobility, enhance workforce agility, and grow a skills-based workforce that supports our future business strategy. After a successful pilot in FY22, soon all colleagues will have access to this online tool to better understand their skills, values and aspirations, then match these to internal opportunities, tailored learning programmes and mentorship.

To enhance performance and execute on strategy, we evolved our goal setting framework introducing Objectives and Key Results (OKRs). Sharing the Executive Leadership Team's OKRs with all colleagues, and weaving the OKR methodology into performance development and goal-setting, is allowing colleagues to better connect their contribution to Sage's strategy, focus on what matters, and increase performance through greater accountability.

Measuring our success:

90%
Over 90% of hires retained beyond 12 months

4.2
Glassdoor score

Measuring our success:

5.7
The average number of learning days per colleague in FY22 (against a target of 5)

36%
Internal fill rate

Our leadership development programmes include:

- **Senior Leadership Programmes** for VPs and Directors
- **An Accountability & Transparency programme** for the Executive Team in year one, now rolling out to the broader organisation
- **A Sage Leadership Conference** focused on developing Human skills in relation with our refreshed Brand and Values
- **Manager and Director essentials, and allyship training**

Making Sage a great place to work

Our colleague experience is vital to our success and in FY22 we focused on identifying key moments that matter for colleagues, to ensure they embody our new values and enable an inclusive and high-performance culture. We do this by listening to colleagues and understanding how they feel. In FY22, we achieved an 86% response rate (our highest to date) to our colleague 'Pulse' survey. This insight, alongside data from our 'Always Listening' survey, has enabled us to shape our approach to meetings, flexible working and wellbeing.

Flexible Human Work

Flexible working is about more than just where you work at Sage. Our vision is to empower our colleagues to make the most of how, where and when they work so that they can do the best work of their lives. We are committed to a flexible future, with a hybrid approach, balancing human connection and flexibility, to drive high performance, engagement and wellbeing.

This approach supports three forms of flexibility, and our vision is to unlock all of these:

- **Work mode:** How we work, such as from the office, at home or 'flex mode'—a blend of both;
- **Work location:** The geographic location where we work including working away from our home country for up to ten weeks in a year in selected locations; and
- **Work time:** The hours we work, including variable, part-time or job share.

In FY23 we will be refreshing our approach to hybrid working, elevating 'team agreements' to bring more colleagues into the office to connect and collaborate on shared days. In support of this we have started to think differently about what draws people to the office environment, and re-design our spaces with colleague experience and collaboration at the heart.

Last year we introduced Work Away, which allows colleagues to work away from their home country for up to ten calendar weeks a year. This form of flexibility enables Sage to support colleague wellbeing, inclusivity and effectiveness by providing more options to balance work and travel. In FY22, 750 Work Away opportunities were approved.

> "I grew up in Australia and the family are all here so it's always great to be back. Previously I could only go for 2 to 3 weeks at a time, but now with Work Away I can stay longer. It has allowed me to enjoy the best of both worlds. I get to spend time with the kids and see family during the day, then I log on after dinner so that I can interact with my teams in the UK and US."

Helen Tran
VP Group Tax

Another key part of flexibility is time, and in FY22 we began integrating this into job design, with options including part-time working, variable hours, and job sharing. This supports attracting and retaining a diverse workforce and this year we established several job share partnerships, including in senior leadership positions.

Wellbeing

Sage is committed to creating an inclusive culture where our colleagues feel confident and safe to discuss their wellbeing, knowing that they will receive the appropriate support, free of stigma and bias. Putting colleague wellbeing first helps us attract talent and drives sustainable high performance.

In FY22 we continued to approach wellbeing holistically, including a focus on healthy finances in response to the macro-economic environment. We introduced a wellbeing policy designed to promote a culture of care and openness, outline our commitments, and to set out the services available to colleagues. Sage provides benefits, resources and networks to support colleague wellbeing, including occupational health support, Colleague Assistance Programmes (CAPs), Sage funded access to the Headspace mindfulness app, healthy mind coaches, and a wellbeing knowledge hub.

In addition, in FY22 we launched our first UKI Menopause policy, enhanced our Parental Leave policy in the US, and offered a new app to provide guidance and support for prospective and current parents. This shows our commitment to creating a healthier and more inclusive future of work.

Measuring our success:

79
eSAT (employee satisfaction)

86%
Response rate to colleague survey

750
Work Away opportunities approved

Our wellbeing approach is comprehensive across four key pillars:

Healthy Mind
focusing on mental health, mindful actions, mindset, resilience, psychological safety and inclusion.

Healthy Body
focusing on helping colleagues to maintain a healthy quality of life.

Healthy Finances
helping colleagues improve their financial wellbeing by budgeting and managing their money day to day, planning for the unexpected and planning for the future.

Healthy Communities
focusing on creating a sense of belonging, inclusion, alignment to company values, frequent human interaction and strong relationships with others.

Our people continued

Diversity, Equity and Inclusion

As a global company, we must reflect the diverse world we work in. We are committed to an inclusive workforce that fully represents the many different cultures, backgrounds, and viewpoints of our customers, our partners, and our communities. In December 2021 we published our three-year Global DEI Strategy, creating a solid foundation with strong governance and business support at all levels. The strategy rests on three interconnected pillars.

Our DEI pillars

Diverse Teams
Ensure we have as wide a range of voices, backgrounds and experiences as possible, so leaders can leverage differing perspectives to make the right decisions at pace, for our customers, colleagues and communities.

Equitable Culture
Create an equitable and inclusive culture where everybody is comfortable sharing their insights, ideas and innovations, and valued for being the unique individuals that we all are.

Inclusive Leadership
Build an intentionally inclusive leadership who are curious to learn, have the courage to experiment, and are comfortable knowing they don't have all the answers, whilst building teams that offer different perspectives and making sure the right questions are being asked.

We have a robust framework in place to deliver on our DEI commitments. The DEI strategy is governed by the Vision Statement and our DEI Commitments and delivery is led by our Global Head of Diversity, Equity, and Inclusion. Accountability for the delivery of the DEI Strategy rests with the DEI Accountability Board, which is Chaired by our Chief Executive Officer and comprises the Executive Leadership Team (ELT). Ongoing evolution of this strategy is led by our DEI Advisory Board, which is chaired by our Chief People Officer, and consists of our seven colleagues (including six ELT DEI Ambassadors), and a panel of five external advisors.

In FY22 we made significant progress on our commitment to increase transparency of DEI data. Our 'All About Us' project invites colleagues to voluntarily share more about themselves, covering topics such as gender identity, sexual orientation, neurodiversity and underlying health conditions. In FY22 we increased 'All About Us' participation to 43% (FY21: 11%) allowing us to better understand the impact of our systems and processes so we can create a more equitable experience for all. It is this data that enabled us to report on our UK Ethnicity pay gap with a more representative sample (alongside our 2022 UK gender pay gap, which remains well below the tech industry standard).

This year, we also increased engagement with our Colleague Success Networks (CSN), commonly known as Employee Resource Groups. In FY22, 14% of colleagues were engaged with a CSN (FY21: 4%), meaning more colleagues are coming together to provide support, education and deliver feedback to the business which is already driving change.

Our inaugural DEI Impact Report, published in December 2022, shows our progress against the DEI targets that are outlined in the strategy, and highlights what has worked, what has not worked, what we have learnt, and what we are going to do differently as a result.

Measuring our success:

33%

The number of leadership teams meeting our gender diversity target (FY21: 19%)

43%

'All About Us' participation (FY21: 11%)

14%

Colleagues engaged in a Colleague Success Network or 'DEI Champions Network' (FY21: 4%)

Sage gender and ethnicity balance

	Number of people	Female	Male	Non-binary	Undisclosed	White	Non White	Not disclosed	Prefer not to say
Board	9[1]	2 (22%)	7 (78%)	0 (0%)	0 (0%)	8 (89%)	1 (11%)	0 (0%)	0 (0%)
Executive Leadership Team	10	4 (40%)	6 (60%)	0 (0%)	0 (0%)	8 (80%)	2 (20%)	0 (0%)	0 (0%)
Executive Leadership Team and direct reports[2]	81	33 (41%)	47 (58%)	0 (0%)	1 (1%)	52 (64%)	Below privacy threshold	19 (23%)	Below privacy threshold
All Colleagues	11,574	4,832 (42%)	6,553 (57%)	Below privacy threshold	167 (1%)	3,435 (30%)	1,553 (13%)	6,331 (55%)	255 (2%)

Race and ethnicity data is captured through voluntary and confidential self-disclosure in the United Kingdom, Ireland, the United States, Canada and South Africa, using our 'All About Us' data.

1. This data reflects the information as at 30 September 2022. As announced on 15 November 2022, Maggie Chan Jones will be appointed to the Board, with effect from 1 December 2022, at which time we anticipate there will be ten Directors on the Board.
2. Executive Leadership Team and their direct reports includes the Executive Leadership Team and their direct reports, comprising individuals for whom they have direct line management responsibility, excluding administrative and support roles (for example personal assistants).

Knocking down barriers

Our Sustainability and Society Strategy is based on three pillars:

Protect the Planet

Tackling the climate crisis, powering sustainable business models.

Tech for Good

Tackling digital inequality for innovation, enterprise and progress.

Fuel for Business

Tackling economic inequality by supporting under-represented groups.

ESG Fundamentals | **Our people** | **Economy and society**

This year we made good progress against the Sustainability and Society strategy we launched in 2021. Highlights include the submission of our Science Based Target and further development of our climate strategy; the acquisition of Spherics, a carbon accounting solution to support SMBs on their own Net Zero journey; the launch of the Trust Hub to support Sage customers in developing confidence in the way they approach data security; and the work done with our partners like Kiva, The BOSS Network and FIRST® LEGO® League to knock down barriers so everyone can thrive.

As the ESG landscape constantly evolves and new risks and opportunities emerge, we will continue to deliver on our commitments, whilst developing our strategy to ensure it responds to our most material issues.

Our materiality assessment (see next page) defines the relative importance of our material topics to our stakeholders. We have used this and our ongoing engagement with stakeholders, to shape and inform the disclosures covered in our report. We also plan to use any further feedback received and the outcome of future materiality assessments to evolve our strategy and ensure it continues to respond to our stakeholders' expectations, delivering value for the business, society and the planet.

SBTi

target submitted

CDP

Joining CDP Supply Chain programme

$500,000

Providing $500,000 of capital to entrepreneurs and local field partners, through our Sage Foundation Kiva partnership

45

Colleagues recruited via our Pathways programme—targeting groups facing barriers to employment, such as people with a disability and the returner community in the UK, the US, South Africa, India and Spain

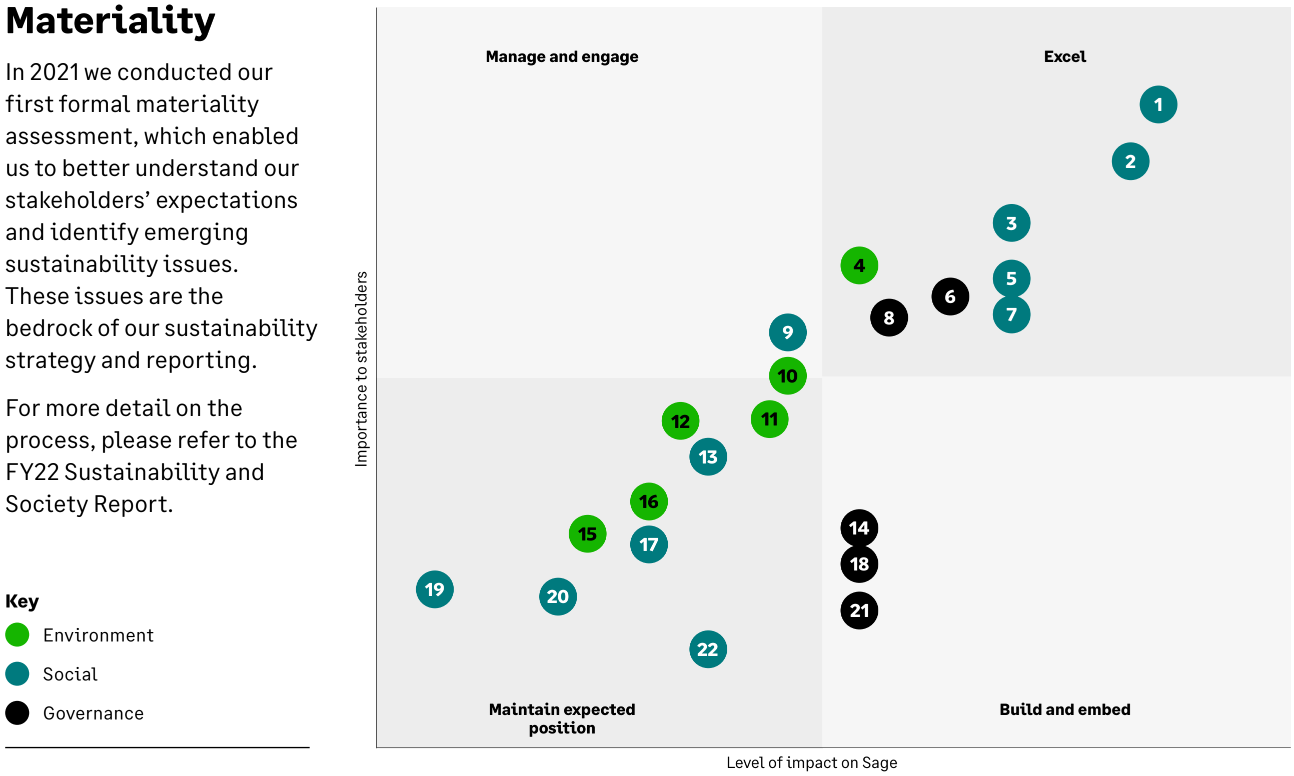
For further detail on our commitments and performance, please see our FY22 Sustainability and Society Report https://www.sage.com/en-gb/company/sustainability-and-society

Our approach to sustainability

Materiality

In 2021 we conducted our first formal materiality assessment, which enabled us to better understand our stakeholders' expectations and identify emerging sustainability issues. These issues are the bedrock of our sustainability strategy and reporting.

For more detail on the process, please refer to the FY22 Sustainability and Society Report.



Our most material topics

We identified 22 material topics. Of these, eight emerged as the most material, ranking highest in terms of importance to stakeholders and their impact on the business. We also place a high value on actively supporting societal and environmental activities through volunteering and philanthropy, as this forges important community links. We believe Sage has an important role in tackling inequalities, and we continue to make a significant investment through Sage Foundation to knock down barriers in our communities. Further details on our actions and performance against our most material topics can be found in our FY22 Sustainability and Society Report (https://www.sage.com/en-gb/company/sustainability-and-society).

We are committed to conducting regular reviews to ensure our strategy remains relevant and on track. With this in mind, we are reviewing our approach and how we map our organisational impacts and will report on our progress in 2023.

Material topics

1. Data protection and security
2. Proper use of customer data
3. Attracting and Retaining Talent
4. Energy efficiency and low carbon operation
5. Innovation to support customers
6. Business Ethics
7. Diversity, equity and inclusion of the workforce
8. Tax Transparency
9. Ethical Technology
10. Carbon accounting solutions for SMBs
11. Emissions from use of Sage products
12. ESG Enablement and Support for SMBs
13. Employee Development
14. Risk Management Processes
15. Repurpose, reuse and recovery of electronics waste
16. Non-product related emissions in the supply chain
17. Tackling Digital Inequality
18. Intellectual Property
19. Collective bargaining and labour relations
20. Supporting local communities and philanthropy
21. Board composition
22. Supporting entrepreneurship and empowering SMBs

Governance and business ethics

UN SDGs

Read about our contribution to the UN Sustainable Development Goals in our FY22 Sustainability and Society Report page 14

Material topics

- 6 Business ethics
- 8 Tax transparency
- 14 Risk management process
- 18 Intellectual property
- 21 Board composition

Sustainability and Society strategy oversight, governance and responsibility

Our Chief Executive Officer and Executive Leadership Team are accountable for our Sustainability and Society strategy.

Our Chief People Officer, Amanda Cusdin, is executive sponsor for our Sustainability and Society strategy. Amanda chairs our Sustainability and Society Steering Committee, which includes senior representation from across the business, including the General Counsel and Company Secretary, Chief Risk Officer and Chief Corporate Affairs Officer. The Sustainability and Society team established cross-functional working groups for each of the strategic pillars. The working groups include members of the Sustainability team and subject matter experts from relevant business functions. The working groups collaborate throughout the year and report on progress to the Sustainability and Society Steering Committee. In 2022, we appointed an EVP for Sustainability and Foundation who is responsible for the design and implementation of our Sustainability and Society strategy, with support and oversight from our Sustainability and Society Steering Committee, which meets every two months.

Our Board provides oversight of the strategic direction and the progress being made in achieving our intended outcomes. The Board also has ultimate responsibility for approving certain sustainability-related policies. 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. Remuneration incentives—covering Protect the Planet, Tech for Good and DEI—are in place for our Executive Leadership Team.

Business ethics

At Sage, we have well-established processes to help embed ethical business behaviours and culture across the organisation and in our interactions with all our stakeholders. Our commitment to do the right thing for our customers, colleagues and communities comes first at Sage—and our Code of Conduct is one way in which we bring this value to life. Our Code of Conduct provides guidance for all colleagues on how we do the right thing and sets clear expectations across Sage for compliance with ethical standards. We also expect our partners and suppliers to commit to the same high ethical standards and ask all partners and suppliers to accept our Partner and Supplier Codes of Conduct.

For further detail on our policies, please refer to the FY22 Sustainability and Society Report.

Tax transparency

Sage considers that paying tax is part of our corporate responsibility and our contribution in taxes is one of the ways in which we help to build and sustain the economy. By being more transparent about the taxes that Sage pays, we have an opportunity to assure our stakeholders that Sage is doing the right thing. We aim to manage our tax affairs in a responsible and transparent manner in order to comply with relevant legislation and disclosure requirements, to file all relevant tax returns on time and to ensure the timely payment of all relevant tax liabilities.

For full details please see our Sustainability and Society Report, pages 9 to 11.

Protect the Planet

UN SDGs

Read about our contribution to the UN Sustainable Development Goals in our FY22 Sustainability and Society Report page 14

Material topics

- 4 Energy efficiency and low carbon operation
- 11 Emissions from use of Sage products
- 12 ESG Enablement and Support for SMBs
- 15 Repurpose, reuse and recovery of electronics waste
- 16 Non-product related emissions in the supply chain

At Sage, we are committed to fight climate change and protect the planet by focusing on:

- Net Zero—halving our own emissions by 2030 and achieving Net Zero by 2040;
- Supporting SMBs on their journey to Net Zero; and
- Advocating for enabling policies and standards that support the transition to a low carbon economy

Sage targeting Net Zero by 2040

We submitted our Science-Based Target for validation in June 2022, committing Sage to a 50% reduction in Scope 1, 2 and 3 emissions by 2030 against a 2019 baseline, and signed the 'Business Ambition for 1.5c' pledge aligning our target to the most ambitious aim of the Paris Agreement. We are also committed to reducing carbon emissions throughout our value chain. We have signed up to the CDP Supply Chain programme and have updated our Supplier Code of Conduct to reflect emissions-related requirements.

Our Net Zero strategy sets out a range of actions to deliver a reduction pathway in line with our proposed Science-based target. We have four focus areas:

1. Sustainable Supply Chain Strategy

42% of Sage's carbon footprint is caused by our supply chain. Our focus in 2022 has been on developing a supply chain carbon reduction strategy, which will support our Net Zero commitments and will be implemented in 2023.

2. Sustainable Property

Although our property related emissions represent a small percentage of our overall carbon footprint, by working with landlords and partners we can make a direct impact on our emissions in the short to medium term.

Our Sustainable Property strategy will continue to improve the energy efficiency of our buildings, whilst transitioning to clean low carbon sources of energy. As at the end of FY22, 24 out of 49 office locations are on renewable energy contracts, accounting for 45% of our total electricity consumption.

3. Sustainable Colleagues

Enabling our colleagues to make informed sustainable choices, for example how we work and travel will be critical to our Net Zero commitments. Emissions influenced by our colleagues accounted for 8.4% of our 2022 emissions.

4. Sustainable Products

This year we have improved the accuracy of our footprint by including the indirect carbon emissions related to the use of our products, which are the second largest contributor to our carbon footprint. Our Sustainable Product strategy will educate our customers on the environmental benefits of hosting our products and services within cloud environments.

Supporting SMBs to achieve Net Zero

SMBs face significant barriers to decarbonising such as lack of time, significant costs, and uncertainty about quantifying emissions. We are committed to supporting SMBs in overcoming these challenges. Delivering our first ESG product offering, we recently acquired Spherics, now branded Sage Earth, a carbon accounting software solution that enables SMBs to estimate their carbon footprint and identify emission hotspots in their activities and supply chains.

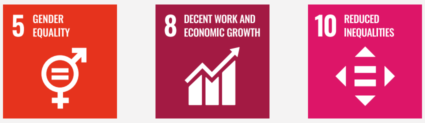
Advocating for enabling policies and standards

SMBs make up 99% of businesses, and many do not have access to the expertise and resources required to take impactful action on climate change. Sage has partnered with Oxford Economics and the International Chamber of Commerce (ICC) to better understand SMBs' economic and environmental footprint in both the UK and South Africa, and inform recommendations for governments and policy makers to support SMBs to transition to more sustainable business models.

For full details please see our Sustainability and Society Report, pages 15 to 19.

Tech for Good

UN SDGs



Read about our contribution to the UN Sustainable Development Goals in our FY22 Sustainability and Society Report page 14

Material topics

1. Data protection and security
2. Proper use of customer data
5. Innovation to support customers
9. Ethical Technology
17. Tackling Digital Inequality

Data is empowering people across the globe to run businesses, develop skills, and thrive. We're knocking down barriers to ensure everyone has equal opportunities to access powerful data and technology. At the same time, we are seeking to take a leading approach to data protection, security, and the ethical use of customer data.

The work we do under our Tech for Good strategy is in direct support of one of our most material issues: Innovation to Support Customers. This means supporting SMBs and wider communities by developing new products and functionalities based on their needs, helping them to adapt to rapidly changing environments.

Data protection and security

Data security is a key business priority for Sage: we take the privacy and security of our customers' data very seriously and adopt a range of robust and well-established protective measures, based on industry best practice.

Sage's approach to cyber security is iterative and under continual review to match the changing nature of threats to data protection and security.

Sage's Global Security Team is responsible for overall information security and is led by the Global Chief Information Security Officer. A Chief Information Security Officer report and dashboard with key metrics is submitted to every Board meeting, with oversight by the General Counsel and CEO.

The dedicated team is supported by a training and awareness programme for all staff, as well as a network of Security Champions. This industry best-practice approach to achieving 'Secure by Design' in software development involves Security Champions sitting within technical teams, dedicating 10% of their time to security activities by influencing security decisions, culture and practices.

Governance and ethical use of data

Data presents a tremendous opportunity for Sage, our customers, and society. Maintaining trust and doing the right thing will allow us to maximise the potential value of data and use data for everyone's benefit.

We want our customers to know their data will be safe with us, and handled in a fair and transparent manner, allowing them to buy with confidence because they have a deep understanding of Sage's product security and data protection compliance.

As the markets we operate in have evolved, we've invested in data compliance and governance, and data ethics. This has included strengthening our Chief Data Protection Officer's data privacy function, and developing a data protection accountability framework to ensure compliance with applicable laws, such as the EU and UK General Data Protection Regulations (GDPR). We want SMBs to thrive through adopting digitised business processes, while maintaining data compliance.

In June 2022, we appointed our first Chief Data Officer, supported by a central Data Office, and a network of data leaders across the business, to provide a central point of focus and clarity for all our data colleagues and activities across Sage. Under their leadership and building on our position as a trusted network for SMBs, we have engaged one of the Big Four Consulting Practices to review and assist us in evolving and formalising our current data and AI ethics and principles, and related governance frameworks, in the first half of FY23.

Tackling digital inequality

As part of Sage's commitment to tackle digital inequality, we are partnering with Newcastle United Foundation and the Institution of Engineering and Technology (IET) to make Science, Technology, Engineering and Maths (STEM) careers a new reality for schoolchildren, teenagers, and young adults through inspiring learning experiences. For more detail please see next page.

Fuel for Business

UN SDGs

Read about our contribution to the UN Sustainable Development Goals in our FY22 Sustainability and Society Report page 14

Material topics

20 Supporting local communities and philanthropy

22 Supporting entrepreneurship and empowering SMBs

13,871

entrepreneurs supported in developing countries to grow sustainable businesses

4,750

students received STEM learning and resources

149,409

Sage Foundation hours spent helping our communities

Our Fuel for Business Partnerships

Our Fuel for Business pillar is our approach to tackling economic inequality by supporting underrepresented groups. It supports programmes that inspire and empower entrepreneurs, providing access and inclusion to entrepreneurship across our communities.

Our work in this area is carried out by Sage Foundation. Established in 2015, Sage Foundation's purpose is to knock down barriers in our communities, mobilising our colleagues, partners, and customers through impactful and innovative programmes.

ACE—USA: Giving businesses the chance to thrive

ACE (Access to Capital for Entrepreneurs) is a non-profit and community development financial institution (CDFI) that closes gender and racial wealth gaps, particularly for African American and Latinx communities, providing affordable loans, coaching, and connections for entrepreneurs in North Georgia and metro Atlanta.

Sage awarded a $350,000 grant to ACE in FY22, which was used to close 58 loans deploying almost $3m in capital. Our grant was used to bring down interest rates, making loans more affordable for small business owners.

The BOSS Network–USA

We are currently in year one of our three-year partnership with The BOSS (Bringing Out Successful Sisters) Network, which promotes and encourages the small business spirit and career development of women of colour. Sage funding supported 35 Black female entrepreneurs, each of whom received a $10,000 grant to help grow their business, together with business advisory services and mentorship through BOSS University training webinars co-hosted by Sage experts.

Kiva and Ashoka—Global

In FY22, Sage Foundation's $500,000 contribution has impacted 13,871 entrepreneurs directly (of whom 87% are women) with loan funds. Sage also funded improvements to Kiva's technology that increased and improved lending capacity to 20 social enterprises. Additionally, 3,864 Sage colleagues used their Sage Kiva credit, funding $172,000 in loans as part of our overall funding.

Through our partnership with Ashoka, Sage is supporting 9 Ashoka fellows to drive innovative and lasting social change. The fellows are located in the UK, US, Canada, India, Spain, Portugal, France, South Africa and Indonesia. We're creating changemakers within Sage too, with 858 Sage colleague engagements with Ashoka to learn more about their work tackling inequalities and co-leading solutions for the common good.

IET and FIRST® LEGO® League—UK

Sage Foundation has completed the first year of our three-year partnership with the IET and FIRST® LEGO® League. Sage's support provided STEM learning and resources to 4,750 students in deprived areas across the North East of the UK.

For full details please see our Sustainability and Society Report, pages 25 to 27.

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 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
A	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.	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. We will focus on further integrating climate risk and opportunity information into our Board decision making process, on a regular agreed frequency.
B	Chief People Officer given accountability for ESG and climate-related matters. EVP Sustainability and Society appointed and Sustainability team established. Climate-related targets were included within executive remuneration.	Climate-related awareness and training will also be provided to leadership teams to further strengthen management oversight and monitoring. We will enhance the reporting of climate-related risks and opportunities, as part of our broader non-financial and sustainability reporting.

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.

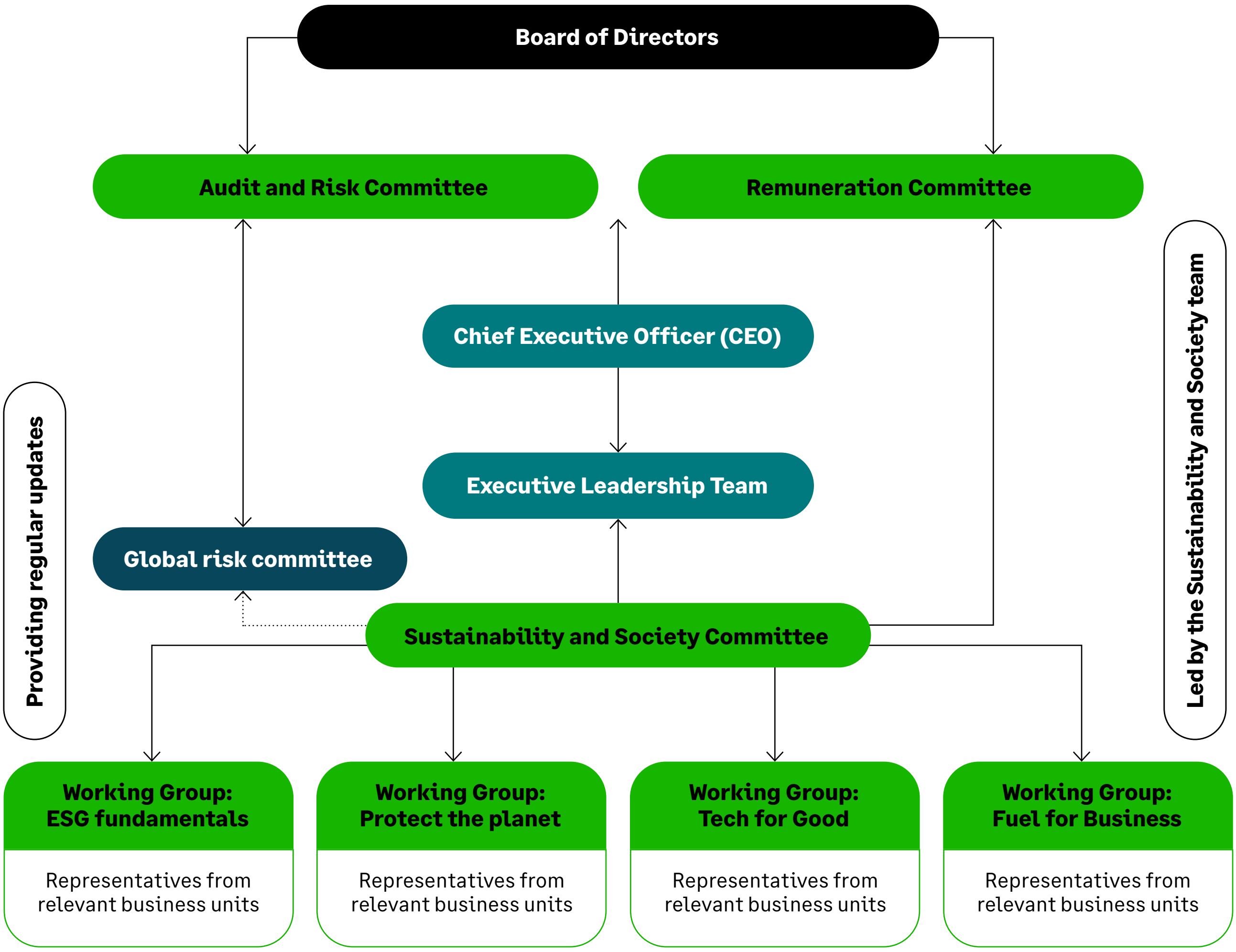
Sustainability risks and opportunities are channelled through the Global Risk Committee, which reports to the Executive Leadership Team, and escalates matters to the Audit and Risk Committee, where required.

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.

TCFD disclosure continued

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
A	Climate risk and opportunity screening completed with input from key internal stakeholders.	Continue to review our climate risk landscape, identifying new and emerging climate risks and the changing risk profile of existing risks.
B	A qualitative climate risk impact assessment was performed informing mitigation and adaptation strategy.	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.
C	Climate scenario analysis completed for three physical risks (Damage to Facilities, Hosting Resilience, Workforce Productivity) and one transitional risk (Changing Customer Behaviour and Needs).	Evolve our use of climate scenario analysis to assess the transitional risk of climate change on our customer, evaluating market, and sectoral data.

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.

Key—Stakeholder groups

Our shareholders | Our colleagues | Our customers | Society

Key—Maturity of assessment

- **H** **High** Quantitative Climate Scenario Analysis performed
- **M** **Moderate** Good understanding, further work desirable
- **L** **Low** Further work is required to fully impact, mitigate and adapt

Key—Risk assessment period

Short term	Medium term	Longer term
1-5 years	5-15 years	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			
Changing Customer Behaviour and Needs **Time horizon** Short to medium term **Stakeholder impact** Our customers, Our colleagues, Our shareholders, Society **Sub-Type** Market **Climate scenario analysis** ✓	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.	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. 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.	H
Increasing Cost of Energy and Carbon **Time horizon** Short to medium term **Stakeholder impact** Our customers, Our colleagues, Our shareholders, Society **Sub-Type** Regulation	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.	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. 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.	M
Reputational Damage **Time horizon** Short to medium term **Stakeholder impact** Our customers, Our colleagues, Our shareholders, Society **Sub-Type** Reputation	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.	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.	L

Risks and opportunities identified	Business impact	Mitigation and adaptation	Maturity
Physical risks			
Workforce Productivity **Time horizon** Short term **Stakeholder impact** **Sub-Type** Chronic Physical **Climate scenario analysis**	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.	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. 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.	H
Damage to Facilities **Time horizon** Short term **Stakeholder impact** **Sub-Type** Acute Physical, Chronic Physical **Climate scenario analysis**	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.	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. 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.	M

Key—Stakeholder groups

Our shareholders | Our colleagues | Our customers | Society

Key—Maturity of assessment

- **H High** Quantitative Climate Scenario Analysis performed
- **M Moderate** Good understanding, further work desirable
- **L Low** Further work is required to fully impact, mitigate and adapt

Key—Risk assessment period

Short term	Medium term	Longer term
1-5 years	5-15 years	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** Our colleagues, Our shareholders **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.	H
Opportunities			
Retaining and Hiring Superior Talent **Time horizon** Short to medium term **Stakeholder impact** Our colleagues, Our shareholders **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.	M

Risks and opportunities identified	Business impact	Mitigation and adaptation	Maturity
Opportunities			
Renewable Energy Procurement **Time horizon** Short to medium term **Stakeholder impact** **Sub-Type** Energy Source	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.	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.	H
Site Strategy **Time horizon** Short to medium term **Stakeholder impact** **Sub-Type** Resource Efficiency	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.	Sage will continue to review our property strategy to reflect changing business needs, including the risks and opportunities associated with climate change.	M
New Products and Services **Time horizon** Short to medium term **Stakeholder impact** **Sub-Type** Products and Services	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.	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. 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.	M
Enhanced Brand **Time horizon** Short to medium term **Stakeholder impact** **Sub-Type** Reputation	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.	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.	M

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.

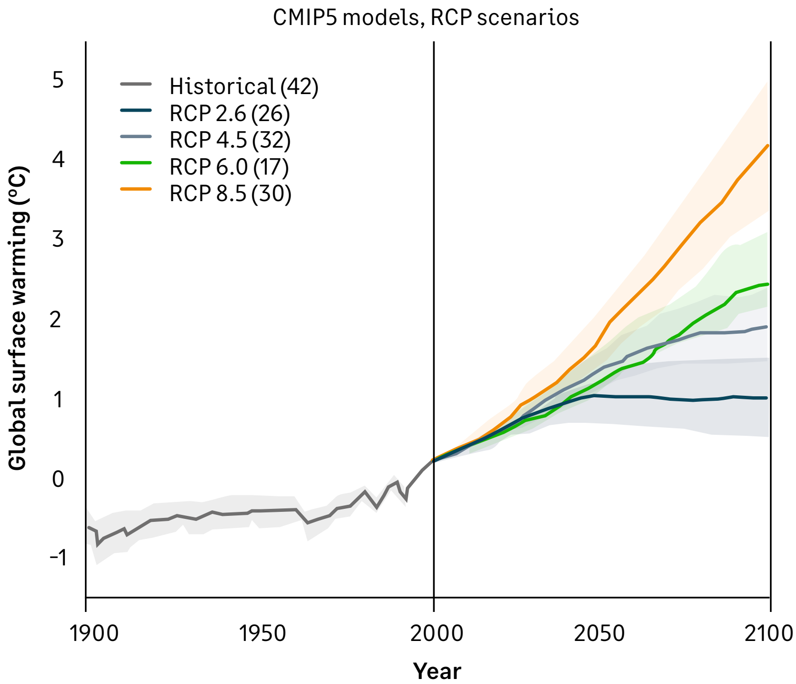
Physical Scenario and Transition Scenario

- 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



RCP8.5[1]—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[1]—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[1]—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.

Note:

1. RCP = Representative concentration pathway. RCP2.6, RCP.4.5 and RCP8.5 are projections of greenhouse gas emissions and concentrations defined by the International Panel on Climate Change (IPCC).

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

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
A	Developed our Net Zero strategy to underpin our near-term climate commitments.	Publish progress against our Science Based Target commitments.
B	Expanded our emission scope to cover all of Scope 3 categories, including investments and use of sold goods.	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.
C	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.	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.

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.

50%

Scope 1, 2, and 3 emissions reductions by 2030 against a 2019 baseline

Net Zero by

2040

Sustainable Supply Chain

Objective
Partner with our suppliers to reduce their emissions and deliver Net Zero.

Enabler
Implementation of Sustainable Supply Chain Strategy, combining people, process, and technology to accelerate our suppliers on their sustainability journey.

Sustainable Property

Objective
Reduce the carbon and environmental impact of our property portfolio.

Enabler
Transition our energy supply to low-carbon renewable sources and high energy efficiency.

Sustainable Colleagues

Objective
Harness the power of our colleagues and the choices they can make to tackle climate change.

Enabler
Drive climate awareness and action among colleagues, across home-working, travel, and commuting.

Sustainable Products

Objective
Transition our customers from on-premise to cloud native or low carbon alternatives.

Enabler
Educate customers on the environmental benefits of cloud hosting, including improved visibility of the carbon impact of our products.

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 global[1]

	Current reporting year Oct 2021—Sept 2022		Previous reporting year Oct 2020—Sept 2021		Previous reporting year Oct 2019—Sept 2020	
Total GHG emissions data	**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)
Emissions from activities which the Company owns or controls, including combustion of fuel and operation of facilities (Scope 1)/tCO_2e	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_2e)	652	2,853	1,110	3,216	1,180	5,927
Scope 2 (Indirect) Market-based emissions (tCO_2e)	3.3	2,428	162	3,138	247	6,004
Total gross Scope 1 and location-based Scope 2 emissions (tCO_2e)	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_2e emissions reported above normalised to tCO_2e per total GBP £1,000,000 revenue (Scope 1 and 2) ** (tCO_2e/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).

Non-financial information statement

Ethics and governance

Human rights

Sage expects all colleagues, partners and suppliers to adhere to international standards on human rights, including with respect to child and forced labour, land rights and freedom of association, among other elements. We take a zero-tolerance approach to slavery and human trafficking and are strongly committed to ensuring that all Sage colleagues, as well as the people who work on our behalf, are protected. Our full expectations are included in our Partner and Supplier Codes of Conduct and Modern Slavery Act Statement, which are available on our website at sage.com/investors/governance. We conduct appropriate due diligence on our partners, and all of our partners and suppliers are obliged to adhere to the principles set out in the Codes, including on human rights.

Anti-bribery and corruption

Sage has an anti-bribery and corruption policy and associated whistleblowing procedures designed to ensure that colleagues and other parties including contractors and third parties are able to report any instances of poor practice safely through an independent organisation. All reports received via this or any other reporting mechanism are thoroughly investigated and reported to the Audit and Risk Committee, which reviews each case and its outcomes. None of our investigations during FY22 identified any systemic issues or breaches of our obligations under The Bribery Act 2010. The anti-bribery and corruption policy is supported by our gifts & hospitality and conflicts of interest policies and their supporting declaration and approval procedures, as well as periodic audits and reminders.

Governance and oversight

We recognise that assurance over our business activities and those of our partners and suppliers is essential. During 2022 we monitored and reported on the completion of our mandatory Personal Data Protection training for all colleagues. You can read more about our risk management and principal risks from page 90 onwards.

Tax strategy

We publish our tax strategy on our website and are committed to managing our tax affairs responsibly and in compliance with relevant legislation. Our tax strategy is aligned to our Code of Conduct and Sage's Values and Behaviours and is owned and approved by the Board annually.

Non-financial information

Information as required by regulation can be found on the following pages:

Environmental matters	pages 44 to 45, 47, and 50 to 67
Our employees	pages 38 to 43, 70 and 71
Social matters	pages 44 to 46, 48 and 49, and 74 and 75
Human rights	page 68
Anti-corruption and anti-bribery	page 68

Business model	pages 22 and 23
KPIs	pages 36 and 37
Principal risks	pages 96 to 103

Stakeholder Engagement

Ensuring authentic, proactive and positive stakeholder engagement across all markets is key to how Sage operates, and it helps to secure the Group's long-term success.

Each stakeholder group requires a distinct approach in terms of being fostered and to build a foundation of mutual respect, trust and understanding. Stakeholder considerations and engagement form a crucial aspect of Board discussions and decision making. Sage's Section 172(1) statement for FY22 on pages 78 to 81 demonstrates how Sage's stakeholders influenced some of the decisions taken by the Board during the year.

When preparing the annual Board agenda and the Non-executive Directors' engagement plan for FY22, the Board sought to ensure that it supported delivery of the Board's annual objectives by providing good coverage across all of Sage's stakeholder groups. Engagement plans are designed to complement and enhance Board agendas and ensure the right mix, volume and range of activities were achieved. Key stakeholder considerations were also integrated into Sage's Board papers to enable the Board to consider these in their discussions and decision making.

The Board reviews Sage's key stakeholders each year to ensure the assessment of their needs and interests remains relevant and aligned with the Group's strategy. This year, upon review, and in order to better align with Sage's evolved strategic framework and strategic priorities, the Board has approved streamlining and simplifying the number of key stakeholder groups from five to four. The four groups are Colleagues, Customers, Society and Shareholders, with Partners having been merged into Customers to better align with Sage's strategy.

In addition to the four stakeholder groups, Sage recognises that other groups of stakeholders are also relevant to the Group's activities. The Board has regard for and engages with such groups to the extent that they are affected by, and themselves affect, the operations of the Group. Sage's suppliers for instance, (including third party hosting providers), are significant to Sage and its business, and therefore the Group seeks to develop and foster relationships with them to maximise value and efficiency. Through our governance model, which the Board ultimately oversees, Sage implements a thorough supplier onboarding process and procurement lifecycle (including to appropriately manage data privacy and security matters). A Supplier Code of Conduct has been developed, which sets out clearly the standards of behaviour we expect from all our suppliers across a range of issues, which all suppliers are required to follow. This defines our expectations of responsible business and behaviour underlying our strategic focus on customer needs, in line with the high standards of business conduct that Sage strives to promote.

The following pages set out key stakeholder categories, the forms of Board engagement with those stakeholders, as well as the wider business engagement and the impact of such activities conducted during the year.

Colleagues
Read more 70

Customers
Read more 72

Society
Read more 74

Shareholders
Read more 76

Colleagues

We are committed to people, driven by innovation, energising everyone to make a difference

Why they matter to Sage:

- Colleagues are the lifeblood of Sage. Every day they serve millions of customers around the world through their innovation, integrity and passion. Sage aims to provide the best environment for its colleagues, providing them with the opportunity to grow, innovate and transform in an inclusive environment, enabling all colleagues to succeed together

What matters to them:

- Colleagues want to work for a company that values them, and provides them with an opportunity to be themselves and thrive. They expect Sage to address societal issues from diversity and inclusion to the future of work. Our colleagues are proud of the work we do in our communities through Sage's Sustainability and Society strategy and Sage Foundation

How Sage engages at Board level:

- The Board Associate role aims to enhance decision making by the Board, and is a key feature of our chosen method of engagement with the workforce for the purposes of the UK Corporate Governance Code 2018 (the "Code"). The Board hears feedback from the Board Associate at meetings and the Board Associate undertakes internal initiatives to increase the visibility of the role and communicate its impact on Board discussions and decision making. Sage's new Board Associate hosted Derek Harding, Non-executive Director for an engagement day prior to the July Board meeting at Sage's office in San Jose. This was followed by a separate Board engagement day with the local leadership team focusing on the North American business
- The Board received regular updates on colleagues, including on the results of Sage's bi-annual colleague surveys
- The Board received regular updates on the implementation of the Group's DEI strategy to monitor progress on delivery and ensure Sage achieves its three DEI principles of Diverse Teams, Equitable Culture and Inclusive Leadership
- Colleague engagement sessions were held throughout the year, including talent lunches with the Board in San Jose and Newcastle
- The Chair undertook visits to North America, South Africa and France during the year to meet with colleagues in these regions and to gain an understanding of their work
- The Board oversees Sage's health and safety performance and approach to monitoring and reporting of colleague incidents
- A key part of Board engagement is the focus on culture throughout the Group. Further details on how the Board monitors culture can be found on page 124
- The Board received regular updates on Sage Foundation colleague engagement and participation

How Sage engages across the Group:

- Our Code of Conduct provides unambiguous guidance for all colleagues on how the Group does the right thing and sets clear expectations across Sage for compliance with ethical standards
- An independent and anonymous whistleblowing hotline is provided 24 hours a day, seven days a week. Calls and email / online reports are monitored by the external provider and Sage's hotline representatives, investigated by Sage's Risk team and reported to the Audit and Risk Committee
- Our health and safety and wellbeing policies are designed to ensure a healthy, safe and supportive working environment at Sage which protects the wellbeing of all colleagues
- Sage TV broadcasts presentations on strategy and quarterly performance updates by the CEO and CFO, Executive Leadership Team and senior management
- Multimedia channels are used internally for sharing information and as a depository of internal news items of interest
- We have a flexible inclusive working structure that creates opportunities for teams to come together to connect, collaborate and innovate. Striking the right balance makes it possible for the Group to achieve great outcomes for colleagues, customers and the community
- Our Colleague Success Networks play an important role in supporting the Group's DEI journey through amplifying the voices of underrepresented communities, providing a platform for sharing experiences and identifying shared challenges which are fed back to the DEI team to resolve
- We are proud to have been awarded three Comparably awards for "Best Company Culture", "Best Company for Women" and "Best Company for Diversity", and the Glassdoor Employees' Choice Award in 2022
- Sage's Foundation gives every colleague five days paid volunteering leave every year to spend time knocking down barriers locally, supporting causes that are important to them

Outcomes from engagement:

- Following the results of our colleague survey in March, action plans were created by senior management to act upon key themes raised by colleagues. One such plan led to the launch of Sage Talent Marketplace to address colleagues' requests for a single place to help them understand the opportunities and roles that exist across the Group and to help them create bespoke career and development journeys. In the fourth quarter of FY22, the Group's Global Rating on Glassdoor increased back up to 4.2 out of 5 stars, as Sage continued to act on colleague feedback. We are proud to have been awarded the Glassdoor Employees' Choice Award, which honours the UK's best places to work in 2022.

Further information can be found in the People section on page 39

- High levels of engagement with Sage Foundation partnerships and programmes with 149,409 hours volunteered by Sage colleagues, partners, family and friends in FY22

Customers

We build every experience with human insight and ingenuity to be the trusted network for SMBs

Why they matter to Sage:

- Our brand promise puts customers at the heart of everything we do, helping businesses thrive and flow. SMBs are the growth engine of the global economy. Accountants are the professionals who rely on us to help them deliver a great service to their clients, whatever their size. We recognise that our customers are a diverse and dynamic group and we endeavour to build every experience for them with human insight and ingenuity
- Our partners are also core to the Group's strategy and are an extension of the Sage team. Sage works with an extensive network of partners, who contribute to our mutual growth and ambition to enable customer success. Our community of partners includes accountants, resellers, IP builders and service providers who represent the Sage brand in the market. They help bring our solutions to life, serving customers locally and creating an ecosystem of complementary solutions and services

How Sage engages at Board level:

- The Board receives regular updates from the CEO on the operational priorities in place to deliver a high-quality customer experience
- The Board hears regular updates on and monitors Net Promoter Scores across the Group and key themes from customer feedback
- The Board receives a regular CISO report on how the Group seeks to protect its products against cyber security risk for the benefit of Sage and its customers
- The Chair attended a Sage Intacct partner roundtable event in FY22 which provided him with an opportunity to receive direct feedback from partners on their experience of working with Sage
- The Board received updates during the year on the development of Sage's digital network, with a particular focus on understanding its benefits for customers
- The Board monitored the roll out of the refreshed Sage Brand and how Sage intends to deliver against the customer promises

What matters to them:

- Customers are focused on (i) running and growing their business; (ii) having products that keep their business compliant; (iii) quality customer service; and (iv) having greater visibility into their business and deriving actionable insights from their data. Improving efficiencies and productivity remain priorities, but they are also increasingly interested in the wellbeing of their staff, the environment and their role in protecting it
- Partners in Sage's ecosystem work in collaboration with Sage to: (i) harness our innovative technology to deliver customer success through the creation of unique joint value propositions; (ii) expand their market reach; (iii) share insights into what Sage's current and future customers want, ultimately impacting product strategy and roadmaps; and (iv) accelerate business growth through Sage-supported sales and marketing programs, as well as technical training

How Sage engages across the Group:

- During FY22 our Customer Connect initiative was enhanced. The initiative includes activities such as call listening to help colleagues understand Sage's customer pain points and assistance needs, whilst customer visits enable colleagues to meet customers, ask questions and gather insights directly
- Digital resources are made available to help customers get the most value from their Sage solutions, including community discussions (Sage City), learning opportunities (Sage University) and technical articles (Sage Knowledgebase).
- Sage People Customer Ideas Hub was launched during the year, which is a platform for customers to voice their ideas for future improvements, enhancements and functionalities that they would like to see within Sage People. Sage committed to dedicating 20% of the Sage People product roadmap to ideas raised by its customers through the platform

- Sage for Accountants, launched in the UK during FY22, provides a way of helping Sage deliver an end-to-end solution for accountant practices. Sage for Accountants aims to knock down barriers by giving accountants the tools they need to manage their clients from one place and only add and pay for the services they need. In FY22 Sage celebrated a significant milestone, welcoming its 2,000th new accountant practice to Sage for Accountants
- We launched other key products during the year, including Sage Intacct Manufacturing in France, the UK and US and Sage Active in France. Sage Intacct Manufacturing supports small and mid-sized manufacturers to modernise processes and accelerate digital transformation. Sage Active is an integrated business management solution built on Microsoft Azure. This new cloud native solution is purpose-built to help SMBs manage compliance and operations, whilst offering the benefits of Azure
- Sage has come together with the Association of Chartered Certified Accountants and the International Chamber of Commerce at COP26 to put forward SMB-friendly recommendations in the Race to Net Zero. This collaborative report "Think Small First: Enabling effective climate action by small and medium-sized businesses" calls for governments and large companies to do more to urgently simplify carbon reporting and accounting so SMBs are not left behind in the Race to Net Zero
- In FY22 we launched our Sustainability Hub for small businesses in the UK and Ireland. The hub will provide owners of small businesses with expertise and actionable advice on how to reduce the carbon impact of their operations, play a key part in creating a more sustainable future and have a positive impact on their communities
- We announced the acquisition of Spherics in October 2022, which automates the process of calculating emissions by ingesting data from a customer's accounting software and matching transactions to emission factors to create an estimate of their carbon footprint. The software guides the customer to refine this estimate by submitting further data for a more accurate calculation, supporting SMBs on their journey to Net Zero

Outcomes from engagement:

- Regular monitoring of Net Promoter Scores across the Group allows Sage to assess customer sentiment and identify areas where we can refine the customer experience. This will help address pain points as well as generate additional value for customers in areas which would help them most
- The Customer Connect initiative enables Sage to keep its finger on the pulse with customers, allowing us to make sure we remain attuned to their needs and help their businesses to thrive
- The launch of Sage People Customer Ideas Hub aims to make Sage People customers feel empowered, valued and listened to—and at the centre of the Group's product vision and strategy

Society

We tackle digital inequality, economic inequality and the climate crisis, using our time, technology and experience

Why it matters to Sage:

- In today's world, not everyone is given an equal chance. Discrimination, bias, lack of education, and unequal access to technology are creating barriers for many people to succeed. It is Sage's pledge as one of the UK's biggest technology companies to knock down these barriers to create equal opportunity. We are committed to investing in education, technology, and environmental change to give individuals, SMBs and the planet the opportunity to thrive
- We believe that by supporting communities to knock down barriers to digital and economic equality and to protect the planet, we can play a role in creating a more equal society. Research in our communities shows that starting a business and becoming your own boss is seen as a route to a better life
- People in underrepresented groups or sectors hardest hit by crisis need support to start and grow businesses, as this is a proven route to long term employment, high job satisfaction and wealth creation

What matters to them:

- For our customers, having a positive societal and environmental impact, and a commitment to diversity, matters to their business. 85% of SMBs see a role for accountancy and HR software providers in helping them make their businesses more sustainable. Sustainability is a key issue for society as a whole and our stakeholders care about the work we do to tackle digital inequality, economic inequality and the climate crisis, using our time, technology and experience

How Sage engages at Board level:

- The Board receives updates on the Sustainability and Society strategy as part of regular CEO Board briefings
- The Board attended a Sage Foundation volunteer event in San Jose in July with Access Books so they could see first hand the impact of the Company's investments. Access Books provides quality books to those public school and community libraries in California where the majority of students live at or below the poverty line. A photo taken at the event is included on page 75
- The Board received an update on the implementation of Sage's climate strategy, including on the acquisition of Spherics, a commercial carbon footprint calculator solution.
- The Board is updated every year on Sage's position on non-financial disclosures including GRI and SASB disclosures and receives the Sustainability and Society Report before publication
- The Board received an update on the progress of Sage's FY22 TCFD disclosures in September. Further information on TCFD can be found on pages 50 to 67

How Sage engages across the Group:

- We have made good progress on our Sustainability and Society strategy. Key highlights include: the acquisition of Spherics, a carbon accounting solution that will support SMBs on their own journey to Net Zero; the submission of Sage's Science Based Target and development of a broader climate strategy backed by robust plans and disclosures that will ensure we can deliver against the targets. Sage has also strengthened executive oversight and responsibility over this agenda with the inclusion of ESG targets (one on climate, one on products and one on DEI) in leadership incentives
- We proactively consider and manage the impact we have on local communities as part of the delivery of long-term sustainable business performance
- Sage Foundation surpassed its fundraising target for FY22 and in response to the humanitarian crisis in Ukraine, launched a global match funding appeal in March, donating almost £650,000 to support the crisis, thanks to colleagues, customers, partners and the community at large
- Sage colleagues, partners, family and friends spent a total of 149,409 hours volunteering in FY22

Outcomes from engagement:

- Our regular materiality assessments help us engage with internal and external stakeholders and consider their views on critical ESG risks and opportunities for the business. We will continue to deliver on the commitments we have made, whilst ensuring our strategy responds to emerging risks and opportunities and captures ongoing feedback from our stakeholders
- Sage partners and collaborates with various organisations to help inform the Group's sustainability strategy, find innovative solutions and drive collective action. These include the World Business Council for Sustainable Development (WBCSD), International Chamber of Commerce, TechNation and Oxford Economics
- Our partnership with the Smart Data Foundry aims to support the secure sharing of financial data and trends with the specific purpose of achieving societal change and supporting the economy
- As part of our commitment to advocate and be the voice for SMBs, we have entered into a partnership in the UK with an APPG (All-Party Parliamentary Group) to help shape this debate
- Sage joined the CDP Supply Chain Program to track climate impacts in the supply chain and identify collaborative decarbonisation opportunities with suppliers. This includes development of Sage's Sustainable Supply Chain Strategy and updated Procurement policy, which will support suppliers in joining Sage's Net Zero journey
- Through the Sage Foundation we connect with the communities within which Sage operates. Sage volunteers contributed nearly 150,000 hours through the Foundation and strategic engagement took place with our partners such as The BOSS Network, Kiva, Ashoka, ACE, FIRST® LEGO® League to better understand and address the needs of local communities. For instance, through the Sage Foundation, 13,871 entrepreneurs were supported in developing countries to grow sustainable businesses and 4,750 students received STEM learning and resources

Shareholders

We target sustainable growth in shareholder value

Why they matter to Sage:

- They are our providers of equity capital without whom Sage could not grow and invest for future success

What matters to them:

- Investors are interested in our long-term strategy, operational performance, strategic execution and investment in the business to drive innovation and enhance the customer experience. Sage's financial performance is important to them, but so is governance and how our leadership team and Board make decisions. Increasingly, they are concerned about broader societal issues and the role Sage plays in addressing them

How Sage engages at Board level:

- The Board receives Investor Relations updates at each Board meeting
- Feedback from investor meetings is also circulated to the Board after Sage's full-year and half-year results announcements, and quarterly trading updates where relevant
- The Chair and other Non-executive Directors are available to attend meetings with major shareholders at the request of either party to gain an understanding of any issues or concerns
- At Sage's AGM, all Board directors are present, which provides a key opportunity for the Board to engage with shareholders and for shareholders to vote on the resolutions put to them
- Upon starting in his new role, the Chair held introductory meetings with the majority of the top 15 shareholders in Sage, providing an opportunity for discussion around the Group's strategic progress and to listen to shareholder feedback
- The Remuneration Committee consulted individually with Sage's top shareholders and proxy agencies on the proposed 2022 Remuneration Policy ahead of the 2022 AGM. Communication included a number of virtual meetings with shareholders
- The Board approved various acquisitions during the year which will help to broaden Sage's product offerings, including Brightpearl, Futrli and Lockstep
- The Board also oversaw the completion of Sage's disposal programme during FY22

How Sage engages across the Group:

- Shareholder engagement is the responsibility of the Executive Directors and the principal day-to-day activity of the Investor Relations team, which develops and manages Sage's external relationships with investors and analysts
- The announcements of the full-year and half-year results and trading updates are prepared and published by the Investor Relations team. Analyst events are held to provide opportunities to ask questions
- Senior management are also available to meet investors, and did so during the year, for example at the webinar events focused on Sage Intacct & the Digital Network, and Building the Small Business Engine
- Our website sage.com/investors continues to be an important channel for communicating with all stakeholders, including investors
- Sage paid an interim and recommended a final dividend and completed the share buyback programme
- We provided shareholders with an opportunity to engage by holding the 2022 AGM as a combined physical and virtual meeting. Further information on the 2022 AGM can be found on page 120

Outcomes from engagement:

- We have built constructive relationships with our top shareholders at multiple levels within the organisation, including the Chair, CEO and CFO, Executive Leadership Team and Investor Relations team
- We have received positive feedback from analysts and shareholders following engagement events, including webinars on Sage Intacct & the Digital Network, and Building the Small Business Engine
- Feedback from investors was considered when drawing conclusions from the ESG materiality assessment, which is helping inform the development and future direction of Sage's sustainability strategy
- Engagement with shareholders and analysts has helped ensure support for the Group's management and strategy, and buy-in to capital allocation decisions, including acquisitions
- We responded to feedback received from a small number of shareholders in late FY21 and early FY22, with regard to the 2022 Remuneration Policy approved at the 2022 AGM

Section 172(1) Statement

Principal decisions during FY22

The Directors believe that during the year under review they have, individually and together, acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of shareholders, whilst having due regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006 ("section 172(1)") and referred to in the UK Corporate Governance Code 2018 (the "Code").

The Board is cognisant of its duties under section 172(1) and the likely long term consequences of any decisions it makes; the need to foster the Company's relationships with all its stakeholders; the interests of its employees; the impact of the Company's operations on the environment and in the local communities; the desire to maintain a reputation for high standards of business conduct; and the need to act fairly as between members. The Board understands that the Company's wide range of stakeholders is integral to the sustainability of the business and balancing their respective needs and expectations is important.

By listening to, understanding and engaging with stakeholders, the Board endeavours to live up to their expectations, by staying true to the Company's purpose, acting in accordance with Sage's values, and delivering the strategy.

While stakeholder considerations and understanding competing priorities are integral to the discussions at Board meetings, it is also fundamental that Sage's wider leadership team understands the Board's responsibilities. The robust governance structure, which is overseen by the Board, allows delegation to management on day-to-day operations so that the principles of section 172(1) are embedded within the business and how Sage operates.

Section 172(1) limbs

(A) the likely consequences of any decision in the long term

(B) the interests of the company's employees

(C) the need to foster the company's business relationships with suppliers, customers and others

(D) The impact of the company's operations on the community and the environment

(E) the desirability of the company maintaining a reputation for high standards of business conduct

(F) the need to act fairly as between members of the company

Further information on how Section 172(1) has been applied by the Directors can be found throughout the Annual Report

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	Strategic priorities	24–35
	Our approach to sustainability	44–49
	TCFD disclosure	50–67
	Stakeholder Engagement	69
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Principal decisions by the Board

Key—Stakeholder groups

Colleagues | Customers | Society | Shareholders

GBP 400m sterling bond issued in February 2022

Section 172(1) limbs

Stakeholders considered

Principal decision by the Board

In February 2022 it was announced that the Company had issued a GBP 400m sterling bond, which was approved by the Board.

Board considerations

The Board considered that the bond offering extended the maturity of the Group's debt portfolio, with the proceeds intended to repay certain existing indebtedness and for general corporate purposes. The Board considered that this would provide the Company with considerable financial flexibility and significant additional capital, to drive its strategic objectives, for the benefit of all key stakeholders.

Outcome

After consideration of the interests of relevant stakeholders, the Board approved the issuance of the bond, which was successfully launched, priced, and settled in February 2022. Net cash proceeds from the issuance were £396m. The Board's considerations included the interests of shareholders, alongside further investment in strategic priorities for the benefit of customers and colleagues, to ensure an appropriate balance of capital allocation priorities.

Acquisitions of Brightpearl, Lockstep and Futrli

Section 172(1) limbs

Stakeholders considered

Principal decision by the Board

The acquisitions of Brightpearl, Lockstep and Futrli.

Board considerations

The acquisitions of Brightpearl, Lockstep and Futrli involved consideration of what was best for customers, colleagues, shareholders and wider stakeholders by accelerating Sage's strategy for growth. The Board considered how each acquisition would accelerate time to market for key aspects of functionality for the Group's product offerings and enhance Sage's competitive differentiation. Integration of highly experienced management teams within these organisations would also help grow the talent pool at Sage and bring increased technology and innovation skills into the business.

Outcome

The Brightpearl acquisition has extended the Sage Intacct vertical reach, supporting customers in product-centric ecommerce organisations. The integration of Brightpearl into the Group provides customers with access to a broader portfolio of additional Sage solutions to meet their needs.

The Lockstep acquisition accelerates expansion of the Group's digital network by enabling and enhancing connections between Sage customers and their clients and suppliers. With this acquisition, we will continue to knock down barriers by streamlining customer workflows, deepening our capabilities in the office of the CFO, improving productivity and efficiency, and enabling them to focus on more valuable, human work.

The Futrli acquisition develops Sage's commitment to supporting accountants with complete end-to-end proposal-to-advisory services. The acquisition plays an important role in the way we support customers and their clients to gain the visibility needed to deliver great advisory services, as part of the Sage for Accountants solution.

These acquisitions are an important driver for the delivery of our strategy and underpin our focus on driving value for our shareholders and wider stakeholders.

Principal decisions by the Board continued

Key—Stakeholder groups

Colleagues Customers Society Shareholders

Refreshed Sage values

Section 172(1) limbs

Stakeholders considered

Principal decision by the Board

In February 2022, the Board approved the refreshed Sage values.

Board considerations

Colleagues played a critical role in helping to shape the refreshed values by providing their views on the commitments they wanted to see colleagues make to each other, customers and other stakeholder groups, as part of their formation. Development of the refreshed values was further enhanced by colleague surveys; interviews with Sage leaders on culture; focus groups with colleagues to test themes; and an Executive Team working session on the behaviours needed to deliver Sage's strategic framework. Appreciating this detailed and considered process gave the Board the ability to understand the areas of both strength and weakness within Sage's culture today and how these refreshed values would serve a key role in its evolution.

Outcome

Our values are key to fostering an environment and culture where colleagues can thrive to enable the successful delivery of the Company's strategy for the benefit of shareholders and wider stakeholder groups as a whole. The values are at the forefront of how we operate as a Group both internally and externally on a daily basis, and drive our commitment to always do the right thing by our colleagues, customers, society and shareholders. Colleagues can also be proud of the work we do in our communities to live out the values through our Sustainability and Society strategy and Sage Foundation.

Refreshed Sage brand

Section 172(1) limbs

Stakeholders considered

Principal decision by the Board

Approval of the launch of the refreshed Sage brand.

Board considerations

The brand transformation journey was first socialised to the Board in late FY21 and the Board received updates on the refreshed brand as it evolved through FY22. The refreshed brand revolves around the concept of simplicity and insight, with a human touch, to help business flow. Board considerations also included colleague impact, with the refreshed brand considered to offer a new source of pride in Sage and ultimately, a showcase for the values which the brand represents. Society was a further stakeholder consideration for the Board in its decision making, in terms of how the refreshed brand emphasises the Company's purpose to knock down barriers to enable everyone to thrive.

Outcome

The refreshed brand reflects how we support customers globally by removing complexity, delivering insights and building human connections. The brand design features a smooth flow, which reflects our focus on removing friction for customers and automating to create a more digital experience. Sage has been a trusted brand for SMBs since it was a start-up over 40 years ago, but the way we support them has changed, and the refreshed brand enables us to reflect this consistently across all markets.

Sage and Microsoft partnership

Section 172(1) limbs

Stakeholders considered

Principal decision by the Board

In June 2022, the Board approved the expansion of the Company's partnership with Microsoft to integrate Microsoft Business Products, including Microsoft 365 and Microsoft Teams, as embedded services in Sage products, and make Sage Intacct and Sage Active available on Microsoft Azure as part of Sage's multi-cloud access strategy.

Board considerations

The Board's decision involved consideration of customers with the aim of providing them with simplification, improved reliability, and choice. Shareholders were also considered by the Board, as becoming a strategic ISV partner to Microsoft gives Sage the potential to achieve the wider reach and scale which comes from partnering with the world's largest software company.

Outcome

The partnership announced in July 2022 will simplify workflows for customers, removing friction and helping them to achieve productivity gains. As customers navigate a digital world, businesses increasingly rely on the flexibility and productivity gains that the cloud provides. The partnership supports Sage in giving customers a choice of cloud platform, as well as the ability to collaborate and communicate using well-known collaboration tools.

With Sage as a system of record across financials, people, and payroll, and Microsoft 365 as the de-facto choice for millions of businesses around the world, integration between the two platforms is critical for customers today. The partnership will deliver streamlined, reliable digital work experiences helping customers to increase the productivity and agility of their businesses. As data becomes a more strategic asset for customers, being able to upload and download between Microsoft Excel and Sage will improve workflows, governance, and security.

ESG Board governance

Section 172(1) limbs

Stakeholders considered

Principal decision by the Board

Approval of ESG governance responsibilities across the Board and its Committees, with continued monitoring of Sage's Sustainability and Society strategy implementation.

Board considerations

The Board approved how it intends to oversee ESG governance at the Board and Committees level, with consideration for the specific role played by each forum in terms of: approving the Sustainability and Society strategy and monitoring its performance; understanding Sage's relevant ESG risks and opportunities; approving the adoption of certain ESG measures within executive remuneration plans; and understanding the wider legal and regulatory compliance environment and reporting frameworks.

Outcome

As ESG accountabilities span across the Company, it is important that the Board's governance framework suitably covers all elements of ESG with clarity on where relevant aspects are discussed and debated. The Board ESG governance framework put in place during FY22 is designed to provide this coverage and consistency as Sage continues on its ESG journey.

Financial review

Jonathan Howell
Chief Financial Officer

The financial review provides a summary of Sage's results on a statutory and underlying basis, as well as considering the organic performance of the business. Underlying measures allow management and investors to understand the financial performance of the Group adjusted for the impact of foreign exchange movements and recurring and non-recurring items, while organic measures also adjust for the impact of acquisitions and disposals[1].

In FY23 Sage intends to evolve its reporting by giving greater emphasis to underlying measures. Accordingly, financial metrics and analysis will be provided primarily on an underlying basis, alongside organic growth rates, to enable a clearer understanding of both the organic and inorganic performance of the Group.

Sage also intends to change the presentation of its regional reporting, to reflect recent changes to the way in which the Group manages its operations. From FY23, we will report performance across the following regions: North America, comprising the US, Sage Intacct and Canada; UKIA[2], comprising Northern Europe and Africa and APAC; and Europe, comprising France, Central Europe and Iberia.

These changes will not impact Sage's primary financial statements or notes to the accounts.

Organic financial results

In FY22 Sage achieved organic recurring revenue growth of 9% to £1,824m and organic total revenue growth of 6% to £1,924m. The increase in recurring revenue was underpinned by a 24% rise in Sage Business Cloud revenue to £1,261m, reflecting strength from new customer acquisition, increased sales to existing customers and continued progress in migrating customers and products to cloud solutions.

Other revenue (SSRS) declined by 30% to £100m, in line with our strategy to transition away from licence sales and professional services implementations.

The Group's organic operating profit increased by 8% to £383m, representing an organic operating margin of 19.9%. Organic operating margin has trended upwards from 19.5% in FY21, driven by operating efficiencies, as we focus on scaling the Group.

Portfolio view of revenue

The portfolio view breaks down Sage's organic revenue by strategic product portfolio. Our principal focus is to grow Sage Business Cloud, by attracting new customers and migrating existing customers and products to cloud native and cloud connected solutions. Sage Business Cloud customers can connect to a range of cloud services as part of Sage's digital network, leading to deeper customer relationships and higher lifetime values.

Organic Revenue by Portfolio[3]	Recurring FY22	Recurring FY21	Recurring Growth	Total FY22	Total FY21	Total Growth
Cloud native[4]	**£419m**	**£297m**	**+41%**	£430m	£311m	+38%
Cloud connected[5]	**£842m**	**£722m**	**+17%**	£852m	£734m	+16%
Sage Business Cloud	**£1,261m**	**£1,019m**	**+24%**	£1,282m	£1,045m	+23%
Products with potential to migrate	**£422m**	**£495m**	**-15%**	£477m	£580m	-18%
Future Sage Business Cloud Opportunity[6]	**£1,683m**	**£1,514m**	**+11%**	£1,759m	£1,625m	+8%
Non-Sage Business Cloud[7]	**£141m**	**£153m**	**-8%**	£165m	£184m	-10%
Organic Total Revenue	**£1,824m**	**£1,667m**	**+9%**	£1,924m	£1,809m	+6%
Sage Business Cloud Penetration	**75%**	**67%**				

Notes:

1. Underlying and organic revenue and profit measures are defined in the Glossary.
2. United Kingdom, Ireland, Africa and APAC.
3. The revenue portfolio breakdown is provided as supplementary information to illustrate the differences in the evolution and composition of key parts of our product portfolio. These portfolios do not represent Operating Segments as defined under IFRS 8.
4. Revenue from subscription customers using products that are part of Sage's strategic future product portfolio, where that product runs in a cloud-based environment enabling customers to access full, updated functionality at any time, from any location, over the Internet.
5. Revenue from subscription customers using products that are part of Sage's strategic future product portfolio, where that product is normally deployed on-premise, and for which a substantial part of the value proposition is linked to functionality delivered in or through the cloud.
6. Revenue from customers using products that are part of, or that management believe have a clear pathway to, Sage Business Cloud.
7. Revenue from customers using products for which management does not currently envisage a path to Sage Business Cloud, either because the product addresses a segment outside Sage's core focus, or due to the complexity and expense involved in a migration.

Recurring revenue from cloud native solutions grew by 41% to £419m, driven by Sage Intacct together with other solutions including Sage Accounting and Sage People, primarily through new customer acquisition. Cloud native growth has also been driven by migrations principally to Sage HR and to Sage Partner Cloud.

Recurring revenue from cloud connected solutions increased by 17% to £842m, reflecting continuing growth in the Sage 50 and Sage 200 franchises driven by existing and new customers, together with faster migration of products to Sage Business Cloud through the integration of cloud functionality.

Overall, the Future Sage Business Cloud Opportunity, which represents products in or with a clear pathway to Sage Business Cloud, has performed strongly with recurring revenue growth of 11%.

The revenue decline in the Non-Sage Business Cloud portfolio is in line with expectations and reflects the ongoing strategy to focus on solutions with a clear pathway to Sage Business Cloud.

Statutory and underlying financial results

	Statutory			Underlying		
Financial Results	**FY22**	FY21	Change	**FY22**	FY21	Change
North America	**£818m**	£687m	+19%	**£819m**	£734m	+12%
Northern Europe	**£433m**	£402m	+8%	**£434m**	£401m	+8%
International	**£696m**	£757m	-8%	**£696m**	£743m	-6%
Group Total Revenue	**£1,947m**	£1,846m	+5%	**£1,949m**	£1,878m	+4%
Operating Profit	**£367m**	£373m	-2%	**£377m**	£368m	+2%
% Operating Profit Margin	***18.9%***	*20.2%*	*-1.3 ppts*	***19.4%***	*19.6%*	*-0.2 ppts*
Profit Before Tax	**£337m**	£347m	-3%	**£346m**	£343m	+1%
Net Profit	**£260m**	£285m	-9%	**£263m**	£257m	+2%
Basic EPS	**25.47p**	26.33p	-3%	**25.74p**	23.79p	+8%

The Group achieved statutory total revenue of £1,947m, a 5% increase on the prior year, reflecting good levels of organic growth in all regions partly offset by disposals, together with a £47m foreign exchange tailwind principally relating to the US Dollar in North America, and a £15m foreign exchange headwind principally relating to the Euro in the International region. Underlying total revenue, which normalises the comparative period for foreign exchange movements, increased by 4%.

Statutory operating profit decreased by 2% to £367m, driven mainly by the change in recurring and non-recurring items (see table below). Underlying operating profit, which excludes recurring and non-recurring items, increased by 2% to £377m.

Statutory basic EPS decreased by 3% to 25.47p, reflecting a higher statutory income tax expense and the post-tax impact of recurring items, offset by a reduction in the number of shares outstanding following the Group's share buyback programme. Underlying basic EPS increased by 8% to 25.74p.

Underlying and organic reconciliations to statutory

	FY22			FY21		
	Revenue	**Operating Profit**	**Operating Margin**	Revenue	Operating Profit	Operating Margin
Statutory	**£1,947m**	**£367m**	**18.9%**	£1,846m	£373m	20.2%
Recurring items[8]	**£2m**	**£83m**	**–**	–	£40m	–
Non-recurring items:						
• *Gain on disposal of subsidiaries*	**–**	**(£53m)**	**–**	–	(£126m)	–
• *(Reversal of) / restructuring costs*	**–**	**(£20m)**	**–**	–	£62m	–
• *Office relocation*	**–**	**–**	**–**	–	£9m	–
Impact of FX[9]	**–**	**–**	**–**	£32m	£10m	–
Underlying	**£1,949m**	**£377m**	**19.4%**	£1,878m	£368m	19.6%
Disposals	**(£7m)**	**(£1m)**	**–**	(£69m)	(£15m)	–
Acquisitions	**(£18m)**	**£7m**	**–**	–	–	–
Organic	**£1,924m**	**£383m**	**19.9%**	£1,809m	£353m	19.5%

Notes:

8. Recurring and non-recurring items are defined in the Glossary and detailed in note 3 of the financial statements.

9. Impact of retranslating FY21 results at FY22 average rates.

Revenue

Statutory revenue of £1,947m in FY22 was slightly below underlying revenue of £1,949m, due to a fair value adjustment to deferred income relating to the acquisition of Brightpearl. Underlying revenue in FY21 of £1,878m reflects statutory revenue of £1,846m retranslated at current year exchange rates, resulting in an FX tailwind of £32m.

Organic revenue of £1,924m (FY21: £1,809m) reflects underlying revenue adjusted for £7m of revenue from businesses sold during the period, including Sage Switzerland and the South African payroll outsourcing business, and £18m of revenue from businesses acquired during the period, primarily Brightpearl. In FY21, revenue from disposals included £69m of revenue from Sage's businesses in Poland, Australia and Asia, Switzerland, and the South African payroll outsourcing business.

Operating profit

The Group achieved a statutory operating profit in FY22 of £367m (FY21: £373m). Underlying operating profit of £377m (FY21: £368m) reflects statutory operating profit adjusted for recurring and non-recurring items. Recurring items of £83m (FY21: £40m) comprise £42m of amortisation of acquisition-related intangibles (FY21: £31m) and £39m of M&A related charges (FY21: £9m), in addition to a £2m deferred income adjustment relating to the acquisition of Brightpearl.

Non-recurring items include a £53m gain on disposal, principally from the sale of Sage's business in Switzerland (FY21: £126m gain from the disposal of Sage's businesses in Poland, Australia and Asia), together with a £20m reversal of employee restructuring costs, primarily relating to the business transformation announced in September 2021, as some colleagues were redeployed or left the business.

Organic operating profit of £383m (FY21: £353m) reflects underlying operating profit adjusted for £1m of operating profit from Sage's business in Switzerland and the South African payroll outsourcing business, and £7m of operating losses from businesses acquired during the year. In FY21, operating profit from disposals included £15m from Sage's businesses in Poland, Australia and Asia, Switzerland, and the South African payroll outsourcing business.

Organic revenue overview

	FY22		FY21		Change
Organic Revenue Mix	**£m**	**% of Total**	£m	% of Total	
Software Subscription Revenue	**£1,445m**	**75%**	£1,263m	70%	+14%
Other Recurring Revenue	**£379m**	**20%**	£404m	22%	-6%
Organic Recurring Revenue	**£1,824m**	**95%**	£1,667m	92%	+9%
Other Revenue (SSRS)	**£100m**	**5%**	£142m	8%	-30%
Organic Total Revenue	**£1,924m**	**100%**	£1,809m	100%	+6%

Organic total revenue increased by 6% in FY22 to £1,924m. Organic recurring revenue grew by 9% to £1,824m, supported by a 14% increase in software subscription revenue to £1,445m, reflecting the continued focus on attracting new customers and migrating existing customers to subscription and Sage Business Cloud. The decline in other recurring revenue of 6% to £379m reflects customers migrating from maintenance and support to subscription contracts. Other revenue (SSRS) declined by 30% to £100m, in line with our strategy to transition away from licence sales and professional services implementations.

North America

Organic Revenue by Category	FY22	FY21	Change
Organic Total Revenue	**£810m**	£734m	+10%
Organic Recurring Revenue	**£779m**	£685m	+14%
% Sage Business Cloud Penetration	**79%**	73%	+6 ppts
% Subscription Penetration	**73%**	66%	+7 ppts

Organic Recurring Revenue	FY22	FY21	Change
US	**£666m**	£581m	+15%
Of which Sage Intacct	**£231m**	£176m	+31%
Canada	**£113m**	£104m	+9%

North America achieved organic recurring revenue growth of 14% to £779m and organic total revenue growth of 10% to £810m. Sage Business Cloud penetration is now 79%, up from 73% in the prior year, driven by growth in cloud native and cloud connected solutions, while subscription penetration is 73%, up from 66% in the prior year.

Cloud native growth was driven primarily through Sage Intacct, which delivered strong recurring revenue growth of 31% to £231m reflecting continued good levels of new customer acquisition and supported by strong sales to existing customers through increased cross-sell and up-sell.

Recurring revenue in the US increased by 15% to £666m, driven by Sage Intacct alongside cloud connected growth across the Sage 200 and Sage 50 franchises. Total revenue for the US increased by 11% to £695m.

In Canada, recurring revenue increased by 9% to £113m and total revenue by 6% to £115m, driven mainly by Sage 50 cloud and Sage 200 cloud solutions, together with growth in Sage Intacct and Sage Accounting.

Northern Europe

Organic Revenue by Category	FY22	FY21	Change
Organic Total Revenue	**£425m**	£401m	+6%
Organic Recurring Revenue	**£419m**	£390m	+7%
% Sage Business Cloud Penetration	**90%**	86%	+4 ppts
% Subscription Penetration	**93%**	90%	+3 ppts

Northern Europe (UK and Ireland) achieved organic recurring revenue growth of 7% to £419m and organic total revenue growth of 6% to £425m. Sage Business Cloud penetration is now 90%, up from 86% in the prior year, while subscription penetration is 93%, up from 90% in the prior year.

Recurring revenue growth primarily reflects accelerating growth in cloud native solutions, supported by further growth in Sage 50 cloud connected.

Cloud native revenue growth in Northern Europe was driven by strong new customer acquisition in Sage Accounting, Sage Intacct and Sage People, together with migrations, principally to Sage HR. Sage Intacct continues to grow rapidly in the UK, as we accelerate investment across our sales channels.

International

Organic Revenue by Category	FY22	FY21	Change
Organic Total Revenue	**£689m**	£674m	+2%
Organic Recurring Revenue	**£626m**	£592m	+6%
% Sage Business Cloud Penetration	**59%**	47%	+12 ppts
% Subscription Penetration	**67%**	62%	+5 ppts

Organic Recurring Revenue	FY22	FY21	Change
Central and Southern Europe	**£486m**	£466m	+4%
France	**£258m**	£249m	+4%
Central Europe	**£108m**	£99m	+9%
Iberia	**£120m**	£118m	+3%
Africa and APAC	**£140m**	£126m	+10%

The International region achieved organic recurring revenue growth of 6% to £626m and organic total revenue growth of 2% to £689m. Sage Business Cloud penetration increased significantly to 59%, up from 47% in the prior year, while subscription penetration is 67%, up from 62% in the prior year.

In France, recurring revenue increased by 4% to £258m, with a strong performance in cloud connected, supported by growth in cloud native solutions. Total revenue in France was flat at £273m.

Central Europe achieved recurring revenue growth of 9% to £108m while total revenue increased by 3% to £132m. Growth in the region is driven by a combination of cloud connected and local products.

In Iberia, recurring revenue increased by 3% to £120m, with continued success in migrating customers to subscription and cloud connected solutions. Total revenue was flat at £134m.

Africa and APAC delivered strong recurring revenue growth of 10% to £140m, driven by growth in both cloud native solutions and local products. Total revenue in Africa and APAC increased by 8% to £150m compared with the prior year.

Operating profit

The Group increased organic operating profit by 8% to £383m (FY21: £353m). Organic operating margin was 19.9% (FY21: 19.5%), trending upwards since last year driven by operating efficiencies. During the year, the Group further reassessed its bad debt provision in connection with Covid-19, releasing the balance of the provision which resulted in a £7m credit to operating profit (FY21: £8m credit).

Underlying operating profit was £377m (FY21: £368m), representing a margin of 19.4% (FY21: 19.6%). The difference between organic and underlying operating profit reflects the operating profit or loss from acquisitions and disposals (as described on page 84).

EBITDA was £468m (FY21: £454m) representing a margin of 24.0%. The increase in EBITDA principally reflects the improvement in organic operating profit, partly offset by the impact of acquisitions and disposals on underlying operating profit.

	FY22	FY21	FY22 Margin
Organic Operating Profit	**£383m**	£353m	19.9%
Impact of disposals	**£1m**	£15m	
Impact of acquisitions	**(£7m)**	–	
Underlying Operating Profit	**£377m**	£368m	19.4%
Depreciation and amortisation	**£55m**	£50m	
Share based payments	**£36m**	£36m	
EBITDA	**£468m**	£454m	24.0%

Net finance cost

The statutory net finance cost for the period increased to £30m (FY21: £26m), primarily reflecting the impact of interest on new debt issuance and is broadly in line with the underlying net finance cost of £31m (FY21: £25m).

Taxation

The underlying tax expense for FY22 was £83m (FY21: £86m), resulting in an underlying tax rate of 24% (FY21: 25%). The statutory income tax expense for FY22 was £77m (FY21: £62m), resulting in a statutory tax rate of 23% (FY21: 18%).

The difference between the underlying and statutory rate in FY22 primarily reflects a non-taxable accounting net gain on disposals. The FY22 underlying tax rate has decreased due to a reduction in the French corporation tax rate together with certain non-recurring adjustments.

Earnings per share

	FY22	FY21	Change
Statutory Basic EPS	**25.47p**	26.33p	-3%
Recurring items	**6.72p**	3.01p	
Non-recurring items	**(6.45)p**	(6.25)p	
Impact of foreign exchange	**–**	0.70p	
Underlying Basic EPS	**25.74p**	23.79p	+8%

Underlying basic EPS increased by 8% to 25.74p, reflecting higher underlying operating profit and a reduction in the number of shares outstanding following the Group's share buyback programme.

Statutory basic earnings per share decreased by 3%, with the increase in underlying basic earnings per share offset by the change in post-tax impact of recurring items.

Financial review continued

Cash flow

Sage remains highly cash generative with underlying cash flow from operations of £402m (FY21: £451m), representing underlying cash conversion of 107% (FY21: 126%). Importantly, the Group has achieved cash conversion in excess of 100% for four consecutive years. This strong cash performance reflects further growth in subscription revenue and continued strength in receivables collection, offset by a reduction in payables driven by the timing of certain payments to third parties during the year. Free cash flow of £295m (FY21: £339m) largely reflects good underlying cash conversion.

Cash Flow APMs	FY22	FY21 (as reported)
Underlying operating profit	**£377m**	£358m
Depreciation, amortisation and non-cash items in profit	**£51m**	£47m
Share based payments	**£36m**	£36m
Net changes in working capital	**(£40m)**	£65m
Net capital expenditure	**(£22m)**	(£55m)
Underlying Cash Flow from Operations	**£402m**	£451m
Underlying cash conversion %	**107%**	126%
Non-recurring cash items	**(£23m)**	(£9m)
Net interest paid	**(£21m)**	(£19m)
Income tax paid	**(£62m)**	(£81m)
Profit and loss foreign exchange movements	**(£1m)**	(£3m)
Free Cash Flow	**£295m**	£339m

Statutory Reconciliation of Cash Flow from Operations	FY22	FY21 (as reported)
Statutory Cash Flow from Operations	**£368m**	£476m
Recurring and non-recurring items	**£55m**	£30m
Net capital expenditure	**(£22m)**	(£55m)
Other adjustment including foreign exchange translations	**£1m**	–
Underlying Cash Flow from Operations	**£402m**	£451m

Net debt and liquidity

Group net debt was £733m at 30 September 2022 (30 September 2021: £247m), comprising cash and cash equivalents of £489m (30 September 2021: £567m) and total debt of £1,222m (30 September 2021: £814m). The Group had £1,270m of cash and available liquidity at 30 September 2022 (30 September 2021: £1,236m).

The increase in net debt in the period is summarised in the table below.

	FY22	FY21 (as reported)
Net debt at 1 October	**(£247m)**	(£151m)
Free cash flow	**£295m**	£339m
New leases	**(£6m)**	(£8m)
Disposal of businesses	**£43m**	£142m
Acquisition of businesses	**(£315m)**	–
M&A and equity investments	**(£22m)**	(£39m)
Dividends paid	**(£183m)**	(£189m)
Share buyback	**(£249m)**	(£353m)
Purchase of shares by Employee Benefit Trust	**(£32m)**	–
FX movement and other	**(£17m)**	£12m
Net debt at 30 September	**(£733m)**	(£247m)

The Group's debt is sourced from a syndicated multi-currency Revolving Credit Facility (RCF), US private placement (USPP) loan notes, and sterling denominated bond notes. The Group's RCF expires in February 2025 with facility levels of £781m (split between US$719m and £135m tranches). At 30 September 2022, the RCF was undrawn (FY21: undrawn).

The Group's USPP loan notes at 30 September 2022 totalled £386m (US$400m and EUR 30m) (FY21: £370m– US$400m and EUR 85m). The USPP loan notes have a range of maturities between January 2023 and May 2025.

The Group's sterling denominated bond notes comprise a £400m 12-year bond, issued in February 2022, with a coupon of 2.875%, and a £350m 10-year bond, with a coupon of 1.625%, issued in February 2021.

Sage has an investment grade issuer credit rating assigned by Standard and Poor's of BBB+ (stable outlook). Maturities within the next 18 months comprise EUR 30m (£26m) and US$150m (£135m) of the Group's USPP loan notes in January 2023 and May 2023, respectively.

Capital allocation

Sage maintains a disciplined approach to capital allocation, with a focus on accelerating strategic execution through organic and inorganic investment, including through acquisitions and partnerships to enhance Sage Business Cloud and further develop Sage's digital network. During the year Sage made acquisitions of complementary technologies including Brightpearl, Futrli and Lockstep, and completed its disposal programme with the sale of the Swiss business and the South African payroll outsourcing business.

Sage has adopted a progressive dividend policy, intending to grow the dividend over time while considering the future capital requirements of the Group. Reflecting the Group's strong business performance and cash generation during the year, we have increased the total dividend for the year by 4% to 18.40p.

The Group also considers returning surplus capital to shareholders. On 24 January 2022, Sage completed a £300m share buyback programme that commenced on 6 September 2021. A total of 39.8m shares were purchased under this programme and are held as treasury shares. Including a previous £300m share buyback programme undertaken during FY21, this brings the total capital returned to shareholders since March 2021 to £600m. As a result, the weighted average number of shares in issue during the year declined by 6% compared to last year.

	FY22	FY21 (as reported)
Net debt	**£733m**	£247m
EBITDA (Last Twelve Months)	**£468m**	£443m
Net debt/EBITDA Ratio	**1.6x**	0.6x

The Group's EBITDA over the last 12 months was £468m, resulting in a net debt to EBITDA leverage ratio of 1.6x, up from 0.6x in the prior year principally due to the impact of the share buyback and acquisitions on net debt. Group return on capital employed (ROCE) for FY22 was 18% (FY21 as reported: 19%).

Sage intends to operate in a broad range of 1–2x net debt to EBITDA over the medium term, with flexibility to move outside this range as business needs require.

Going concern

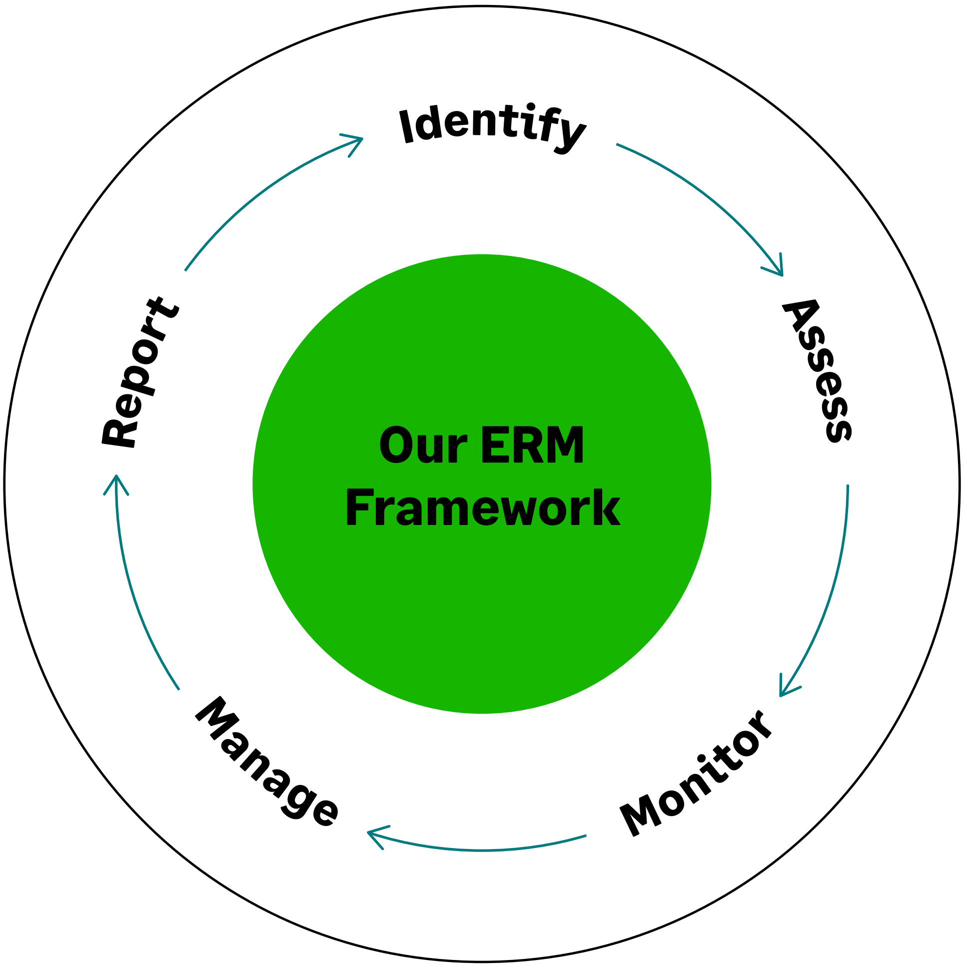
The Directors have robustly tested the going concern assumption in preparing these financial statements, taking into account the Group's strong liquidity position at 30 September 2022 and a number of downside sensitivities, and remain satisfied that the going concern basis of preparation is appropriate. Further information is provided in the Directors' Report on pages 182 to 188 and in note 1 of the financial statements on pages 207 to 209.

Foreign exchange

The Group does not hedge foreign currency profit and loss translation exposures and the statutory results are therefore impacted by movements in exchange rates. The average rates used to translate the consolidated income statement and to normalise prior year underlying and organic figures are as follows:

Average exchange rates (equal to GBP)	**FY22**	FY21	Change
Euro (€)	**1.18**	1.15	3%
US Dollar ($)	**1.28**	1.37	-7%
Canadian Dollar (C$)	**1.63**	1.73	-6%
South African Rand (ZAR)	**20.21**	20.28	–
Australian Dollar (A$)	**1.80**	1.82	-1%

Risk Management Framework



Our Enterprise Risk Management (ERM) Framework helps Sage manage strategic, operational, commercial, financial, compliance, change, and emerging risks and enables a consistent approach to the identification, management, and oversight of risks.

This helps us to deliver our strategic objectives and goals through risk-informed decisions. We seek to continuously improve the use and adoption of Sage's ERM Framework, to ensure it is not a process which is applied to the business but instead something which is integral to how we make decisions and work day-to-day.

Using our ERM Framework, all Regions and Functions are expected to identify risks that could impact the successful execution of their strategy and operations while managing any risk exposure, ensuring appropriate controls and action plans are in place. The ERM Framework helps focus our efforts on the areas that matter most to Sage, providing clarity about risk tolerances and appetite in a way that facilitates effective business decisions and ensures that Sage is adequately prepared to manage risks.

How we identify risks

Our risk identification process follows an enterprise-wide "top-down, bottom-up" approach, which seeks to identify:

- Top-down we focus on Principal Risks that may impact our ability to achieve our strategic objectives, with these risks representing the risks that most threaten delivery of our strategy; and
- Bottom-up we focus on strategic, commercial, operational, compliance, and change risks ("business risks") that occur at a regional and functional level. These risks pose the greatest threat to the success of business activities across the Group.

How we assess risks

All identified risks are analysed for likelihood and impact using a risk assessment criterion tailored for Sage that considers the impact on our customers and our colleagues as well as possible financial impact. The analysis considers risk before any mitigations (i.e. inherent risk) and after all current mitigations (i.e. residual risk). This helps enhance decision making at all levels. The key benefit of assessing inherent risk is that it highlights the potential risk exposure if mitigation were to fail completely or not be in place at all.

How we manage risk

We recognise that eliminating risk is often not feasible or desirable, so we use risk appetite to provide our leaders with the guidance they need to make decisions on the level of risk that can be taken or sought to achieve strategic objectives. Our risk appetite statements are approved by the Board.

At a Principal Risk level, each risk is assigned an Executive Owner. The Executive Owner is responsible for the overall management of risk, ensuring that adequate controls are in place and that the necessary action plans are implemented should the risk be outside of appetite.

In addition to the Principal Risks, business risks are identified and captured at a regional or functional level. These risks are owned and managed within their respective management structures and are reviewed on an ongoing basis. Formal review of these risks takes place on a quarterly basis through the Regional Risk Committees and Corporate Risk Boards, which are described below.

Risk reporting and monitoring

We consider risks both individually and collectively in order to fully understand our risk landscape. By analysing the correlation between risks, we can identify those that have the potential to cause, impact, or increase another risk. This exercise informs our scenario analysis, particularly the combined scenario used in the Viability Statement on page 104.

Business risks are consolidated into a Group-wide view and presented to our senior leaders, who add their own input from a strategic, functional, and emerging risk perspective. Business risks are then escalated in line with the Risk Management Policy and via our ERM Framework to the Regional and Global Risk Committees. This escalation process provides organisational visibility to emerging, strategic, commercial, operational, financial, and compliance risks, as well as driving action and supporting accountability for risk management. As part of the escalation process, the risks are analysed to consider whether they need to be included in the current set of Principal Risks or a new Principal Risk should be created. You can read more about Principal Risks on pages 96 to 103.

Principal Risks are monitored against risk appetite targets using supporting measures, metrics, and tolerances, which are evaluated throughout the year to ensure they remain aligned with our strategic objectives, and within an acceptable risk tolerance for the Group.

Sage operates a formal risk governance structure to ensure risk management is at the forefront of decision making. By having effective governance arrangements in place, this allows for clear points of escalation, while ensuring adequate oversight is in place to ensure risks are managed and mitigated.

Risk management continued

Risk governance

Top down
Oversight and assessment of risk exposures at the corporate level

Bottom up
Identification and assessment of risk exposures at segment and function level

The Board
Ultimately responsible for the setting of Sage's risk appetite
Responsible for risk management and internal control systems
To establish appropriate governance arrangements and act as a champion of "top-down" risk culture

Audit and Risk Committee
Acts as an independent advisor, providing assurance to the Board on the effectiveness of Sage's approach to risk management
Oversight of financial reporting and related internal controls

Global Risk Committee
Provides oversight of risk appetite and approach to risk management strategy
Acts as a point of escalation for Regional Risk Committees and Corporate Risk Boards
Provides oversight and approval of Sage's Principal Risks

Regional Risk Committees
Responsible for reviewing key operational and strategic risks that could implicate regional strategy plans or Sage's Principal Risks

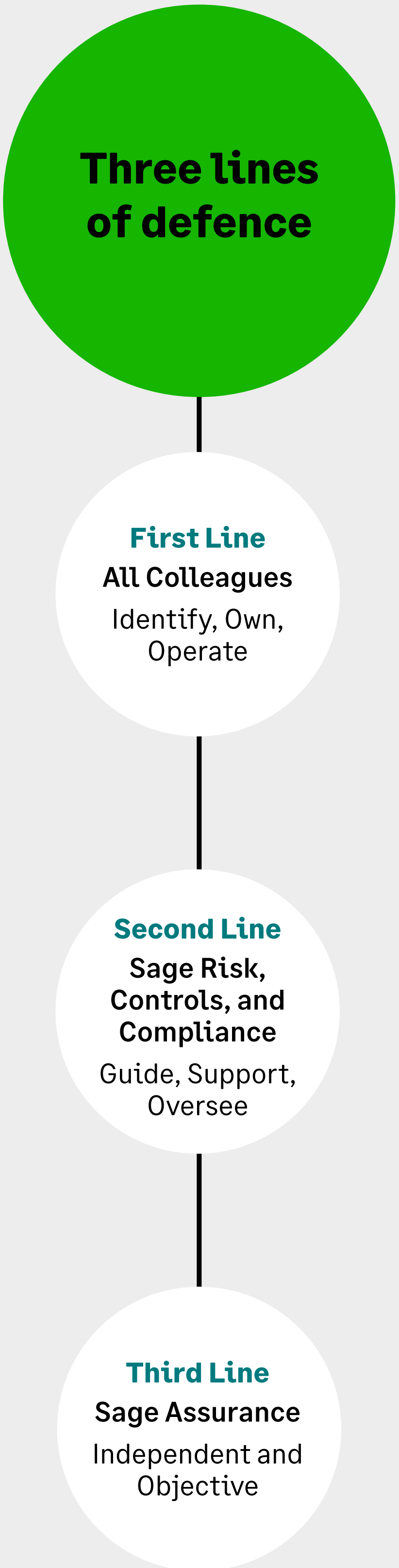
Corporate Risk Boards
Responsible for providing oversight of key business areas such as Product, Security, Data Privacy, and IT

Board
The Board has overall responsibility for risk management and establishing the Group's risk appetite. It monitors the risk environment and reviews the relevance and appropriateness of the Principal Risks to the business.

Audit and Risk Committee
The Audit and Risk Committee (ARC) supports the Board in setting the Group's risk appetite and ensuring that processes are in place to identify, manage, and mitigate the Group's Principal Risks. At each meeting, the Committee reviews the Principal Risks and their associated appetite targets and metrics, to assess whether they continue to be relevant, effective, and aligned to the achievement of Sage's strategic objectives, and within an acceptable tolerance for the Group.

Global Risk Committee
The Global Risk Committee is chaired by the General Counsel and Company Secretary, supported by the EVP Chief Risk Officer. The membership also includes the Chief Executive Officer. Other Principal Risk owners are invited to attend the Global Risk Committee when relevant. The Committee meets quarterly and has responsibility for providing direction and support for the management of risk across Sage, including setting and monitoring the risk appetite of each Principal Risk and ensuring effective mitigations for these. The Committee also provides the Board and the ARC with information to enable them to discharge their responsibility to review the company's internal financial controls and internal control and risk management systems.

Regional Risk Committees and Corporate Risk Boards
Every business and function is required to adopt the ERM Framework. In order to do this, each business area either has a Regional Risk Committee or a Corporate Risk Board tasked with reviewing key operational as well as strategic risks that could implicate the delivery of the regional strategy plan, while ensuring there are sufficient mitigation plans in place to prevent those key risks from materialising. Risks are escalated from the Regional Risk Committees and Corporate Risk Boards to the Global Risk Committee where necessary.



Three lines of defence
Our three lines of defence governance model defines clear roles and responsibilities for all colleagues and establishes accountability for actions and decisions. It also describes how appropriate oversight, challenge and assurance are provided over business activities.

The First Line of defence is all of our colleagues, who are at the forefront of the business. It is our colleagues who hold the necessary skills and knowledge to help with the identification and management of risks within our business. Colleagues in the First Line have ultimate accountability for the management and ownership of risk while ensuring those risks are managed through the wider Risk Management Framework.

The Second Line of defence consists of the Risk, Internal Controls and Compliance Team. They are responsible for setting the framework, policies, tools, and techniques to enable the First Line to effectively manage risk. As part of this role, colleagues in the Second Line are on hand to provide support and guidance to ensure a consistent approach to managing risk is maintained. This includes supporting the Global Risk Committee, the Regional Risk Committees and the Corporate Risk Boards in fulfilling their responsibilities.

The Third Line of defence is Sage's Internal Audit/ Assurance team. The main role of our Assurance team is to ensure the first two lines of defence are operating effectively. The team does this by conducting risk-based reviews on the effectiveness of risk management, internal controls, and governance. The Assurance team is accountable to the ARC as it needs to provide comfort to Sage's leadership team that appropriate controls and processes are in place and are operating effectively.

Risk culture

Sage recognises that culture underpins the effectiveness of the ERM Framework and supports an effective control environment. Sage's Values set out how our strategy should be executed and help ensure that a culture of effectively managing risks is linked to daily business activities and outcomes. Our Code of Conduct reinforces these Values and sets clear expectations across Sage for compliance with ethical standards. Behaviour forms a significant part of our colleague performance management process, and, in FY22, culture continued to be managed as a Principal Risk.

During 2022, we continued to deliver our compliance training programme, with evidence-based and innovative design principles. Through demonstrating clear alignment between learning content and Sage Values, we are able to support accountability and empower values-aligned, risk-based decision making in the business.

In 2022, we also launched our new Personal Data Protection education to all colleagues in multiple languages, supporting Sage's "Privacy by Design" principles, and showing how we can effectively protect our colleague and customer data, while still supporting new and innovative ideas.

Business case study

Key to embedding a risk management culture is Sage's Security Champions Network. The Security Champions Network is an industry best practice approach to enhance, embed, and unify security and software engineering to ensure security and security risk management is baked into the development process. Security Champions at Sage are evangelists for security and play a critical role to increase the security and marketability of Sage's products and services. Security Champions are an integral part of how we deliver a positive security culture and "shift security left", which means integrating it into the design of products at the outset through "good, clean, and secure" code.

Security Champions at Sage sit within product and technology teams (Testers, Developers, and DevOps) and dedicate 10% of their time to security activities, with security goals supported by their managers. Security Champions are a force multiplier for Sage's Global Security Function.

"Security champions are an invaluable force multiplier for the Global Security team. They use their expertise and knowledge to identify and mitigate risks during the development lifecycle of our products and ensure that we deliver secure and reliable products for our customers. We are very proud of external feedback and benchmarking that demonstrates Sage's Security Champions programme is genuinely industry-leading."

Ben Aung, EVP
Chief Risk Officer

A changing risk landscape

The current geopolitical and macroeconomic environment has resulted in a challenging risk landscape for all organisations. Our ERM Framework equips us to monitor, understand, and respond to external uncertainties and events. The external risk landscape is reviewed regularly by the Global Risk Committee to ensure Sage is proactively responding to external events with potentially material impacts.

The war in Ukraine has created uncertainty for our colleagues, customers, partners, and investors. Following this unprecedented situation, Sage rapidly evaluated the risks, determined potential impacts to our business, and made changes to our Sanctions Policy and supporting processes, to respond to increasing third-party and supplier risks. We also used our current cyber security capabilities and tools to strengthen our resilience against potential cyber threats that may come from Russia. Through our risk governance channels, we continue to monitor the possible wider effects of the conflict. The Sage Foundation has also been supporting the crisis through fundraising initiatives. You can find out more about this work on page 75.

The Global Risk Committee (GRC) reviewed Sage's broader approach to resilience, contingency and business continuity planning, with a focus on preparedness for potential energy supply issues in Europe during the 2022/2023 winter months. The GRC has also considered the potential impact on our colleagues, our business operations and our customers.

Whilst the Covid-19 pandemic has stabilised and much has returned to normal, we continue to monitor its long-term effects through the Principal Risk process, particularly on changing colleagues' expectations of flexibility and remote working and the potential impact on attracting and retaining talent.

The pandemic, the conflict between Russia and Ukraine, trade war between US and China, energy shortages, and rising interest rates and inflation have increased the risk of a recession in many of our key markets. Our ERM processes have enabled us to proactively monitor these trends and the resultant effect it may have on our colleagues, customers, and partners.

Emerging risks

Our ERM Framework includes a robust emerging risk identification and analysis process. Throughout the year, we run a series of workshops with representatives from all Sage business areas, including Marketing and Customer Experience, Product, Security, Sustainability, People, Finance, Corporate Affairs and Strategy. During the workshops, we consider current external mega-trends and global threats and opportunities over the short, medium, and long term. Through these workshops, we are able to define a set of scenarios which may have an impact on Sage as well as the potential time horizon of each scenario.

During 2022, through the emerging risk assessment cycle, we identified three main themes which we used to define the emerging risk scenarios:

1. Major technological shifts prompting new competitors and business models.
2. Maintaining the trust of our stakeholders in a rapidly changing external environment with continuously evolving cultural norms.
3. Balancing the need for an efficient business strategy with the need to be a resilient business to rapidly respond to major unforeseen global events without significant disruption to business operations.

We then evaluate the extent of planning and mitigation Sage needs to put in place to ensure we are adequately prepared and protected for our key emerging risks.

Principal Risks and uncertainties

The Board and the Audit and Risk Committee carried out a robust and ongoing assessment of the principal and emerging risks facing the Group throughout the year. This assessment considered those risks that would threaten Sage's business model, future performance, solvency, or liquidity, and ensured that the risks continued to align with our business strategy.

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

In accordance with principles M, N, and O of the Code, in addition to Paragraph 58 of the FRC guidance (Section 6), the Board is responsible for reviewing the effectiveness of the risk management and internal control systems and confirms that:

- There is an ongoing process for identifying, evaluating, and managing the Principal Risks faced by the Company;
- The systems have been in place for the year under review and up to the date of approval of the Annual Report and Accounts;
- They are regularly reviewed by the Board; and
- The systems accord with the FRC guidance on risk management, internal control, and related financial and business reporting.

There were no instances of significant control failing or weakness in the year.

You can read more about our risk management and internal controls systems in our Strategic Report on pages 90 to 95 and about the associated work of the Audit and Risk Committee on pages 138 to 147.

The following table provides an overview of the Group's Principal Risks and the way these are managed.

KEY

Scale Sage Intacct | Expand medium beyond financials | Build the small business engine | Scale the network | Learn and disrupt

RISK ENVIRONMENT CHANGE

Improving | Stable | Decreasing

Principal Risk	Risk context	Management and mitigation
1. Understanding Customer Needs **If we fail to anticipate, understand, and deliver against the capabilities and experiences our current and future customers need in a timely manner, they will find alternative solution providers.** **Trend** Decreasing **Strategic alignment** Expand medium beyond financials; Build the small business engine; Learn and disrupt **Link to Viability Scenario** Data Breach Existing or New Market Disruptor Global Economic Shock Cloud Operations Failure	As Sage continues to communicate its refreshed brand and purpose, understanding of how to attract new customers whilst retaining its existing customers is essential. This requires a deep and continuous flow of insights supported by processes and systems. By understanding the needs of our customers, Sage will differentiate itself from competitors, build compelling value propositions and offers, leverage key drivers to identify opportunities, influence product and process roadmaps, decrease churn, and drive more effective revenue generation. **Executive Owner** Chief Marketing Officer	• A refreshed brand launched to communicate the new vision of how Sage will support businesses • Brand health surveys to provide an understanding of customer perception of the Sage brand and its products, used to inform and enhance our market offerings • A Market and Competitive Intelligence team to provide insights that Sage uses to win in the market • Proactive analysis of customer activity and churn data, to improve customer experience • Customer Segmentation Framework and the customer market analysis by region to help inform product roadmaps • Customer Advisory Boards, Customer Design Sessions, and NPS detractor call-back channels to constantly gather information on customer needs

Principal Risk	Risk context	Management and mitigation
2. Execution of Product Strategy **If we fail to deliver the capabilities and experiences outlined in our product strategy in a timely manner, we will not meet the needs of our customers or our commercial goals.** **Trend** **Strategic alignment** **Link to Viability Scenario** Existing or New Market Disruptor Global Economic Shock Cloud Operations Failure	We need to execute at pace a prioritised product strategy that continues to simplify our product portfolio and focuses on our drive to create a digital network that will benefit our customers. **Executive Owner** Chief Product Officer	• A product strategy in line with FY23 strategic objectives and priorities, based on our market understanding and customer expectations • A robust product organisation supported by a governance model to enable the way we build products • Migration framework in key countries to support our customers in their journey to the cloud • Continued expansion of Sage Intacct outside of North America and for additional product verticals (i.e. retail with the acquisition of Brightpearl) • Digitalisation of Sage products to support strategic objectives through the integration of Lockstep. • Product design governance to ensure product development is always driven by our understanding of our ability to penetrate key markets • An improved proposition for accountants
3. Developing and Exploiting New Business Models **If we are unable to develop, commercialise and scale new business models to diversify from traditional SaaS, especially consumption-based services and those which leverage data, we will not meet the needs of our customers or our commercial goals.** **Trend** **Strategic alignment** **Link to Viability Scenario** Data Breach Existing or New Market Disruptor Cloud Operations Failure	We must be able to rapidly deploy new innovations to our customers and partners by introducing technologies, services, or new ways of working. Innovation requires us to address how we drive change and transformation across our people, processes, and technology, and how we differentiate our products and drive customer efficiencies. **Executive Owner** Chief Marketing Officer	• Creation of a new Business Unit solely focused on creating the Sage Digital Network • Continued focus on AI/ML development coupled with a drive to improve how to exploit data to provide better management insight to our customers • Enhanced, consistent digital experience for all Sage Business Cloud users through the Sage Design System • Strategic acquisitions and collaboration with partners to complement and enable accelerated innovation • Focused colleague engagement to accelerate innovation across the organisation through a Continuous Innovation Community

Principal Risks and uncertainties continued

KEY

Scale Sage Intacct | Expand medium beyond financials | Build the small business engine | Scale the network | Learn and disrupt

RISK ENVIRONMENT CHANGE

Improving | Stable | Decreasing

Principal Risk	Risk context	Management and mitigation
4. Route to Market **If we fail to deliver a bespoke blend of route to market channels in each country, based upon common components, we will not be able to efficiently deliver the right capabilities and experiences to our current and future customers.** **Trend** Decreasing **Strategic alignment** Expand medium beyond financials; Build the small business engine; Scale the network **Link to Viability Scenario** Data Breach Existing or New Market Disruptor Global Economic Shock Cloud Operations Failure	We have a blend of channels to communicate with our current and potential customers and ensure our customers receive the right information on the right products and services at the right time. Our sales channels include selling directly to customers through digital and telephony channels, via our accountant network and through partners, value added resellers, and ISVs. We use these channels to maximise our marketing and customer engagement activities. This can shorten our sales cycle and ensure that customer retention is improved. **Executive Owner** President EMEA and President NA	• Market data and intelligence is used to support decision making regarding the best routes to market • Dedicated colleagues are in place to support partners, and to help manage the growth of targeted channels • Sale processes are targeted and configured by region for key customer segments and verticals • A dedicated On-Boarding Squad to enhance user journeys to enable customer conversion • Acceleration of new partnerships to support the Digital Network • Centre of Excellence to support our Indirect Sales and Third-Party approach

Principal Risk	Risk context	Management and mitigation
5. Customer Experience **If we fail to effectively identify and deliver ongoing value to our customers by focusing on their needs over the lifetime of their customer journey, we will not be able to achieve sustainable growth through renewal.** **Trend** **Strategic alignment** **Link to Viability Scenario** Data Breach Existing or New Market Disruptor Global Economic Shock Cloud Operations Failure	We must maintain a sharp focus on the relationship we have with our customers, constantly focusing on delivering the products, services, and experiences our customers need to be successful. If we do not do this, they will likely find another provider who does give them these things. Conversely, if we do these things well, these customers will stay with Sage, increasing their lifetime value, and becoming our greatest marketing advocates. Whilst Sage is known for its quality customer support, this area requires constant, proactive focus. By helping customers to recognise and fully realise the value of Sage's products, we can help increase the value of these relationships over time and reduce the likelihood of customer loss. By aligning our people, processes and technology with this focus in mind, all Sage colleagues can help support our customers to be successful and in turn drive increased financial performance. **Executive Owner** Chief Marketing Officer	• Battlecards are in place for key products in all countries, setting out the strengths and weaknesses of competitors and their products • A data-driven Customer Success Framework to enhance the customer experience and ensure that Sage is better positioned to meet the current and future needs of the customer • Customer Journey mapping and mapping of the five core customer processes to ensure appropriate strategy alignment and alignment to Target Operating Model • Sage's "Customer for life" roadmaps, detailing how products fit together, any interdependencies, and migration pathways for current and potential customers • Continuous NPS surveying allows Sage to identify customer challenges rapidly, and respond in a timely manner to emerging trends • Launch of Sage Membership, providing customers with access to curated resources, tools, and a connected community of business leaders
6. Third-Party Reliance **If we do not embed our partners as an integral and aligned part of Sage's go-to-market strategy in a timely manner, we will fail to deliver the right capabilities and experiences to our customers.** **Trend** **Strategic alignment** **Link to Viability Scenario** None	Sage places reliance on third-party providers to support the delivery of our products to our customers through the provision of cloud native products. Sage also has an extensive network of sales partners critical to our success in the market, and suppliers upon whom it places reliance. Any interruption in these services or relationships could have a profound impact on Sage's reputation in the market and could result in significant financial liabilities and losses. **Executive Owner** Chief Product Officer	• Centre of Excellence for our Indirect Sales and Third-Party partners • Dedicated colleagues in place to support partners, and to help manage the growth of targeted channels • Standardised implementation plans for Sage products that facilitate efficient partner implementation • Managed growth of the API estate, including enhanced product development that enables access by third-party API developers • Enhanced third-party management framework, to support closer alignment and oversight of third-party activities • A specialised Procurement function supporting the business with the selection of strategic third-party suppliers and negotiation of contracts • Investing in new types of partnerships to explore and grow business in new markets

Principal Risks and uncertainties continued

KEY

Scale Sage Intacct | Expand medium beyond financials | Build the small business engine | Scale the network | Learn and disrupt

RISK ENVIRONMENT CHANGE

Improving | Stable | Decreasing

Principal Risk	Risk context	Management and mitigation
7. People and Performance **If we fail to ensure we have engaged colleagues with the critical skills, capabilities and capacity we need to deliver on our strategy, we will not be successful.** **Trend** Stable **Strategic alignment** Scale Sage Intacct, Expand medium beyond financials, Build the small business engine, Scale the network, Learn and disrupt **Link to Viability Scenario** Data Breach	As we evolve our priorities, the capacity, knowledge, and leadership skills we need will continue to change. Sage will not only need to attract the talent and experience we will need to help navigate this change. We will also need to provide an environment where colleagues can develop to meet these new expectations, an environment where everyone can perform at their very best. By empowering colleagues and leaders to make decisions, be innovative, and be bold in delivering on our commitments, Sage will be able to create an attractive working environment. By addressing drivers of colleague voluntary attrition, and embracing the values of successful technology companies, Sage can increase colleague engagement and create an aligned high-performing team. **Executive Owner** Chief People Officer	• Extensive focus on hiring channels to ensure we are attractive in the market through our enhanced employee value proposition, and enhanced presence through social media such as Glassdoor, Comparably, Twitter, LinkedIn, and Facebook • Hiring practices focused on the skills we need in balance with organisational costs supported by a methodology for upskilling and building capability in the long term from within the organisation • Reward mechanisms designed to incentivise and drive the right behaviour with a focus on ensuring fair and equitable pay in all markets • Focused development of our leaders (e.g. a 7-month Senior Leadership Programme) to ensure they create the environment which enables colleagues to thrive and perform at their very best • Implementing an effective hybrid working model across the organisation

Principal Risk	Risk context	Management and mitigation
8. Culture **If we do not fully empower our colleagues and enable them to take accountability in line with our shared Values, we will be challenged to maintain a culture that meets Sage's business ambitions.** **Trend** **Strategic alignment** **Link to Viability Scenario** Data Breach	The development of a shared behavioural competency that encourages colleagues to always do the right thing, put customers at the heart of business and drive innovation is critical in Sage's success. Devolution of decision making, and the acceptance of accountability for these decisions, will need to go hand in hand as the organisation develops and sustains its shared Values, and fosters a culture that provides customers a rich digital environment. Sage will also need to create a culture of empowered leaders that supports the development of ideas, and that provides colleagues with a safe environment allowing for honest disclosures and discussions. Such a trusting and empowered environment can help sustain innovation, enhance customer success and drive the engagement that results in increased market share. **Executive Owner** Chief People Officer	• Refreshed Values launched to align with our refreshed Sage brand • Integration of Values into all colleague priorities including talent attraction, selection, and onboarding as well as performance management • All colleagues are actively encouraged to take up to five paid Sage Foundation days each year, to support charities and provide philanthropic support to the community • Commitments to DEI including zero tolerance of discrimination, equal chance for everyone, inclusive culture and removing barriers • A DEI strategy focused on building diverse teams, an equitable culture, and fostering inclusive leadership. This strategy is supported by measurable plans and metrics to track progress • A new transparency and accountability development framework • Code of Conduct communicated to all colleagues, and subject to certification every two years • Core elearning modules rolled out across Sage, with regular refresher training • Whistleblowing and incident reporting mechanisms in place to allow issues to be formally reported and investigated

Principal Risks and uncertainties continued

KEY

Scale Sage Intacct | Expand medium beyond financials | Build the small business engine | Scale the network | Learn and disrupt

RISK ENVIRONMENT CHANGE

Improving | Stable | Decreasing

Principal Risk	Risk context	Management and mitigation
9. Cyber Security and Data Privacy **If we fail to responsibly collect, process, and store data, together with ensuring an appropriate standard of cyber security across the business, we will not meet our regulatory obligations, and will lose the trust of our stakeholders.** **Trend** Decreasing **Strategic alignment** Scale Sage Intacct, Build the small business engine, Scale the network **Link to Viability Scenario** Data Breach Cloud Operations Failure	Information is the life blood of a digital company—protecting the confidentiality, integrity, and accessibility of this data is critical for a data-driven business, and failure to do so can have significant financial and regulatory consequences in the GDPR era. In addition, we need to use our data efficiently and effectively to drive improved business performance. **Executive Owner** General Counsel and Chief Risk Officer	• Multi-year cyber security programmes in IT and products to ensure Sage is driving continuous improvement and cyber risk reduction across technology, business processes, and culture • Accountability within both IT and Product for all internal and external data being processed by Sage. The Chief Information Security Officer oversees information security, with a network of Information Security Officers that directly support the business • The Chief Data Protection Officer oversees data privacy protection • Formal certification schemes maintained across the business, and include internal and external validation of compliance • All colleagues are required to undertake awareness training for cyber security, information management, and data protection, with a focus on the GDPR requirements • A Cyber Security Risk Management Methodology is deployed to provide objective risk information on our assets and systems
10. Data Strategy **If we fail to recognise the value of our data assets, deliver effective data foundations, and capitalise on their use, we will not be able to realise their full potential to secure strategically aligned outcomes.** **Trend** Decreasing **Strategic alignment** Scale Sage Intacct, Build the small business engine, Scale the network, Learn and disrupt **Link to Viability Scenario** Data Breach Existing or New Market Disruptor	Data is central to the Sage strategy to deliver our ambition of a digital network. The strategy is underpinned by our ability to innovate and develop solutions to enhance customer propositions, improve insight and decision making, and create new business models and ecosystems. The ability to successfully use data will accelerate our growth and will be a key driver in helping customers transform how they run and build their businesses. **Executive Owner** Chief Data Officer and President EMEA	• Data strategy across customer, product, and enterprise data to support the delivery of customer value and solve customer problems, including the use of enhanced Artificial Intelligence/Machine Learning capabilities • A global data function that drives focus and alignment across the organisation. In FY22, Sage appointed it's first Chief Data Officer • A defined set of Data ethics and principles to ensure we use customer data responsibly to achieve our strategy • Plan to increase digital network participation, which will contribute to more data to support the delivery of real customer value and solve real customer problems • The implementation of data architecture and associated data models that facilitate data sharing and utilisation • A data asset register, and associated use case catalogue, to enable effective prioritisation and value creation

Principal Risk	Risk context	Management and mitigation
11. Readiness to Scale **If we fail to maintain a reliable, scalable, and secure live services environment, we will be unable to deliver the consistent cloud experience expected by our customers.** **Trend** **Strategic alignment** **Link to Viability Scenario** Data Breach Cloud Operations Failure	As Sage transitions to a digital company, we continue to focus on scaling our current and future platform services environment in a robust, agile, and speedy manner to ensure the delivery of a consistent and robust cloud platform and associated digital network. Sage must provide the right infrastructure and operations for all of our customer products, a hosting platform, together with the governance to ensure optimal service availability, performance, security protection, and restoration (if required). **Executive Owner** Chief Product Officer	• Migration of products to public cloud offerings to improve scalability, resilience, and security • Accountability across product owners, underpinned by ongoing risk assessments and continuous improvement projects • Formal onboarding process including ongoing management in Portfolio Management processes • Incident and problem management change processes adhered to for all products and services • Service-level objectives including uptime, responsiveness, and mean time to repair objectives • Defined Real-Time Demand Management processes and controls and also Disaster Recovery Capability and operational resilience models • Improved focus and monitoring of product availability • A governance framework to optimise operational cost base in line with key metrics • All new acquisitions are required to adopt Sage cloud operation standards
12. Environment, Social, and Governance **If we fail to fully, and continually, respond to the range of environmental (especially climate), social, and governance-related opportunities and risks, we may fail to deliver positive change to social and environmental issues and damage the confidence of our stakeholders.** **Trend** **Strategic Alignment** **Link to Viability Scenario** None	We are committed to investing in education, technology, and the environment to give individuals, SMBs, and our planet the opportunity to thrive. Internally, it is essential that Sage understands the potential impact of climate change to its strategy and operations and considers appropriate mitigations. Societal and Governance related issues are integral to Sage's purpose and Values and to the delivery of Sage's strategy. You can read more about the work that is being done within ESG in the Sustainability and Society Report. **Executive Owner** Chief People Officer and EVP Sustainability and Foundation	• A robust Sustainability and Society strategy which was launched in 2021, focusing on three pillars: Tech for Good, Fuel for Business, and Protect the Planet • Underpinning the strategy is a robust cross-functional governance framework • Tracking tools in place to enable horizon scanning and to track the Sustainability and Society strategy's impact • As part of our broader Sustainability function, the Sage Foundation, established in 2015, remains focused on the areas of education, employment, and entrepreneurship via the contribution of time, investment, and capability • An integrated framework for the management of climate-related risks, including physical and transitional climate risks as recommended by the TCFD • An ambitious carbon reduction target and a robust plan to achieve it.

Viability Statement

Assessment of prospects and viability period

In accordance with provision 31 of the 2018 UK Corporate Governance Code, the Directors set out how they have assessed the Group's prospects, the period covered by the assessment and the Group's formal Viability Statement.

The Directors have assessed the prospects of the Group by considering the Group's current financial position, its recent and historic financial performance and forecasts, its business model and strategy (pages 12 and 13 and 22 to 36), and the Principal Risks and uncertainties (pages 96 to 103).

The Group's operational and financially robust position is supported by:

- High-quality recurring and subscription-based revenue;
- A resilient cash generation and robust liquidity position which is supported by strong underlying cash conversion of 107%, reflecting the strength of the subscription business model; and
- A well-diversified small and medium customer base.

The Directors have reviewed the period used for the assessment and determined that three years remains suitable. The Directors are of the view that projections over a three-year period remain appropriate given the relative predictability of cash flows associated with Sage's subscription business during this period. This period aligns our Viability Statement with our three-year strategic planning horizon, and is appropriate given the nature and investment cycle of a technology business. Projections beyond this period are less reliable due to the continuously evolving technology landscape in which Sage operates.

No scenario modelled over the three-year period leads to a breach in Sage's debt covenants or results in insufficient liquidity headroom. The Directors have no reason to believe the Group will not be viable over a longer period.

Assumptions

The financial forecasts contained in the Group's three-year plan make certain assumptions about composition of the Group's product portfolio and the ability to acquire new customers and maintain a strong renewal rate by value by providing additional functionalities to our existing customers. The plan also assumes that the Group continues to generate resilient cash conversion in excess of 100%, pays debt instalments as they fall due, and that the existing borrowing facilities remain available to the Group.

The assessment process

In forming the Viability Statement, the Directors carried out a robust assessment of the Principal Risks and uncertainties facing the Group which could impact the business model. These are reviewed by the Board and the Audit and Risk Committee quarterly and are a foundation for the Group's strategic plan. The risk process is outlined in more detail on pages 90 to 95 and includes consideration of the macroeconomic environment.

As part of the assessment, the Group stress tests the three-year plan using various severe but plausible scenarios. To achieve this, management reviewed the Principal Risks and considered which might threaten the Group's viability. None of the individual risks would in isolation compromise the Group's viability, and so several different severe scenarios were considered where Principal Risks arose in combination. The scenarios were developed with input from the Group's Global Risk Committee which comprises representation from key functions across the business.

Under the stress scenarios, churn assumptions have been increased by up to 75% and a reduction by up to 50% of new customer acquisition and sales to existing customers considered. In all stress scenarios, the Group continues to have sufficient resources to continue in operational existence without triggering the need to renegotiate debt. Scenarios modelled reflect our latest assessment of the anticipated impact of the risks identified in line with the prior year.

The scenarios considered to be the most plausible and significant in performing the assessment of viability and the combination of Principal Risks involved are shown on the next page.

Scenario modelled	Linked Principal Risks
(i) Data Breach The deliberate targeting or accidental release of customer data which breaches data privacy laws and/or societal expectations in any region could have a significant impact on Sage's reputation in the market, as well as impact its regulatory compliance in the various data protection laws to which Sage is subject.	• Understanding Customer Needs • Customer Experience • Developing and Exploiting New Business Models • Route to Market • People and Performance • Culture • Cyber Security and Data Privacy • Data Strategy • Readiness to Scale
(ii) Existing or New Market Disruptor The entry of a new player, or the expansion of an existing market player in the financial and accounting management space with a free or very low-cost offering that significantly disrupts Sage's total market share. Additionally, businesses that increasingly act as the intermediary between Sage and the end customer using our APIs may seek to disintermediate Sage.	• Understanding Customer Needs • Execution of Product Strategy • Developing and Exploiting New Business Models • Route to Market • Customer Experience • Data Strategy
(iii) Global Economic Shock The crystallisation of a global economic shock which leads to a global economic downturn or an inflationary wage-price spiral, resulting in increased default of SMBs. This could lead to a significant increase in customer churn and a reduced ability to sell to new or existing customers. Additionally, increased labour costs in key markets could make it difficult for Sage to retain and attract talent.	• Execution of Product Strategy • Route to Market • Customer Experience • Understanding Customer Needs
(iv) Cloud Operations Failure The risk of an event that causes the live services environment to be brought down due to the operating environment being changed internally through product or system changes, external or internal cyber-attack, or a key third-party provider being compromised.	• Understanding Customer Needs • Execution of Product Strategy • Developing and Exploiting New Business Models • Route to Market • Customer Experience • Cyber Security and Data Privacy • Readiness to Scale

The monetary impact of each scenario was estimated by a cross-functional group of senior leaders, including representatives from Finance, Risk, Cloud Operations, IT, Product Marketing, and Legal, who evaluated the possible consequences to the Group should each scenario arise. Consideration of the impact of the current economic landscape has been factored into the three-year plan, with incremental risk reflecting current levels of uncertainty modelled as part of the global economic shock scenario.

Expected changes in the Group's product mix through the ongoing migration towards cloud-based solutions, as well as the timing of repayment of debt, have been considered to ensure such matters do not adversely impact the assessment.

As set out in the Audit and Risk Committee's report on pages 138 to 147, the Directors reviewed and discussed the process undertaken by management, and also reviewed the results of reverse stress testing performed to provide an illustration of the level of churn and deterioration in new customer acquisition which would be required to trigger a breach in the Group's covenants or exhaust cash down to minimum working capital requirements. The result of the reverse stress testing has highlighted that such a scenario would only arise following a catastrophic deterioration in performance, well in excess of the assumptions considered in the viability scenarios set out above.

In the event that the scenarios set out above were to arise, management would have a number of options available to maintain the Group's financial position, including cost reduction measures, the arrangement of additional financing, and a review of the sustainability of the dividend policy.

Confirmation of longer-term viability

Based on the assessment explained above, the Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for at least the next three years.

Governance

The UK Corporate Governance Code 2018 Compliance Statement

Sage has applied the principles of the UK Corporate Governance Code 2018 (the "Code") and complied with all its provisions throughout FY22.

We believe that a robust corporate governance framework is important to protect stakeholder value. The Board promotes a culture of good corporate governance, to provide confidence in the delivery of Sage's strategic performance and to ensure the long-term sustainable success of the business.

The table to the right highlights where key content can be found in this report to demonstrate how we have applied the Code principles during FY22.

Colleagues are a key stakeholder for Sage and hearing their voice in the Boardroom is critical to assess the culture effectively. In FY22, as permitted by the Code, the Board continued with its chosen alternative approach to workforce engagement, through the Board Associate programme. The programme plays a crucial role in strengthening the colleague voice in the Boardroom, and educating colleagues on the role of the Board at Sage. This leads to more informed decision making by the Board in line with the expectations of the Code.

Following a thorough and rigorous appointment process, Derek Taylor, Senior VP Client Services and Sales, in Sage Intacct, was selected as the new Board Associate. Derek Taylor attends all Board meetings, observes how the Board makes decisions and introduces a colleague perspective to discussions. He has a deep knowledge of SaaS and the Sage Intacct business, and brings a powerful perspective by seeing things through a customer and colleague lens. Derek Taylor is based in California and began his 18-month tenure in July 2022.

Further details on the role of the Board Associate can be found on pages 126 and 127.

The Code is publicly available on the website of the UK Financial Reporting Council at www.frc.org.uk.

Andrew Duff
Chair

Our refreshed values are testament to our culture

Dear shareholder,

On behalf of the Board, I am pleased to introduce our Governance Report for the year ended 30 September 2022.

This report sets out our approach to effective corporate governance and outlines key areas of focus of the Board and its activities undertaken during the year as we continue to drive long-term value creation for all our stakeholders.

During my first year as Chair, I have met with many Sage colleagues, as well as other key stakeholders, in order to gain a deeper understanding of Sage's culture and business. I visited our operations in North America, South Africa and France, as well as the UK, where I gained first hand insight from our local management teams and colleagues about the opportunities and challenges they face. These activities have enabled me, over the last 12 months, to build a rapid understanding of Sage and its customers.

I am very grateful to all the colleagues and stakeholders who have taken time to speak with me during the year and to share their knowledge and insights. This knowledge is essential to ensure that I can lead the Board effectively and create the right conditions to enable us to deliver on our strategy of sustainable growth.

Board succession and diversity

I reported last year that a key area of Board focus was on increasing our gender diversity, as this had fallen below the target levels in FY21, due to appointments which were made to support the overall evolution of our Board. In FY22, a key Board priority has been on working towards rebalancing our gender diversity as we seek to meet the targets set by the FTSE Women Leaders Review and the targets specified in recent updates to the FCA's Listing Rules, which Sage will report against in FY23. Currently we meet the targets set by the Parker Review with regard to ethnic diversity. In May this year the Nomination Committee initiated a search for a new Non-executive Director.

In July 2022, Irana Wasti decided to step down from the Board after two years as a Non-executive Director, to pursue another executive opportunity. We are grateful to Irana for the valuable contribution, knowledge and industry expertise that she brought to her role at Sage.

Irana's departure from the Board, regrettably, further impacted our gender balance. The Nomination Committee commenced a second Non-executive Director search in August.

I am committed to ensuring that the Board composition reflects a diverse mix of skills, experience, personal attributes as well as broader aspects of diversity. This is whilst also ensuring that all Board appointments are made on merit and meet the needs of the Board. The Board was therefore delighted to recently announce that Maggie Chan Jones will join as a new Non-executive Director on 1 December 2022. Maggie brings with her deep international marketing and brand experience from her time spent at some of the world's largest technology companies and will highly complement the skills we have already on the Board.

As stated in the Board's Diversity, Equity and Inclusion policy, it remains our priority to minimise any temporary periods when the Board is unable to meet its diversity commitments. I look forward to announcing progress on the remaining Non-executive Director search in the near future.

Drummond Hall will have served on the Board for nine years, by January 2023. In his role as Senior Independent Director, Drummond continues to provide constructive challenge to the senior management team and is a significant asset to Sage, with his deep knowledge of the business and workings of the Board.

The Nomination Committee has assessed Drummond's independence and concluded that he continues to show independence of conduct, character, and judgement.

There have been several changes to the Board in the last couple of years, including my own appointment as Chair and the planned appointment of two more Non-executive Directors. To support continuity in a period of Board evolution, the Board has resolved to extend Drummond's tenure for a one-year period until January 2024.

The Board considers that this extension does not impair Drummond's independence and is confident that he will continue to contribute the correct balance of expertise, experience, challenge, and support required. The Board is grateful to Drummond for offering to serve for one additional year.

Further information on our Non-executive Director selection process and extension to Drummond Hall's term can be found in the Nomination Committee Report on pages 130 to 137.

Culture

The Board is responsible for setting the tone from the top and promoting a culture which creates a positive work environment where everyone feels respected, motivated and able to thrive. Our colleagues are essential for the delivery of our strategic objectives and our continued success. Their feedback is critical to the Board and we continue to monitor our culture through surveys, town-hall sessions, formal and informal engagement activities, and through hearing the views of our Board Associate.

During the year, the Board considered and approved Sage's refreshed values. These values have been developed with input from colleagues across the business and reflect those attributes our colleagues already see represented in our culture today. The Board will continue to monitor how the evolved values are brought to life for all our stakeholders and the role they play in helping us achieve our ambitions.

You can read more about our culture and colleague engagement activities on pages 38 to 43, 70 to 71, and 124 to 127.

Engagement with our stakeholders

I recognise that stakeholder engagement is critical to the long-term success of our business; the art of balancing different stakeholder views and needs in Board discussions and decision making is key.

One way in which the Board continues to maintain its two-way communications between the Board and our colleagues is through the role of the Board Associate. In July this year, the Board appointed its fourth Board Associate, Derek Taylor, who is Senior VP Client Services and Sales for Sage Intacct, and based in San Jose. The Board continues to challenge itself on how it can get the best out of the Board Associate role, to keep its pulse on colleague sentiment and insight so that it makes better decisions on matters impacting our key stakeholders. With a return to a more normal working environment, the Board has also been able to meet in person this year and participate in a range of engagement activities at our offices in Newcastle and San Jose. Such interaction is critical in aiding the Board's understanding of Sage, seeing the outcome of decisions taken in the Boardroom and assessing how well Sage's values are being lived day to day.

Further details on our new Board Associate can be found on pages 126 and 127. Details on how the Board has engaged with our stakeholders and discharged our section 172 duties during the year can be found on pages 78 to 81.

Board effectiveness

It is very important that the performance of the Board, its Committees, and individual Directors is rigorously reviewed and that they embrace the opportunity to develop, where necessary. This year, an externally facilitated effectiveness review was conducted (in accordance with the Code) and supported by the Company Secretary. The results were insightful and I am pleased to report that key areas of Board strength were held to be its strong sense of accountability to stakeholders and the positive culture within the Board.

Our progress against last year's areas of focus, as well as the outcome of this year's effectiveness review, can be found on pages 128 and 129.

Looking forward

We will continue as a Board to maintain the highest standards of corporate governance across the Group, focus on delivery of our strategy, and continue to promote and enhance the inclusive culture we are building at Sage.

I encourage all stakeholders to take every opportunity presented to engage with the Company and I would welcome you to attend, and in any case vote at, the forthcoming Annual General Meeting on 2 February 2023.

I am delighted to be part of the Sage team. I would like to thank my Board colleagues and the Executive Leadership Team for their support during my first full year as Chair, as well as for their continued leadership as we build a business which delivers on the interests of all our stakeholders and the communities and wider society in which we operate.

Andrew Duff
Chair

Board of Directors

The collective leadership of the Directors and the diverse skills, experience, and personal attributes that they individually possess ensure the effective operation of the Board.

Key

- A Audit and Risk Committee See pages **138 to 147**
- N Nomination Committee See pages **130 to 137**
- R Remuneration Committee See pages **148 to 181**

Changes to the Board during FY22 and as at the date of this report

- Irana Wasti stepped down from the Board on 22 July 2022
- As announced on 15 November 2022, Maggie Chan Jones will be appointed to the Board with effect from 1 December 2022

Information on Board succession planning activities can be found on pages 130 to 137.

Further information on the composition of the Board can be found on page 116.

N

Andrew Duff
Chair

Chair of the Nomination Committee

Appointed
Independent Non-executive Director on 1 May 2021 and Non-executive Chair on 1 October 2021

Gender
Male

Ethnicity
White

Nationality
British

Skills
Andrew has a wealth of experience as a non-executive director and chair, with a strong track record of transforming high-profile international businesses.

He is an effective leader with strategic insights and international experience.

Andrew has a strong focus on purpose, culture and customer-centricity, and delivering value for all stakeholders.

Key previous experience
Non-executive chair of Elementis plc

Non-executive chair of Severn Trent plc

Non-executive director of Wolseley plc

Chief executive officer of npower

Key external commitments
Non-executive director of UK Government Investments Ltd (UKGI)

A

Sangeeta Anand
Independent Non-executive Director

Member of the Audit and Risk Committee

Appointed
1 May 2020

Gender
Female

Ethnicity
Asian

Nationality
American

Skills
Sangeeta is a Silicon Valley-based senior technology leader with extensive experience in leading P&L and growth across a range of public, PE-owned and startup companies.

She has deep operating experience in transforming complex product portfolios and go-to-market to capture the cloud opportunity.

Her technology and business experience includes cybersecurity, cloud, enterprise software, SaaS and application services.

Key previous experience
Chief marketing officer, Alkira Inc (disruptive SaaS networking startup)

Senior vice president, F5 Networks Inc (Listed on NASDAQ)

General manager and corporate vice president, SafeNet (part of Thales Group)

Vice president, Cisco Systems

Key external commitments
None

N R

Dr John Bates
Independent Non-executive Director

Member of the Nomination Committee and the Remuneration Committee

Appointed
31 May 2019

Gender
Male

Ethnicity
White

Nationality
British, American

Skills
John is a visionary technologist and highly accomplished business leader in the field of technology innovation, including Artificial Intelligence and Machine Learning functionality to improve customer experience.

He is a pioneer, focusing on areas such as event-driven architectures, smart environments, business activity monitoring and evolution of platforms for digital business.

Key previous experience
Co-founder, president and chief technology officer of Apama (now part of Software AG)

Head of industry solutions and chief marketing officer of Software AG

Chief executive officer of Terracotta, Inc. (a subsidiary of Software AG)

Executive vice president of corporate strategy and chief technology officer at Progress Software

Chief executive officer at Plat.One (now part of SAP)

Chief executive officer of the Eggplant Group, part of Keysight Technologies Inc

Key external commitments
Chief executive officer of SER Group Holding GmbH

A

Jonathan Bewes
Independent Non-executive Director

Chair of the Audit and Risk Committee

Appointed
1 April 2019

Gender
Male

Ethnicity
White

Nationality
British

Skills
Jonathan has prior experience of serving as chair on an audit committee and a wealth of accounting and financial experience.

He has strong investment banking experience gained over a 25-year career in the sector.

Jonathan has advised boards of UK and overseas companies on a wide range of financial and strategic issues, including financing, corporate strategy and governance.

Key previous experience
Investment banking experience with Robert Fleming, UBS, and Bank of America Merrill Lynch

Chartered accountant with KPMG

Key external commitments
Senior independent director and chair of the audit committee of Next plc

Vice chairman, corporate and institutional banking at Standard Chartered Bank plc

This Boardroom dynamic supports decision making, to create sustainable success for the Company and long-term value for the benefit of all stakeholders.

A R

Annette Court
Independent
Non-executive Director

Chair of the Remuneration Committee and member of the Audit and Risk Committee

Appointed
1 April 2019

Gender
Female

Ethnicity
White

Nationality
British

Skills
Annette has prior experience of serving as chair of a remuneration committee. She has experience in executive and non-executive director roles at the highest levels, including as chair of FTSE 100 companies, and a strong technology background combined with a record of using ecommerce to drive commercial success.

Annette has expertise in mentoring leaders to achieve greater clarity of purpose and provide a practical approach to problem-solving.

Key previous experience
Senior independent director of Jardine Lloyd Thompson Group

Chief executive officer of Europe General Insurance for Zurich Financial Services

Chief executive officer of the Direct Line Group

Director of the board of the Association of British Insurers and Foxtons Group plc

Key external commitments
Chair and non-executive director of Admiral Group plc[1]

Chair-designate and non-executive director of WH Smith Plc[2]

A N R

Drummond Hall
Senior
Independent Director

Member of the Remuneration Committee, the Audit and Risk Committee and the Nomination Committee

Appointed
1 January 2014

Gender
Male

Ethnicity
White

Nationality
British

Skills
Drummond is an experienced non-executive director and board chair with a wealth of experience gained across a number of customer-focused blue-chip businesses in the UK, Europe and the US.

He has strong knowledge of marketing and customer service and brings deep insight to how Sage may expand markets and delight customers.

Key previous experience
Senior independent director of WH Smith plc

Senior independent director of FirstGroup plc

Chair of Mitchells & Butlers plc

Chief executive officer of Dairy Crest Group plc

Majority of career was spent with Procter & Gamble, Mars and PepsiCo

Key external commitments
None

A

Derek Harding
Independent
Non-executive Director

Member of the Audit and Risk Committee

Appointed
2 March 2021

Gender
Male

Ethnicity
White

Nationality
British

Skills
Derek has significant financial experience, including leading business transformations and sharp financial acumen.

He has broad experience across a range of commercially focused financial and operational roles including strategy, investor relations, mergers and acquisitions.

Key previous experience
Chief financial officer at Senior plc

Group finance director at Shop Direct

Finance director of Wolseley UK

Key external commitments
Chief financial officer at Spectris plc

Steve Hare
Chief Executive
Officer

Appointed
3 January 2014 as Chief Financial Officer (CFO) 31 August 2018 as Chief Operating Officer, and as Chief Executive Officer (CEO) on 2 November 2018

Gender
Male

Ethnicity
White

Nationality
British

Skills
Steve has significant financial, operational and transformation experience, which includes driving change programmes in several of his previous roles.

He has a broad knowledge of Sage, having joined the Board in January 2014 as CFO.

Extensive understanding of the drivers and priorities needed to complete Sage's evolution to a SaaS company and to create a high-performance culture

Key previous experience
Operating partner and co-head of the Portfolio Support Group at the private equity firm Apax Partners

Chief financial officer for Invensys plc, Spectris plc and Marconi plc

Key external commitments
None

Jonathan Howell
Chief Financial
Officer

Appointed
15 May 2013 as a Non-executive Director and as CFO on 10 December 2018

Gender
Male

Ethnicity
White

Nationality
British

Skills
Jonathan is a highly experienced group finance director and an experienced chairman and non-executive director.

He has significant financial and accounting experience, gained across several sectors, which allows him to provide substantial insight into the Group's financial reporting and risk management processes.

Jonathan has excellent working knowledge of Sage, having joined as an independent Non-executive Director and acting as the Chair of the Audit and Risk Committee.

Key previous experience
Group CFO of Close Brothers Group plc

Group CFO of London Stock Exchange Group plc

Non-executive director of EMAP plc

Chair of FTSE International

Key external commitments
Non-executive director of Experian plc

1. Annette Court will step down from Admiral Group plc at its AGM in 2023.
2. Chair of WH Smith Plc with effect from 1 December 2022.

Executive Leadership Team

Steve Hare chairs the Executive Leadership Team and Jonathan Howell is also a member.

Changes to the Executive Leadership Team during FY22

- Walid Abu-Hadba joined the Executive Leadership Team on 1 January 2022
- Aziz Benmalek joined the Executive Leadership Team on 1 March 2022
- Amy Lawson joined the Executive Leadership Team on 1 March 2022
- Sue Goble stepped down from the Executive Leadership Team on 31 March 2022
- Lee Perkins stepped down from the Executive Leadership Team on 31 March 2022

Walid Abu-Hadba
Chief Product Officer

Appointed
1 January 2022

Skills and experience
Walid has extensive industry experience and leadership skills gained in the technology sector, with a breadth of sector experience including software development and products.

He is passionate about driving strategy and building the culture that delivers tangible, customer-centric solutions.

Walid joined Sage in 2021, having previously spent 20 years at Microsoft, where he was corporate vice president responsible for the developer and platform evangelism group, before joining ANSYS INC as chief product officer. Most recently he was senior vice president, Oracle Developer Tools. He also holds several senior board advisor roles in the technology sector and patents in the field of AI.

Aziz Benmalek
President—North America

Appointed
1 March 2022

Skills and experience
Aziz leads Sage's business across North America and is accountable for Sage's commercial performance and operations in the US and Canada. He also leads Sage's Partners and Alliances strategy globally.

Aziz joined Sage in 2020 and has over 20 years of experience gained in the technology sector in various roles, leading the vision, strategy, sales, marketing, business development, and technical enablement.

Derk Bleeker
President—EMEA

Appointed
1 October 2019

Skills and experience
Derk leads our business across Europe, the Middle East and Africa (EMEA) and is accountable for Sage's commercial performance and operations in these regions.

Derk joined Sage in 2014 and has held a number of commercial, finance, M&A and strategy leadership roles, most recently as Sage's Chief Development and Strategy Officer.

He has in-depth experience as a leader of corporate development, gained from working for a global industrial and medical technology company. He also has experience in private equity and as an M&A specialist in investment banking.

Vicki Bradin
General Counsel and Company Secretary

Appointed
1 October 2016

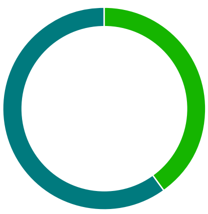
Skills and experience
Vicki leads the Legal, Company Secretariat, Cyber Security, Risk, Compliance, Assurance, Procurement and Business Travel teams.

She has extensive corporate legal experience, built over 20 years in global and magic circle law firms and in-house at large multi-nationals and UK-listed companies.

Vicki contributes in-depth software and technology sector knowledge and experience across a breadth of legal areas including M&A, litigation, risk and intellectual property.

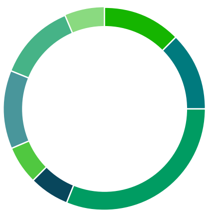
Executive Leadership Team composition[1]

Gender



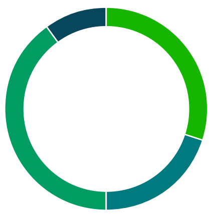
- Female **4**
- Male **6**

Experience



- Technology and innovation **12.50%**
- Financial **12.50%**
- Customer success **31.25%**
- Marketing **6.25%**
- Corporate affairs **6.25%**
- Strategy **12.50%**
- Colleague success and ESG **12.50%**
- Legal, risk and governance **6.25%**

Tenure



- Less than 1 year **3**
- 1–3 years **2**
- 3–6 years **4**
- Over 6 years **1**

1. The Executive Leadership Team composition data reflects the information as at 30 September 2022 and includes the Executive Directors who are also members of the Executive Leadership Team. Please see page 42 to 43 for further diversity information.

Amanda Cusdin
Chief People Officer

Appointed
1 October 2017

Skills and experience
Amanda joined Sage in March 2015, becoming Chief People Officer in September 2018. As well as leading our global People Function, Amanda has overall executive accountability for Sage's Sustainability and Society strategy, which aims to knock down barriers by tackling digital inequality, economic inequality and the climate crisis.

Before joining Sage, Amanda spent 18 years within a number of FTSE organisations, where she worked across all aspects of Human Resources to drive change and transformation, with particular focus on M&A integration.

She is passionate about developing talent and leadership, and creating truly inclusive organisations which promote diversity.

Aaron Harris
Chief Technology Officer

Appointed
1 April 2019

Skills and experience
Aaron is responsible for Sage's technology strategy and software architecture.

He has more than 20 years of high-tech engineering experience in business applications and software development strategies.

Aaron was a founding leader of Sage Intacct, which was acquired by Sage in 2017. He led the company's product vision and technology direction, establishing Sage Intacct as the innovation leader in cloud financial management solutions.

Cath Keers
Chief Marketing Officer

Appointed
8 September 2020

Skills and experience
Cath is responsible for the global strategy and governance across all of Sage's marketing, including brand, events, digital channels, and marketing operations.

She has valuable knowledge of digital and customer experience insights with a deep understanding of leveraging sales and marketing activity to build successful brands.

Her breadth of sector experience includes retail, marketing, and business development, gained in commercial roles at large global businesses.

Cath joined the Sage Board in July 2017 as an independent non-executive director and then served as a non-independent, non-executive director from April 2020 to June 2020.

Amy Lawson
Chief Corporate Affairs Officer

Appointed
1 March 2022

Skills and experience
Amy joined Sage in 2015, becoming Chief Corporate Affairs Officer in 2022. She is responsible for corporate affairs at Sage, including internal and external reputation and engagement.

She sets the global communications strategy across PR, colleague communications, public affairs and technology analyst relations.

Amy is also a former Board Associate at Sage.

Prior to joining Sage, Amy was head of the Cabinet Office media operation as a civil servant for the UK Government and was head of communications for Channel 4 News, where she was responsible for protecting and promoting the reputation of the national news programme, its journalism and its presenters.

Our governance framework

The Board provides entrepreneurial leadership and sets the Company's purpose, strategy, and values. It is responsible for the oversight of progress made against the strategic objectives, approving proposed actions and monitoring culture. The Board is supported by its Committees and the Executive Leadership Team, while retaining exclusive control and oversight of the Matters Reserved for the Board.

Further details on our governance framework are set out below:

Board of Directors

The Board is collectively responsible for the long-term sustainable success of the Company and the Group, for the benefit of all Sage stakeholders and the wider society. The Board provides support and constructive challenge to senior management and ensures that the Group maintains an effective risk management and internal control system

↓

Board Committees

The Board discharges its responsibilities directly and through its Committees, the Executive Leadership Team and senior management. Each Committee assists the Board by fulfilling its responsibilities and by reporting to the Board on decisions and actions taken within its own Terms of Reference. The Committee Terms of Reference are reviewed and approved annually by the Board

↓

Audit and Risk Committee

Oversees and assesses the integrity of the Group's financial reporting, risk management, and internal control procedures. It also oversees the integrity of the Group's Environmental, Social, and Governance (ESG) reporting and measurement and the work of Sage Assurance (internal audit) and the external auditor

Please read Jonathan Bewes' Audit and Risk Committee Report on pages 138 to 147.

Remuneration Committee

Sets the Remuneration Policy for the Executive Directors and determines the remuneration framework, including bonus and incentive plans and levels of remuneration for the Executive Directors, the Chair, the Company Secretary, and senior management in line with the long-term interests of the Company

Please read Annette Court's Directors' Remuneration Report on pages 148 to 181.

Nomination Committee

Reviews the structure, size and composition of the Board and its Committees and plans for progressive refreshing of its membership

Considers succession plans for the Board and senior management, to ensure they have the correct balance of diversity, skills, knowledge and experience

Please read Andrew Duff's Nomination Committee Report on pages 130 to 137.

The Chairs of the Audit and Risk Committee and the Remuneration Committee provide a formal update on their activities at each Board meeting. The Chair of the Nomination Committee provides an update on its activities as and when required.

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Chief Executive Officer

Responsible for the day-to-day management of the Group's business and performance, and for the development and implementation of the business strategy approved by the Board

Please see page 115 for further details on the responsibilities of the CEO.

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Executive Leadership Team

Responsible for assisting the CEO to implement the strategy, meet commercial objectives and drive improved operating and financial performance, whilst delivering long-term value creation for stakeholders

Please see pages 112 and 113 for further information on the Executive Leadership Team.

Roles and division of responsibilities

The roles of the Chair and the Chief Executive Officer are separate, with each having a distinct and clearly defined remit, as established and agreed by the Board. While both the Non-executive and Executive Directors have the same duties as Directors of the Company, they have distinct roles on the Board, which ensures the appropriate accountability and oversight.

Director	Responsibility
Chair Andrew Duff	• Responsible for the leadership and effective operation of the Board in all aspects of its role • Sets the agenda for Board meetings to support sound decision making in consultation with the CEO, CFO and the Company Secretary • Ensures that the views of all stakeholders are understood and considered appropriately in Board discussions and decision making (please see pages 69 to 77 for more information) • Promotes a culture of openness in the Boardroom and encourages active and effective contribution, debate and engagement by all Directors • Responsible for the promotion of the highest standard of corporate governance, assisted by the Company Secretary
Senior Independent Director (SID) Drummond Hall	• Provides support and acts as a sounding board for the Chair • Serves as an intermediary for the Non-executive Directors • Acts as an alternative contact for shareholders • Leads the Non-executive Directors in the evaluation of the performance of the Chair
Independent Non-executive Directors Sangeeta Anand, Dr John Bates, Jonathan Bewes, Annette Court and Derek Harding	• Constructively assist, challenge and monitor the delivery of strategic objectives and Group performance • Oversight of internal controls and Enterprise Risk Management Framework to ensure they are robust • Provide external perspectives, independent insight and support based on relevant experience • Engage with internal and external stakeholders and take their views into account in their decision making • Perform a key role in succession planning together with the Board Committees, Chair and SID • Serving on various Committees and contributing to the effectiveness of those Committees
Chief Executive Officer Steve Hare	• Develops and proposes the corporate strategy for Board consideration, and leads the implementation of the strategy, as approved by the Board • Responsible for delivery of Sage's strategic priorities and leads the Executive Leadership Team in overseeing the operational and financial performance of Sage • Ensures that risks are rigorously managed and that Sage maintains a disciplined and robust internal control environment • Identifies potential acquisitions and disposals and monitors the competitive environment • Ensures that Sage operates in line with its values by doing the right thing and delivering on its promises
Chief Financial Officer Jonathan Howell	• Manages the Group's financial affairs • Supports the CEO in the delivery of corporate strategy and operational performance • Engages with Sage's stakeholders including managing relationships in the investment community • Provides insights into the Group's commercial and financial position from within the business

Company Secretary
 	
Vicki Bradin
	• Ensures that appropriate and timely information is provided to the Board and its Committees in order for them to function effectively and efficiently
	• Ensures good information flow between the Board and its Committees and between senior management and Non-executive Directors
	• Advises the Board on legal, compliance and corporate governance matters
	• Supports the Chair with Board procedures by facilitating
	    • The provision of inductions
	    • Non-executive Directors' training and professional development
	    • Effectiveness reviews and evaluation
	    • Non-executive Directors' engagement plans with the business

The Directors' terms of appointment are available for inspection at Sage's Registered Office.

Strategic Report
Governance Report
Financial Statements
Shareholder Information

In addition to the Board Committees, the Disclosure Committee advises the Board to ensure compliance with the obligations of the UK Market Abuse Regulation. The Disclosure Committee supports the Board in assessing when Sage may have inside information and ensures the accurate and timely disclosure of any such information. The Disclosure Committee members include the Chair, Chief Executive Officer, Chief Financial Officer, Chair of the Audit and Risk Committee and the Company Secretary.

The Board and its Committees are also supported by a clearly defined management structure, which reports into the Committees referenced on page 114. Key decisions involving financial expenditure, and associated risks are governed by the Group's Delegation of Authority matrix (the "DOA"). The DOA is structured to ensure that day-to-day operational decisions can be taken efficiently, whilst ensuring that higher-risk and high-value commitments are approved through the appropriate channels.

Information flows up and down the governance framework to ensure that all decision making is well-informed, transparent and balanced.

The Matters Reserved for the Board and the Terms of Reference of Board Committees are available on our website at sage.com.

Board composition

The Directors recognise that a diverse Board, with a range of views, insights, perspectives and opinions, enhances decision making and effectiveness. The composition of the Board is subject to ongoing review and all Board appointments follow a formal and rigorous search process, which compliments the comprehensive succession planning activities. The responsibility for maintaining the appropriate composition of the Board is delegated to the skill and expertise of the Nomination Committee. The Board acknowledged in the FY21 Annual Report, that its gender diversity levels had fallen below the desired levels, due to appointments which were made to support the overall evolution of the Board. In May 2022, the Nomination Committee initiated a search for a new Non-executive Director. In July 2022, Irana Wasti stepped down from the Board after two years as a Non-executive Director to pursue another executive opportunity and her departure further impacted the Board's ability to meet its target gender diversity levels in FY22. The Nomination Committee commenced a second Non-executive Director search in August 2022. On 15 November 2022, Sage announced that Maggie Chan Jones will be appointed to the Board with effect from 1 December 2022. The search for a second Non-executive Director is ongoing and a further announcement will be made at the appropriate time.

The Board remains committed to meeting the targets set by the FTSE Women Leaders Review, and the targets specified in the recent updates to the FCA's Listing Rules, which Sage will report against in FY23, whilst also ensuring that the Board composition overall, exhibits a diverse mix of skills, backgrounds and experience as well as the broader aspects of diversity.

The Board currently meets the target set by the Parker Review in respect of ethnic diversity and is committed to continuing to do so.

Please see page 131 for further details of the skills and experience of the Board and pages 130 to 137 for more information on the Board Diversity, Equity and Inclusion Policy and the succession planning activities of the Nomination Committee.

Annual election and re-election of Directors

In accordance with Sage's Articles of Association, and the UK Corporate Governance Code, all Directors who wish to continue to serve will submit themselves for election and re-election.

Time commitment

The Non-executive Directors are advised of the commitments which are expected of their role at Sage prior to their appointment and are required to devote such time as necessary to discharge their responsibilities effectively.

During FY22, the Board considered and approved a proposed new external commitment for Annette Court, as a non-executive director and chair designate of WH Smith plc, with effect from 1 September 2022, and as chair of WH Smith, with effect from 1 December 2022, being satisfied that Annette would have time to fulfil her commitments at Sage. The Board noted that Annette would be standing down from her role on the board of Admiral Group plc at its AGM in 2023.

The Company Secretary maintains a register of Directors' commitments, which is reviewed at every Board meeting. The Board is satisfied that, given the number of external positions held by the Directors, no instances of over-boarding were identified during the year. The Non-executive Directors devote considerable time to the Group beyond the programme of Board and Board Committee meetings. Their activities include consideration of out-of-cycle papers and reports submitted to them and discussion with the senior management and other subject matter experts, between Board meetings. Their activities also extend to briefings and training to ensure they maintain an in-depth understanding of the business and are kept up to date with emerging technology, regulations, and other matters impacting the Group. All Directors also attend site visits and participate in a formal engagement plan to meet colleagues and other stakeholders.

Induction

Upon appointment to the Board, each Director engages in a comprehensive induction programme which is tailored to their individual needs. The programme consists of meetings and events, designed to help the new Director to undertake their role and responsibilities as swiftly as possible and help them to make a valuable contribution to the Board. The programme is organised around three themes: business familiarisation, corporate governance including Directors' duties, and Director development. As part of the business familiarisation theme, the Directors spend time with members of the Executive Leadership Team and senior management to gain a deeper understanding and insight of the operation of relevant function lines and significant elements of the business.

Structured pre-reading materials are made available in a personal reading room via Sage's Board portal, covering:

- The Group's strategy and performance
- Governance documents including Directors' legal duties and responsibilities
- Specific information relating to Committee membership
- Sage policies and procedures
- Other useful information such as meeting schedules, Sage's financial calendar and useful contacts

During the induction period, the Director is asked for regular feedback, so that the programme can be adapted if needed.

Independence of the Non-executive Directors

The Board considers all the Non-executive Directors to be independent in character and judgement.

The independence of the Non-executive Directors is kept constantly under review by monitoring their external commitments and interests throughout the year. The Board considers whether there are relationships or circumstances which are likely to affect or that could appear to affect the Non-executive Director's judgement, taking into consideration the guidance and specific independence criteria provided by the Code. The Board also keeps the length of tenure of all Non-executive Directors under review.

The Board is mindful that Drummond Hall will have served on the Board for nine years, by January 2023. In his role as Senior Independent Director, Drummond provides constructive challenge to the senior management team and brings significant and valuable experience to the Board. The Nomination Committee has rigorously assessed Drummond's independence and concluded that he continues to show independence of conduct, character and judgement. Therefore, after careful consideration of Drummond's independence, and following the recommendation of the Nomination Committee, the Board has resolved to extend Drummond's appointment for one year until January 2024.

Conflicts of interest

The Board operates a policy to identify and, where appropriate, manage actual conflicts or potential conflicts of interest that may arise. At each Board meeting, the Board formally considers a register of interests, commitments and potential conflicts of Directors including new external appointments for Directors and, when appropriate, gives any necessary approvals. If any potential conflict exists, Directors recuse themselves from consideration of the relevant subject matter.

Board and Committee meeting attendance and cross-membership

The table below sets out the Board and Committee attendance at scheduled meetings during FY22. Additional ad hoc meetings were held, and written resolutions were passed as and when required. The table also shows the current membership of the Committees. The composition of all Committees complied with the Code throughout the year.

Directors	Scheduled Board	Nomination Committee	Audit and Risk Committee	Remuneration Committee
Andrew Duff	5/5	3/3	–	–
Sangeeta Anand	5/5	–	4/4	–
Dr John Bates	5/5	3/3	–	6/6
Jonathan Bewes	5/5	–	4/4	–
Annette Court	5/5	–	4/4	6/6
Drummond Hall	5/5	3/3	4/4	6/6
Derek Harding	5/5	–	4/4	–
Steve Hare	5/5	–	–	–
Jonathan Howell[1]	4/5	–	–	–
Irana Wasti[2]	3/3	–	–	–
Vicki Bradin[3]	5/5	3/3	4/4	6/6

Key

C Board Chair

C Committee Chair

Nomination Committee

Audit and Risk Committee

Remuneration Committee

Notes:

The maximum number of scheduled meetings held during the year that each Director could attend is shown next to the number attended. In FY22, there was 100% attendance at all scheduled Board meetings and Committee meetings by its members, except one Board meeting that Jonathan Howell did not attend for personal reasons.

Committee attendance as set out above reflects attendance by Committee members only.

1. Jonathan Howell did not attend the scheduled Board meeting on 20 September 2022 for personal reasons.
2. Irana Wasti stepped down from the Board on 22 July 2022.
3. The Company Secretary acts as a Secretary to the Board and all the Committees.

Board and Committee members are expected to attend each scheduled meeting, and, wherever possible, any ad hoc meetings. If a Director is unable to attend a meeting due to exceptional circumstances, or pre-existing commitments, they are encouraged to provide comments and observations on the relevant Board and Committee papers, to the Chair of the Board or Committee so that they may be shared with Directors at the meeting. The Board aims to hold at least two meetings in different operating locations, each year. When visiting operating locations, Directors can meet with a diverse group of senior business leaders and colleagues, which allows them to gain further insight into how the business works and the opportunity to listen to colleagues views and ask questions. This year the Board travelled to Newcastle in February where Board members had a talent lunch with colleagues from Cyber, Risk, IT and Data and a cyber deep dive looking across the Secure Product Development

Lifecycle and the stages of a potential ransomware attack. In September the Board had an informal lunch with the UKI leadership team, and participated in engagement sessions on the execution of UKI strategic plans. The Board also travelled to San Jose in July, where Board members engaged with the North American leadership team and had a deep dive session on Sage Intacct, participated in a Sage Foundation event with Access Books and had an informal lunch with Sage colleagues. The Board and the Committees have also continued to make use of the available technology to ensure that meetings are conducted efficiently.

Directors may attend any Board Committee meeting they wish, irrespective of whether they are a Committee member. This is subject only to recusal regarding matters concerning the individual(s) or any conflicts of interests. There is also a standing paper from the Audit and Risk Committee and the Remuneration Committee presented at each subsequent Board meeting highlighting key strategic Committee decisions taken.

To further assist information flows between the Board and its Committees, there are cross-memberships of the Committees as shown in the table on page 114.

Board meeting schedule

- 3 years
Dates and venues of Board meetings are set

- 1 year
A rolling calendar of standing and periodic agenda items for the following 12 months is compiled and updated whenever appropriate addressing key developments in the business

- 1 month
The agenda of the meeting is prepared by the Company Secretary in consultation with the Chair and CEO. Report writers are sent templates and guidelines addressing format, which include stakeholder specific considerations and content required, reminders of the actions allocated to them and deadlines for submission of draft and final papers

- 7 working days
Papers are submitted to the Company Secretary for final review

- 5 working days
Papers are circulated electronically to the Board in real time via a secure web portal to allow Directors sufficient time to consider

Board meeting

+ 10 working days
Minutes and a schedule of actions arising from the meeting are completed and sent to the Chair for review. Those responsible for matters arising are asked to provide an update before the subsequent meeting. The rolling calendar is updated following each meeting (as required) and in readiness for the next meeting

Scheduled Board and Committee meetings timeline

November
Board meeting
Audit and Risk Committee meeting
Remuneration Committee meeting (two meetings are held in November)
Disclosure Committee meeting

January
Disclosure Committee meeting

February
Board meeting
Audit and Risk Committee meeting
Nomination Committee meeting
Remuneration Committee meeting

May
Board meeting
Audit and Risk Committee meeting
Nomination Committee meeting
Remuneration Committee meeting
Disclosure Committee meeting

July
Board meeting
Remuneration Committee meeting
Disclosure Committee meeting

September
Board meeting
Audit and Risk Committee meeting
Nomination Committee meeting
Remuneration Committee meeting

The scheduled Disclosure Committee meetings are for the purpose of approving financial results and quarterly trading updates.

Informal Board interactions

In addition to scheduled and ad hoc meetings, the Board also meets over informal Board dinners to connect and discuss wider business topics. These informal interactions help to maintain successful relationships and promote a culture of collaboration and openness.

Annual General Meeting

The AGM provides a valuable opportunity for the Board to engage with shareholders and listen to their feedback. In 2022, the AGM was held in a hybrid format and shareholders were invited to join the AGM online, or in person, to listen, vote and ask questions. Shareholders were also provided with an opportunity to submit their questions about the business or any matter pertaining to the AGM, in advance of the meeting. All Directors joined the AGM physically, together with the external auditor and senior management. All resolutions at the 2022 AGM were voted on a poll. Shareholders who were unable to attend the meeting, were asked to register their vote in advance of the AGM by appointing the Chair of the AGM as proxy and providing their voting instructions. All resolutions were passed with over 94% of votes cast in favour. Further details on past Annual General Meetings and other information on AGM arrangements can be found on our corporate website at sage.com. The website is the principal means by which we communicate with shareholders.

Engagement with shareholders

Regular and open communication with shareholders is extremely important for the Board. By maintaining dialogue with shareholders, the Board can better ensure that their views are heard and that Sage's objectives are understood. Trading updates are published quarterly. Analysts are invited to attend presentations, and interact with the Executive Directors following the announcement of Sage's interim and final results. The Executive Directors interact with shareholders, during post-results roadshows, through a dedicated investor relations programme and on an ad hoc basis.

Further information regarding engagement activities with our shareholders can be found on pages 76 and 77.

Board activities

The table below sets out the key areas of Board focus during the year and how these align with the Group's strategy and Principal Risks. It also sets out which of Sage's key stakeholders have been considered and are relevant in the Board's discussions.

Key stakeholder groups

Customers · Colleagues · Shareholders · Society

Principal Risks

1. Understanding Customer Needs
2. Execution of Product Strategy
3. Developing and Exploiting New Business Models
4. Route to Market
5. Customer Experience
6. Third Party Reliance
7. People and Performance
8. Culture
9. Cyber Security & Data Privacy
10. Data Strategy
11. Readiness to Scale
12. Environment, Social and Governance

Strategic priorities

Scale Sage Intacct · Expand medium beyond financials · Build the small business engine · Scale the network · Learn and disrupt

Strategy and Operations

Key stakeholders considered

Customers, Colleagues, Shareholders, Society

Link to Principal Risks

1 2 3 4 5 6 7 8 9 10 11 12

Link to strategic priorities

Scale Sage Intacct, Expand medium beyond financials, Build the small business engine, Scale the network, Learn and disrupt

- CEO review presented to each Board meeting included customers, colleagues, shareholders, society, technology and innovation updates
- CEO strategic execution dashboard discussed at each Board meeting
- Group structure considerations including M&A strategy, acquisitions and disposals
- Three-year strategic plan discussed, along with updates on Group strategy execution
- Board Strategy Day held to consider in depth the strategic direction, priorities and investment
- Strategic partnerships considered (including approval of the strategic partnership with Microsoft)
- Deep dives on each of Sage's strategic priorities held during the year
- Brand approval and updates

People and Culture

Key stakeholders considered

Colleagues, Shareholders, Society

Link to Principal Risks

1 2 3 4 5 6 7 8 9 10 11 12

Link to strategic priorities

Scale Sage Intacct, Expand medium beyond financials, Build the small business engine, Scale the network, Learn and disrupt

- Annual Board Talent Review and Succession Planning
- Monitoring progress on the Group's Global DEI strategy
- Monitoring of colleague sentiment through the Board Associate and colleague engagement activities
- Oversight of Sage Foundation activities
- Refreshed Values approved

Key stakeholder groups

- Customers
- Colleagues
- Shareholders
- Society

Principal Risks

1. Understanding Customer Needs
2. Execution of Product Strategy
3. Developing and Exploiting New Business Models
4. Route to Market
5. Customer Experience
6. Third Party Reliance
7. People and Performance
8. Culture
9. Cyber Security & Data Privacy
10. Data Strategy
11. Readiness to Scale
12. Environment, Social and Governance

Strategic priorities

- Scale Sage Intacct
- Expand medium beyond financials
- Build the small business engine
- Scale the network
- Learn and disrupt

Customers and Innovation

Key stakeholders considered

Link to Principal Risks

7 8 9 10 12

Link to strategic priorities

- CEO updates
- Technology strategy deep dive at Board Strategy Day
- Digital Network strategy and measures discussed
- Customer NPS oversight
- Competitor analysis

Finance

Key stakeholders considered

Link to Principal Risks

4 6 7 12

Link to strategic priorities

- CFO review and financial performance update, at each Board meeting, including KPI Dashboard
- Investor relations updates
- Interim and full year results and trading updates
- FY23 budget approval
- Interim and final dividends
- Capital allocation strategy
- Balance sheet, capital structure and liquidity
- Debt finance strategy and currency swap

Risk Management

Key stakeholders considered

Link to Principal Risks

1 2 3 4 5 6 7 8 9 10 11 12

Link to strategic priorities

- Reviews of Principal Risks including risk profile and appetite
- Review of internal controls and Enterprise Risk Management Framework including ongoing process and control implementation to respond to recommendations of the BEIS audit and governance consultation
- Updates from management on whistleblowing hotline cases
- Emerging Risk trends

Governance

Key stakeholders considered

Link to Principal Risks

7 8 9 12

Link to strategic priorities

- Review of Sage's core corporate policies and procedures including the Code of Conduct; Anti-Bribery and Corruption Policy; External Communication Policy; Health and Safety Policy; Whistleblowing Policy; Board Diversity, Equity and Inclusion Policy; Sanctions Policy and Share Dealing Code
- Review of Matters Reserved for the Board and the Board rolling agenda
- Annual effectiveness review and evaluation
- Review of Board Committee Terms of Reference and ensuring ESG governance is embedded in Board and Committee ways of working
- Annual Report and Accounts review and approval
- Annual General Meeting
- Annual review of Sage stakeholders
- Litigation updates
- Modern Slavery Statement review and approval
- Review of insurance programme and Directors and Officers liability insurance

ESG

Key stakeholders considered

Link to Principal Risks

1 3 6 7 8 9 10 12

Link to strategic priorities

- Review of Sage's Sustainability and Society Strategy including ESG frameworks, materiality assessment review and stakeholder insights
- Sustainability and Society Report received
- Review of climate change risks for Sage
- Annual review of Sage Foundation activities
- Sage Belong update received

Cyber threat

Key stakeholders considered

Link to Principal Risks

1 2 3 4 5 6 7 8 9 10 11 12

Link to strategic priorities

- Chief Information Security Officer Updates
- Engagement sessions with colleagues from Cyber, Risk, IT and Data
- Cyber deep dive looking across the Secure Product Development Lifecycle and the stages of a ransomware attack

How the Board monitors culture

Promoting a positive culture

The Board recognises the importance of a good culture and the role it plays in delivering the long-term success of the Company. Sage colleagues want to work for a company that values them and provides them with the opportunity to be themselves and to thrive. The Board and Executive Leadership Team strive to create a positive culture at Sage, providing colleagues with the opportunity to grow, experiment and innovate in an inclusive environment. To create the right culture, it is important that colleagues live and breathe Sage's values, and this starts with our leaders. The Board sets the tone from the top to demonstrate and promote these values, which are a critical element in achieving our purpose of knocking down barriers so everyone can thrive. The Board uses several tools to monitor the culture, listen to colleagues and act on what they say. This includes colleague representation at Board meetings through the Board Associate role and meeting colleagues at all levels of the business during the Board engagement programme. The table on the next page highlights some of these tools.

The DEI Accountability Board is chaired by the CEO and comprised of the Executive Leadership Team, and is accountable for delivery of the DEI strategy. Sage's DEI Advisory Board also plays an important role in helping to shape an inclusive workforce that represents the different cultures, circumstances and viewpoints of our colleagues, customers, shareholders and society. The DEI Advisory Board is made up of 12 members, including members of the Executive Leadership Team and external experts, who meet to discuss and challenge the DEI direction, and to highlight best external practice to identify ways of constantly improving and innovating our approach to DEI.

We do the right thing.

Human
We make connections with customers, partners and colleagues, through empathy and care.

Bold
We are curious, courageous, ambitious and creative.

Trust
We deliver our promises to customers, colleagues, society and shareholders.

Simplify
We strip away complexity.

How the Board monitors culture

Action taken	Link to culture
Regular updates on compliance, including the annual review of Sage's core compliance policies	Key areas of compliance focus are highlighted at Board meetings, which allows the Board to understand potential issues and target effort in the right places. Annual review of policies gives the Board visibility of the compliance culture at Sage.
Your Voice Pulse Surveys	In September 2022, the highest ever Pulse Survey completion rate was achieved with 86% of colleagues taking time to share their feedback on Sage's culture. Both the core metrics measured in the Pulse Survey, eSat and eNPS, increased since the survey in March 2022, with eSat up 2 points to 79 and eNPS up 10 points to +28. The survey results support the Board's understanding of colleague sentiment across the Group and provide direct feedback to the Board on areas which can be improved.
Colleague representation at Board meetings through the Board Associate and further engagement as part of the Board engagement programme	The Board Associate plays a crucial role in bringing the colleague voice into the Boardroom and educating colleagues on the role of the Board at Sage. You can read more about the role of the Board Associate and Board engagement activities on pages 126 and 127.
Speak up for Sage	In FY22, colleagues were encouraged to Speak up for Sage by leaving a Glassdoor review. The Glassdoor data supplements the other methods that the Board utilises to better understand what is done well and what could be done differently for colleagues to feel happy, valued, and supported. A positive score on Glassdoor helps colleagues to feel proud to be part of Sage and also helps to attract new talent. Together, colleagues have a powerful voice, and during the Speak up for Sage week in Q4, the Global Rating on Glassdoor increased back up to 4.2 out of 5 stars. In FY22, for the second year in a row, Sage was awarded the Glassdoor Employees' Choice Award, honouring the UK's Best Places to Work in 2022. This recognition supports the Board's understanding of the type of culture that is being experienced by colleagues at Sage everyday.
Deep dive on People Strategy and Succession Planning	The Board received an update on the People strategy on a regular basis, including updates on key metrics such as colleague attrition. Sessions on talent and succession planning for senior management roles also take place.
Informal conversations with colleagues at engagement day programmes and in small group sessions	Informal interactions allow the Board to speak with Sage colleagues directly and understand what matters most to them. The Board is available to answer questions from colleagues during engagement sessions. Sage colleagues can also contact the CEO directly via the AskSteve email address and ask questions during Sage TV Live Q&A.

Culture case study

Symbols of change—Our values

Sage's values have implications for all stakeholders and play a key role in sustaining high performance, driving innovation and attracting and retaining talent. During the year the Sage values were evolved and approved by the Board, to support the strategic framework and the refreshed brand. Thousands of Sage colleagues took part in a crowdsourcing exercise to help shape the refreshed values and behaviours. Almost 10,000 votes were received from colleagues across the business, which were combined together with leader interviews, customer insights and focus groups, to develop four new values: Human, Trust, Bold, and Simplify. Living these values starts at the very top at Sage, with the Board and Executive Leadership Team. The Board recognises that the values differentiate Sage from its competitors and most importantly, that they play a huge part in how Sage truly delivers for all stakeholders to achieve its purpose and deliver on its strategic priorities. "We do the right thing" is a core value and will continue to guide behaviour and how Sage colleagues serve all stakeholders.

Our Board Associate

The Board Associate role continues to be a powerful tool to hear the colleague voice in the Boardroom, contributing to Board discussions and decision making.

Derek Taylor, our new Board Associate, began his 18-month tenure in July 2022.

During the application stage, an exceptionally strong pool of Sage colleagues applied for the role and participated in a rigorous recruitment process, comprising four rounds. Derek ultimately stood out with his thoughtfulness and insight, his candour and his deep knowledge of SaaS and the Sage Intacct business. He brings a powerful perspective to Boardroom discussions by seeing things through a business, customer and colleague lens. Derek joined Sage Intacct in 2012 and was promoted to Senior VP Customer Services and Sales in 2021. He leads a team of over 200 colleagues and focuses on driving process change and innovation to deliver new products and improve customer satisfaction.

On the next page, he talks about his experience of being appointed as Sage's fourth Board Associate, bringing to life his unique position of being the voice of Sage colleagues.

The Board Associate role is a unique and important position at Sage and the thorough appointment process reinforced the importance of the role to me. Each stage of the appointment process was a positive, challenging and enlightening experience. It required me to think about other parts of the Sage business where I did not have in-depth knowledge or understanding (as I do with Sage Intacct). When the selection process opened in 2022, the management team received over thirty applications for the role. Those applicants who made it through to round two (approximately half of the initial submission pool), were required to submit a five-minute video in response to five questions. The next stage of the process further narrowed down the candidates, with shortlisted candidates interviewed by Vicki Bradin, General Counsel and Company Secretary, Amanda Cusdin, Chief People Officer and Andrew Duff, Chair of the Sage Board.

The final shortlisted candidates were interviewed by three Non-executive Directors, which culminated in the appointment of myself, as the new Board Associate. I was delighted and honoured to be selected for the role.

I found the Board Associate onboarding process to be comprehensive with a thorough induction, which spanned across the various pillars of the business. Together with my board experience gained at other companies, this helped me to quickly acclimate to the Board Associate role. I also received overwhelming support, not only from all Board members and the Executive Leadership Team, but also from all the other short-listed colleagues.

Since being appointed to the Board Associate role, I have attended two Board meetings (in July and September 2022) and have had the opportunity to engage in several one-on-one discussions with all Board members.

In July, I also had the pleasure of hosting Derek Harding, Non-executive Director, for an engagement day prior to the July Board meeting in our San Jose office. I was truly impressed with his level of engagement and interest in learning about our business. This was demonstrated by Derek attending various meetings in Sage Intacct throughout the day, including a Customer Services & Sales Quarterly Town Hall, our Customer Success monthly update session and an informal colleague lunch with the North America team. I have seen how the Board's commitment to engaging with colleagues is also illustrated by their involvement and enthusiasm to understand more about the Sage business at recent colleague engagement sessions. At the Board engagement session after the July Board meeting in San Jose, Aziz Benmalek, President—North America, and his leaders (myself included), presented to the Board about the North American business. After the Board meeting in September, in Newcastle, Paul Struthers, MD UKI & EVP UKIA, and his leaders presented to the Board about the UKI business. At all engagement sessions, the level of attention and the questions raised by Board members, demonstrated a desire to truly understand the Sage business and how the company and colleagues within it can be more successful.

My role as Board Associate is to provide colleague feedback to the Board. I will continue to evolve how I provide the Board with colleague insight on topics that the Board may want to hear about from colleagues and that colleagues may want to share with the Board. In FY23, I intend to develop a clearer mandate to the scheduling of Board Associate colleague engagement activities (e.g., roundtables and working groups) with colleagues from different regions and functions across the Group.

Through written summaries included in upcoming Board meetings as part of the agenda, I am looking forward to providing feedback on what I'm hearing, first hand, to ensure that the role continues to provide a two-way communication channel with the Board. I believe that this creates greater understanding of the role of the Board amongst colleagues and enables the Board to hear more of our colleagues' views.

"I would also like to take this opportunity to thank all my previous Board Associate colleagues, for all the activities undertaken to bring the voice of our colleagues to the Boardroom.

It is an honour to be the current Sage Board Associate and I look forward to delivering on the charter outlined for the role!"

Derek Taylor
Board Associate

Board evaluation

External Board effectiveness and evaluation

Each year, the Board undertakes a rigorous review of its own effectiveness and performance, and that of its Committees and individual Directors. At least every three years, the evaluation is externally facilitated. In FY22, an external effectiveness review was undertaken.

Independent Board Evaluation ("IBE"), an external independent evaluator, was engaged to carry out this activity, which took place between May and September 2022. IBE conducted the previous external evaluations in 2016 and 2019. The Board, following the recommendation of the Nomination Committee, felt that retaining IBE for a third review cycle would allow progress to be tracked on priority areas of focus identified in the previous effectiveness review. This would also enable Sage's new Chair, Andrew Duff to get the benefit of assessing Board performance and progress as against previous external evaluations. In addition, the Board was of the view that IBE's re-appointment was appropriate, taking into account their knowledge of the Company and the evolution of the Board, since the 2019 evaluation, including the change in Board Chair. IBE has no other connection with the Company or any of the Directors. The evaluation was conducted according to the guidance provided in the Code. The Board considered the results of the evaluation and has separately assessed the independence and time commitment of each Director. It concluded that each Director's performance continues to be effective and that they demonstrate commitment to their roles. These findings are fully considered when making recommendations in respect of their election or re-election to the Board.

Board evaluation process

1

Process planning
Step 1

The Board discussed the approach and the format for the evaluation which resulted in IBE being appointed to conduct the external evaluation. A comprehensive brief was provided to the evaluation team by the Chair, CEO and the Company Secretary in Spring 2022. The evaluation team conducted its orientation and finalised dates and a detailed agenda for the Board interviews.

2

Observation and interview process
Step 2

In May, the lead evaluator observed the Board and Committee meetings and carried out a review of the Board and Committee papers. Detailed interviews were held with each Board Director according to the agreed agenda in May and June. The evaluation team also interviewed five members of the senior management team and the Company Secretary, as well as the lead external remuneration advisors and external auditor to gain a broader perspective of the Board and its workings, including the Committees.

3

Evaluation and reporting
Step 3

The findings of the evaluation were discussed with the Chair and the Company Secretary and finalised into a report. IBE presented the findings of the effectiveness review at the September Nomination Committee meeting, which was attended by the Board[1]. A report on the Chair's performance was presented to the Senior Independent Director and the results discussed at a meeting of the Non-executive Directors without the Chair present. The Chair received feedback on individual Directors' performance, which was followed by one-to-one meetings between the Chair and each individual Director to discuss the findings. Feedback on each Committee was presented to each Committee Chair and was discussed at the relevant Committee meeting.

4

Agree actions and monitor progress
Step 4

The Board considered the findings of the effectiveness review and agreed on the priority areas noting that the action plans would be built into the Board's objectives, meeting agendas and engagement activities for FY23, and progress against these will be monitored and reported in the FY23 Annual Report.

1. Except the CFO, who was unable to attend due to personal reasons.

Key areas of focus identified in FY21

- Monitor the investments, technology and talent needed to deliver the new strategic framework across the Group
- Understand execution challenges, key decisions to be taken and Sage's performance against its competitors over the short to medium term. Evolve Sage's annual Strategy Day to better meet these objectives
- Continue Board and executive succession planning, talent development and embedding of diversity, equity and inclusion objectives
- Determine the appropriate governance structures for Board and Board Committees to monitor the performance and delivery of Sage's Sustainability and Society strategy
- Continue to find opportunities for the Directors to spend time outside meetings with each other and also with senior management, customers and partners

Progress in FY22

- Sessions on investment initiatives have enabled the Board to gain better oversight on investment returns including cost management, talent hires and alignment with strategic priorities
- The format of the Strategy Day session was evolved in FY22, and the Board commented positively on the discussions held on delivering Sage's strategic priorities over the short, medium and long term
- Time has been spent on understanding competitive points of differentiation in Sage products and services and how these have been reflected in the refreshed brand, launched in FY22
- Board succession planning remained firmly on the agenda (including gender diversity targets), with the Board and Nomination Committee having initiated searches for two new Non-executive Directors. Information on our recent Board appointment can be found on page 108
- The Board and the Committee annual rolling agenda was adjusted to accommodate appropriate governance oversight over sustainability. ESG governance was established and embedded in the Board and its Committees' ways of working. The Terms of Reference of each Committee were refreshed to ensure that the scope and remit are appropriately reflected
- Strengthening relationships with all Sage's stakeholders continued to be a focus for the Board including the Chair throughout the year

FY22 Board evaluation key observations

- The Board provides strong support to and oversight of the Executive Leadership Team
- Positive Board culture and strong relationships were highlighted with strong sense of accountability to Sage's stakeholders
- The importance of increased face to face interactions post Covid was stressed with a desire to build more informal/unstructured interactions into Board activities
- Induction programme for new Non-executive Directors to be tailored further, particularly for first time Non-executive Directors or those with more limited UK PLC experience
- Focus on Board process to maximise the contribution of a diverse Board. Greater visibility on the senior management talent pool was sought
- Providing further visibility on the competitive landscape and focus on understanding the macro risk environment and its potential impact on Sage

FY23 Key areas of focus

- Continue to focus the Board's time on overseeing execution of the Group's strategic priorities. Keep the focus on risk management and continue to enhance understanding of external and emerging risks. Maintain focus on Sage's competitive performance
- Strengthen aspects of the Non-executive Director induction programme and create ongoing education opportunities for Board Directors on evolving technical areas (such as climate change regulation). Provide more opportunities to hear from non-Sage experts, so as to learn, challenge thinking and give a fresh perspective
- Facilitate increased contact between the Board and the business, and between the Non-executive Directors and senior management colleagues. Consider building unstructured time between Board and Committee sessions
- Review Board succession planning activities to ensure an appropriate balance of skills, knowledge, experience and diversity. Broaden focus on development of talent and succession mapping for Executive Leadership Team and senior management. Maintain focus on exposure of the Board to future leaders in the Group's talent pipeline

Nomination Committee

Andrew Duff
Chair of the Nomination Committee

Committee purpose and responsibilities

The Committee is composed of two independent Non-executive Directors, Mr Drummond Hall and Dr John Bates, and is chaired by our Non-executive Chair, Andrew Duff. There were no changes made to Committee membership during FY22. Details of the skills and experience of the Committee members can be found in their biographies on pages 110 and 111.

Other Nomination Committee members

Dr John Bates

Drummond Hall

Dear shareholder,

I am pleased to present the report of the Nomination Committee (the "Committee"), covering both the role of the Committee and the work it has undertaken during the year.

The Committee has continued to play a critical role in supporting the Board in discharging its succession planning responsibilities; ensuring the Board is comprised of an appropriate and diverse range of skills and experience to support the Company's long term success and to deliver on our strategy for the benefit of our stakeholders.

During the year, a key area of the Committee's work has been on Board composition, with a strong focus on rebalancing our gender diversity as we seek to meet the targets set by the FTSE Women Leaders Review and the Financial Conduct Authority Listing Rules, which Sage will report against in FY23.

Both the Committee and the Board were mindful at the beginning of FY22 that progress needed to be made in relation to the level of female representation on the Board. This had fallen below our diversity aims due to appointments made in FY21 to support the overall evolution of our Board. Currently, we meet the targets set by the Parker Review and we are committed to continuing to do so. In May this year the Committee initiated a search for a new Non-executive Director.

In July 2022, Irana Wasti decided to step down from the Board after two years as a Non-executive Director to pursue another executive opportunity. Irana's departure from the Board impacted our gender balance. The Committee commenced a second Non-executive Director search in August.

As stated in the Board's Diversity, Equity and Inclusion policy, it remains our priority to minimise any temporary periods when the Board is unable to meet its diversity commitments. The Committee and the Board fully support diversity, equity and inclusion in all its dimensions and recognise the important contribution it makes to high quality decision making and innovative thinking.
In November 2022, the Committee recommended the appointment of Maggie Chan Jones as a Non-executive Director, which the Board subsequently approved. I am therefore pleased to report that Maggie will be joining the Sage Board on 1 December 2022. In making its recommendation, the Committee took account of Maggie's skills and experience in the context of the wider Board capabilities and its composition. Maggie's independence, other time commitments and any potential conflicts of interest were also considered before making the

For more information on the Committee's Terms of Reference, visit: https://www.sage.com

recommendation. The Committee is continuing its search for a second Non-executive Director to join the Sage Board and I look forward to announcing progress on that additional search in the near future.

Drummond Hall will have served as a Non-executive Director on the Board for nine years by January 2023. To support continuity in a period of Board evolution, the Committee (without Drummond being present), recommended to the Board the extension of Drummond's tenure for a further one year period until January 2024.

In making its recommendation, the Committee considered the significant contribution Drummond brings to the Board and its Committees, his experience and the valuable knowledge and insight he has of Sage's business and strategy, along with his strong personal attributes. The Committee also conducted a rigorous review of Drummond's independence, mindful of his long service, but also taking account of his personal attributes and the challenge he continues to bring to Board discussions. Following this review, the Committee remains satisfied that Drummond's length of tenure does not impact his effectiveness or independence in any way, that Drummond is independent in character and judgement, and that he remains an independent Director of Sage for the purposes of the Code.

In addition to Board succession, the Committee continued to focus its attention (along with the Board) on succession planning throughout the business. This included understanding the steps being taken to develop talent from within Sage, as well as overseeing promotions and changes made within the Executive Leadership Team during the year.

Diversity, equity and inclusion remained firmly on the Committee's agenda, both at a Board level but also as regards monitoring progress by the Group in executing against Sage's DEI strategy. I am pleased to report on the progress made during the year in a number of key areas. These include increasing our knowledge of the diversity within our colleague base through data collection, increasing gender diversity levels within teams and supporting our colleagues to create a more inclusive culture through our Colleague Success Networks. Further details on these initiatives and FY22 achievements are set out on pages 42 to 43 of this report.

This year the Company undertook an external effectiveness review and evaluation of the Board, its Committees, individual Directors and the Chair. Further information on the outcome of the annual evaluation can be found on pages 128 and 129.

I hope you find the information on the following pages about the work of the Committee helpful and informative.

Andrew Duff
Nomination Committee Chair

Directors' key skills and experience

	Andrew Duff	Sangeeta Anand	Dr John Bates	Jonathan Bewes	Annette Court	Drummond Hall	Derek Harding	Steve Hare	Jonathan Howell
Executive and strategic leadership	●	●	●	●	●	●	●	●	●
Financial acumen	●	●	●	●	●	●	●	●	●
Technology and innovation	●	●	●		●		●	●	●
Remuneration and people	●		●	●	●	●		●	●
Audit and risk		●		●	●	●	●	●	●
Sustainability and environment	●					●		●	●
Strategy and M&A	●		●	●		●	●	●	●
Customer centricity	●	●	●	●	●	●	●	●	●
International experience	●	●	●	●	●	●	●	●	●

Committee purpose and responsibilities

The Committee is responsible for reviewing the structure, size and composition of the Board, and ensuring that the Board and its Committees have the most appropriate balance of skills, knowledge, and experience, taking account of each individual Director's time commitment. The Committee ensures that formal, rigorous, and transparent procedures are in place for Board appointments and that plans are in place for orderly succession planning to Board positions. It oversees the recruitment process and advises the Board on the identification, assessment and selection of candidates; drives the diversity, equity, and inclusion agenda, and confirms that all appointments are made on merit against the objective criteria. The Committee also provides oversight on succession planning activities of senior management. The importance of effective induction is recognised by the Committee, and it is responsible for ensuring that a comprehensive induction programme is delivered on the appointment of a new Non-executive Director. The Committee also leads the annual evaluation process of the Board.

Board and Board Committee composition

The Committee is comprised of two independent Non-executive Directors, Drummond Hall and Dr John Bates, and is chaired by our Non-executive Chair, Andrew Duff. There were no changes made to Committee membership during FY22. Details of the skills and experience of the Committee members can be found in their biographies on pages 110, 111 and 131.

The Committee held three scheduled meetings during the year, in line with its Terms of Reference. There were also unscheduled meetings during the year, at which the Committee considered the developments in its Non-executive Director succession planning activities. In FY22, the Committee also considered the length of service of the members of the Board, and the combined capabilities, experience, and knowledge of the Directors and Committees. Details of individual attendance at scheduled meetings are set out on page 118.

As noted in the Chair's introduction to governance and the Chair's introduction to the Nomination Committee Report, by January 2023, Drummond Hall will have served on the Board for nine years. The Committee, without Drummond Hall present, recommended to the Board the extension of his tenure as a Non-executive Director for a further 12 months in order to support continuity in a period of Board evolution.

The Nomination Committee has considered the significant contribution Drummond Hall brings, with his key experience and valuable insights into Sage's business and strategy, along with his personal attributes and the independent challenge he brings to Board discussions. The Committee believes retaining Drummond Hall on the Board, in his role as Senior Independent Director, and as a member of each of the Audit and Risk, Nomination and Remuneration Committees to be appropriate, and in the interests of our shareholders during a time of evolution for the Board. The Committee and the Board remain satisfied, in accordance with the guidance provided by the Code, that, based on Drummond's contributions, his length of tenure does not impact his effectiveness or independence in any way, and that Drummond remains an independent Director.

The process for making new appointments to the Board is usually led by the Chair, except when the Committee is dealing with the Board Chair succession. The Committee has procedures for appointing a new Non-executive and Executive Director which are clearly set out in its Terms of Reference, which are reviewed annually to ensure they remain suitable.

When considering new appointments, all recommendations to the Board are made on merit against objective criteria which take into account experience, skills and ensuring an appropriate diversity, in the broadest sense, in the resulting membership of the Board. Time commitment, independence and potential conflicts of interest are considered before any recommendation is made to the Board. Any candidates who are shortlisted are interviewed by the Board Chair, Committee members and other Directors. The Board is updated on the progress of the selection process and receives recommendations from the Committee for appointment.

The Committee is mindful that progress needs to be made in relation to the level of gender diversity on the Board to ensure we meet the recommendations set by the FTSE Women Leaders Review and targets specified in recent updates to the Financial Conduct Authority's Listing Rules, under which Sage will report in FY23. This has been a key area of focus for the Committee in FY22. The target set by the Parker Review continues to be met.

With input from the Board, the Nomination Committee in May 2022 prepared a role specification for a new Non-executive Director appointment based on skills, personal attributes and experience, and with due regard to be given to the benefits of diversity on the Board. Lygon Group, an external executive search firm, was instructed to assist with the search. Lygon Group have no other connection with the Company or with individual Directors other than to provide recruitment services and have signed up to the Voluntary Code of Conduct.

In July 2022, after two years on the Board, Irana Wasti decided to step down to pursue another executive opportunity. Her resignation further impacted the Board's gender balance. The Nomination Committee promptly initiated a second search process in August 2022 with Heidrick & Struggles, an external executive search firm. The Nomination Committee provided Heidrick & Struggles with a detailed role profile including the skills, personal attributes, and experience being sought in this additional new Non-executive Director appointment. Heidrick & Struggles have no other connection with the Company or with individual Directors other than to provide recruitment services and have signed up to the Voluntary Code of Conduct.

The Committee considered the diverse long list of candidates provided by each of Lygon Group and Heidrick & Struggles and the appointment process also includes one-to one interviews with short-listed candidates.

As announced on 15 November 2022, Maggie Chan Jones will join the Board on 1 December 2022. The search for a second Non-executive Director is continuing. Further information on our recent Board appointment can be found on page 108.

Succession planning for the Executive Leadership Team and senior management

In order to ensure that there are effective succession plans in place for the Executive Leadership Team and senior management, the Board has visibility of a wide range of colleagues who have been identified as potential succession candidates in the short, medium and long term.

Developing Sage's diverse pipeline of internal talent, and the organisation's ability to attract, retain and develop skilled, high-potential individuals is a key focus of discussion. One aspect considered during the year, was how individuals identified in the talent pipeline could be provided with the opportunity to interact with Board members both informally and through attendance at Board and Committee meetings to present on specialist topics. This not only provides valuable experience and exposure for these individuals to the Board but also assists the Board when assessing the strength of the succession plans in place and areas of development need for relevant individuals. In FY22, a number of Executive Leadership Team members and the senior management were invited to present to the Board and its Committees on topics pertaining to Sage's strategic priorities, financials, investor relations, and ESG. Opportunities for interactions outside of the Board meeting calendar were also pursued and developed. This will continue to be an area of focus during FY23 and beyond.

Committee effectiveness and evaluation

The Board is committed to transparency and conducts a formal and rigorous evaluation of its performance including the performance of its Committees, individual Directors and the Chair annually. The Committee's last external effectiveness review was conducted in FY19 and, in compliance with the Code, in FY22, an external effectiveness review and evaluation was carried out. The Committee discusses the outcome of the review of its effectiveness annually.

The overall conclusion from this year's external evaluation was that the Board and its Committees continue to work well and are operating effectively.

For further information on the evaluation of the Board, the Committees and individual Directors, including details of the evaluation process, outcome and next steps, please refer to pages 128 and 129.

Diversity, Equity, and Inclusion

In FY21, the Board adopted the Board Diversity, Equity, and Inclusion Policy, which is reviewed annually to ensure it remains fit for purpose. The Board DEI Policy applies to the Board and its Committees and is available on our website at sage.com.

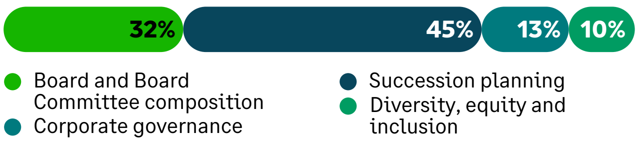
The Board acknowledges the importance of diversity in its broadest sense, as a key element of Board effectiveness and is fully committed to meeting the targets as set out by the FTSE Women Leaders Review and recently updated Financial Conduct Authority Listing Rules, and to continue meeting the recommendations of the Parker Review, while ensuring that all appointments are made on merit. The Board leads in fostering a healthy and supportive corporate culture by setting the tone from the top. The Board DEI Policy sits alongside Sage's Group-wide Policy, Code of Conduct and associated global policies, which set out our broader commitment to diversity, equity and inclusion.

Board DEI Policy

The purpose of the Board DEI Policy is to set out the approach to diversity, equity and inclusion for the Board itself and for its Committees with the intention of supporting the succession planning work of the Committee in creating and maintaining the appropriate Board and Committee composition. The Board and senior management believe diversity is key to provide the right blend of perspective required to meet our purpose and strategy.

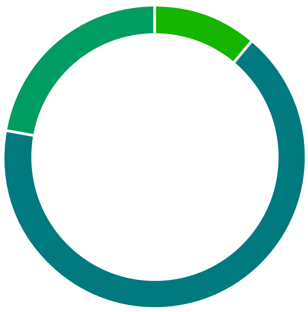
The Board and the Committee will continue to monitor progress against the Board DEI Policy to provide meaningful disclosure in the Annual Report and Accounts on its implementation and progress in meeting its objectives.

Allocation of time



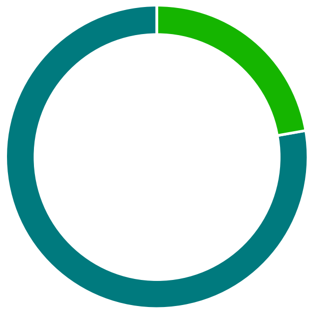
Board composition[1]

Directors by role



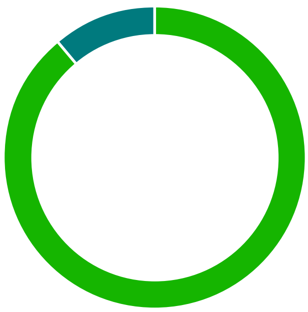
- Chair **1**
- Non-executive Directors **6**
- Executive Directors **2**

Gender



- Female **2 (22%)**
- Male **7 (78%)**

Ethnicity

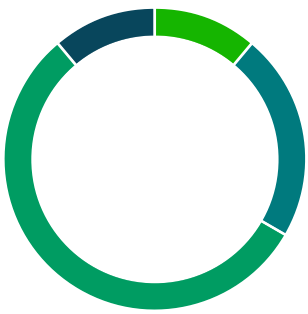


- White **8 (89%)**
- Asian **1 (11%)**

Tenure
Chair and Non-executive Directors

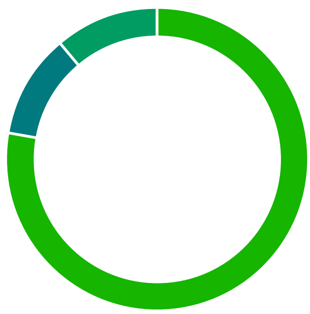
- <1 year **0**
- 1–3 years **3**
- 3–6 years **3**
- >6 years **3**

Age



- 40 to 50 **1**
- 50 to 60 **2**
- 60 to 70 **5**
- Above 70 **1**

Nationality



- British **7**
- American **1**
- American, British **1**

1. The Board Composition data reflects the information as at 30 September 2022. As announced on 15 November 2022, Maggie Chan Jones will be joining the Board on 1 December 2022, at which time we anticipate there will be ten Directors on the Board and the gender balance will be 30% female and 70% male.

Board policy

<table>
<tr><th>Board DEI Policy objectives</th><th>Implementation and progress against objectives</th></tr>
<tr><td>All appointments to the Board should be made on merit against objective criteria which take into account experience, skills and the need to ensure an appropriately diverse balance in the resulting membership of the Board</td><td>The Board and the Committee are committed to ensuring the composition of the Board exhibits a diverse mix of skills, professional and industry backgrounds, expertise, gender, age, tenure and ethnicity.

The Board and Committee are mindful of the fact that the Board is not currently where it wants to be in terms of gender diversity. However, in undertaking searches for two Non-executive Directors during FY22, the Committee has sought to address this and seeks in due course to meet the gender diversity targets set by the FTSE Women Leaders Review and referred to in recent updates to the Financial Conduct Authority’s Listing Rules. Information on our recent Board appointment can be found on page 108.</td></tr>
<tr><td>Consider candidates for appointment to the Board from as diverse a pool of applicants as possible, ensuring that the recruitment and selection process has been reviewed to mitigate bias</td><td>The Board and the Committee seek a wide and diverse list of candidates for Board appointments, including in terms of gender, social and ethnic background, experience (including those with no previous public listed company non-executive experience), geographical experience, knowledge, skills and independence of thought, always with the aim of securing the very best candidate for the position. This objective has been put into practice in the Board and Committee’s searches for two Non-executive Directors in FY22.</td></tr>
<tr><td>Aim to meet the targets of the Parker Review and FTSE Women Leaders Review and the Financial Conduct Authority’s Listing Rules as far as possible, recognising that there may be temporary periods when this is not possible; such periods should be minimised</td><td>The Board and the Committee are mindful of the recommendation of the Parker Review to have at least one Board member from an ethnic minority background and are satisfied that the Board continues to meet this recommendation. Details of Board composition can be found on page 135.

The Board and the Committee are cognisant that, following recent Board changes (including the departure of Irana Wasti in July 2022, to pursue another executive opportunity), the Board has fallen short of the gender diversity aim as publicly stated in our Board DEI Policy and the expectation of our relevant stakeholders. We remain committed to minimising the period for which this is the case. As noted in the Board and Board Committee composition section on page 133, the Committee initiated a search for two new Non-executive Directors in FY22, and as announced on 15 November 2022, Maggie Chan Jones will be appointed to the Board with effect from 1 December 2022. The search for a second Non-executive Director is ongoing and a further announcement will be made at the appropriate time. As at 30 September 2022, the Board comprises two women (22%) and seven men (78%). As at 1 December 2022 when Maggie joins the Board, we anticipate the gender balance will be 30% female and 70% male. Sage is strongly committed to ensuring a diverse workforce and to promoting and fostering a culture of diversity, equity and inclusion across the Group. Our progress is reflected in the current gender balance of our Executive Leadership Team and their direct reports, senior leadership and total workforce which can be found on page 43 and the DEI initiatives listed on page 42.</td></tr>
<tr><td>Engage executive search firms who have signed up to the Voluntary Code of Conduct on both gender and ethnic diversity and best practice, and utilise an open recruitment process for non-executive roles</td><td rowspan="2">The Board and the Committee engaged with the Lygon Group and Heidrick & Struggles, to search for two Board appointments this year. The Lygon Group and Heidrick & Struggles are executive search firms who have signed up to the Voluntary Code of Conduct on both gender and ethnic diversity and best practice and are able to demonstrate a commitment to gender and ethnic diversity as part of their roles in identifying suitable candidates. The Board and the Committee utilise an open recruitment process for non-executive roles, as appropriate.

The Non-executive Director brief provided to each of the Lygon Group and Heidrick & Struggles reflects the Board’s commitment to consider a broad and diverse range of candidates.</td></tr>
<tr><td>Ensure advertisements, role descriptions and long lists, reflect the Board’s diversity commitments in respect of gender, ethnicity, and the wider aspects of diversity, as set out in this policy</td></tr>
</table>

The Board receives updates from members of the Executive Leadership Team and senior management on Group wide DEI initiatives and monitors progress against DEI objectives. In FY22 the Board was pleased to see progress against the following targets:

Groupwide Initiative	Progress in FY22	Target
All About Us colleague participation target. This is the process colleagues can use to voluntarily share insights about themselves. Sage is committed to a workforce that fully represents the many different cultures, backgrounds and viewpoints of its customers, partners and communities. When all the insights are joined together, colleagues' contributions will provide an accurate view of Sage's colleague population and help sharpen the Company's focus to remove inequities	During FY22, participation grew to 43% from 11% at the start of FY22	Participation target of 65% globally by the end of FY24
Colleague Success Network participation. This target is about creating a sense of inclusion. All of Sage's Colleague Success Networks have the same overall goal, to help create and support the Company's inclusive culture. Colleague Success Networks play an important role in supporting the Company's DEI journey. They do this through amplifying the voices of underrepresented communities, providing a platform for sharing experiences and identifying shared challenges which they feed back to the DEI team to resolve	At the start of FY22 the Company had 4% participation and reached 14% by the end of FY22	Three-year Colleague Success Network participation target of 20% globally by the end of FY24
Sage Group gender diversity target. This target is about driving diversity at all levels of the organisation	The Company has made good progress on this target during FY22 and currently 33% of leadership teams are hitting this target from a starting point of 19% at the beginning of FY22	Target of no more than 60% of any one gender, in any leadership team, anywhere at Sage, by the end of FY26

Sage's FY22 DEI Impact Report is also available on sage.com, which sets out Sage's review of what has worked and what has not worked. The report further highlights learnings and what the Company is going to do differently as a result and will show progress against the DEI targets that are outlined in the Group DEI strategy. Further information is included in the People section on page 42.

Audit and Risk Committee

Jonathan Bewes
Chair of the Audit and Risk Committee

Composition of the Committee

The Code requires that at least one member of the Committee has recent and relevant financial experience. The Disclosure Guidance and Transparency Rules (DTRs) require that at least one member has competence in accounting and/or auditing. The Board is satisfied that this requirement is met, with Jonathan Bewes being a qualified chartered accountant and experienced Audit Committee Chair following 25 years in financial services as a corporate finance advisor in the investment banking sector. Derek Harding is also considered to meet this requirement as a chartered accountant who currently serves as Chief Financial Officer at Spectris plc.

Further, the Board considers that the Committee has the necessary competence and broad experience relevant to the sector in which Sage operates as required by the Code. Annette Court and Drummond Hall are both former Chief Executive Officers with extensive experience of leading complex, customer-focused businesses and Sangeeta Anand is a senior software technology leader with an extensive understanding and knowledge of transforming product portfolios.

Other Audit and Risk Committee members

Sangeeta Anand

Annette Court

Drummond Hall

Derek Harding

The Committee continues to play an important role in governing Sage's risk management and internal controls, financial and ESG reporting, internal and external audit. This oversight is increasingly important, keeping pace with the dynamic nature of change, both within Sage and in the external economic environment.

Dear shareholder,

I am pleased to present the Annual Report of the Audit and Risk Committee ("the Committee") for 2022. This report explains the Committee's responsibilities and shows how it has delivered on these, whilst also considering and responding to how the business has evolved during the year. In executing its responsibilities, the Committee closely monitors how the changing macro-economic outlook may impact the Group's performance, risks and controls and considers any resulting impact on financial reporting. This will continue to be an area of focus moving into FY23.

Allocation of time

Activities and evaluation

During the year, the Committee oversaw the Group's financial reporting, risk management and internal control procedures and the work of its internal and external auditors.

Fuller details of the Committee's activities are set out below. The Committee's performance was reviewed as part of the 2022 Board evaluation process. Following consideration of the findings of the review of the Committee, the Directors were satisfied that it is operating effectively.

The Committee operated during the year in accordance with the principles of the Financial Reporting Council's ("FRC") UK Corporate Governance Code 2018 (the "Code") and the associated recommendations set out in the FRC's Guidance on Audit Committees.

Role of the Committee

The Committee is an essential part of Sage's overall governance framework. The Board has delegated to the Committee the responsibility to oversee and assess the integrity of the Group's financial reporting, risk management and internal control procedures, the integrity of the Group's ESG reporting and the work of Sage Assurance (internal audit) and the external auditor, EY. These responsibilities are defined in the Committee's Terms of Reference, which were reviewed and approved by the Committee and the Board in May 2022.

Activities during the year

The Committee held four scheduled meetings during the year in line with its Terms of Reference. There were no unscheduled meetings during the year. Details of individual attendance at scheduled meetings are set out on page 118. Regular attendees by invitation include the Chair of the Board, the Chief Executive Officer, the Chief Financial Officer, the Company Secretary, the EVP Group Financial Controller, the EVP Chief Risk Officer and the VP Assurance.

The Chair of the Committee reported to the Board on key matters arising after each Committee meeting. At certain meetings, the Committee met with the external auditor and the VP Assurance, without management being present. Outside these formal Committee meetings, the Chair of the Committee met regularly with the Chief Financial Officer, the external auditor, the VP Assurance, the EVP Group Financial Controller, the EVP Chief Risk Officer and the General Counsel and Company Secretary.

Key activities during the year included ongoing monitoring of risks, controls and operations, the effectiveness of internal controls and further embedding of the Enterprise Risk Management Framework including risk appetite, tolerance and emerging risks. In addition, the Committee has overseen the preparation of the financial statements and the application of significant reporting and accounting matters, which are set out in further detail below.

During the year, the Committee received, considered and, where appropriate, challenged:

- Scheduled finance updates on business performance and significant reporting and accounting matters from the EVP Group Financial Controller;
- The Group's half-year results and Annual Report and Accounts, as well as the accompanying press release, ahead of their review by the Board;
- A detailed summary of the Group's tax strategy, which was presented by the EVP Group Financial Controller, and subsequently approved by the Committee;
- Regular updates from the EVP Group Financial Controller on the appropriateness of tax provisions including developments with regards to the European Commission's ("EC") State Aid ruling;
- Scheduled risk updates, including risk dashboards outlining both principal and any escalated risks. The Committee also received summary reports and supplementary briefings from management on selected Principal Risks and other 'in-focus' reviews;
- The assessment of Group and Principal Risk appetites with consideration of emerging risks;
- Summary reports of escalated incidents and instances of whistleblowing and fraud, together with status of investigations and, where appropriate, management actions to remediate issues identified;
- The Internal Audit plan and subsequently progress against the plan and results of internal audit activities, including Sage Assurance and management reports on internal control and the implementation of management actions, to remediate issues identified and make improvements to internal controls;
- The External Audit plan and subsequently updates on delivery of the external audit and reports from the external auditor on the Group's financial reporting and observations on the internal financial control environment in the course of their work;

- Updates on the legal and regulatory frameworks relevant to the Committee's areas of responsibility, including a standing update from the EVP Chief Risk Officer on information security, cyber and privacy risk;
- Updates from the EVP Group Financial Controller on the Group's response and ongoing activities related to the BEIS consultation on proposed audit and corporate governance reforms, with a focus on the Group's readiness for adoption;
- Updates from the EVP Sustainability and Foundation on embedding Environment, Social and Governance (ESG) risks in our framework and steps taken to implement the Taskforce for Climate Related Disclosures.

Financial reporting, including significant reporting and accounting matters

The agenda for every Committee meeting includes a formal finance update from the EVP Group Financial Controller. This informs the Committee about developments in the Group's reporting and accounting environment, and compliance with relevant reporting standards. During the year, the Committee considered how these developments were addressed in preparing the Group's financial statements, ensuring that applicable requirements were appropriately reflected. The Committee assessed the overall quality of financial reporting through review and discussion of the significant accounting matters and the interim and annual financial statements.

The Committee's review included assessing the appropriateness of the Group's accounting policies and practices, confirming their compliance with financial reporting standards and relevant statutory requirements, and reviewing the adequacy of disclosures in the financial statements. In performing its review of the Group's financial reporting, the Committee considered and challenged the work, judgements and conclusions of management. The Committee also received reports from the external auditor setting out its view on the accounting treatments included in the financial statements.

Significant reporting and accounting matters

During the year, the Committee considered a number of significant reporting and accounting matters which impacted the Group's financial statements. The Committee's response and challenge over these matters is set out below:

Significant reporting and accounting matters	Response and challenge	Cross reference
Revenue recognition Revenue recognition continues to be an important area of focus for the Group. The Group has a detailed revenue recognition policy for each category of revenue. This includes the application of rules relating to the various ways in which the Group sells its products. With over a third of the Group's revenue generated through sales to partners rather than end-users, the key judgement in revenue recognition is determining whether a business partner is a customer of the Group. Considering the nature of Sage's subscription products and support services, this judgement is usually based on whether the business partner has responsibility for payment, has discretion to set prices, and takes on the risks and rewards of the product from Sage. Inherently, this assessment can be judgemental.	• The Committee continues to oversee management's application of revenue recognition policies and during the year has continued to monitor compliance with financial reporting and accounting controls linked to revenue recognition. During the year there have been no changes to the Group's revenue recognition policies. • In light of the Group's acceleration in growth of cloud-based solutions, the Committee continues to review the appropriateness of management's application of revenue recognition policies. • As part of the preparation for the interim and annual financial statements, the Committee obtained reports from both management and EY which set out the application of accounting and reporting treatment against the revenue recognition policy. • EY provided an update to the Committee on the nature, extent and findings from its procedures over revenue recognition during the year.	See note 3.1 in the financial statements on pages 217 to 219.

Significant reporting and accounting matters	Response and challenge	Cross reference
Carrying value of goodwill Given the Group's goodwill balance of £2,416m and the continuing evolution of Sage's business model, the annual assessment of the recoverability of goodwill is a significant area of focus for the Committee. During the year, acquisitions have contributed to an increase in the goodwill balance. The goodwill recognised for the Lockstep acquisition is provisional and will be finalised when the purchase price accounting is completed in FY23.	• The Committee reviewed and considered the methodology applied and challenged the key inputs into the impairment model including areas of estimation and judgement such as forecast cash flows and discount rates, with consideration to their appropriateness given the changes in the macro-economic environment. • Where appropriate, the Committee acknowledged the use of external sources to support and corroborate management's inputs. • The Committee further enquired as to whether any other reasonable changes in assumptions would result in a material impairment and therefore require sensitivity disclosure in the financial statements. The Committee agreed with management's conclusion that a sensitivity disclosure should be included for the Iberia business in relation to a reasonably possible change in revenue growth and discount rate. • The Committee considered the level at which goodwill is tested and concluded a consistent approach to the prior year is appropriate.	See note 6.1 in the financial statements on pages 231 to 233.

Significant reporting and accounting matters	Response and challenge	Cross reference
Going concern and viability assessment Both the going concern and viability assessment are key areas of focus for the Committee due to the level of management judgement required. In preparing these assessments, consideration was given to the macro-economic environment. The Committee received a detailed update from management during the year which included both reverse and scenario-specific stress testing.	• The Committee reviewed management's process for assessing the Group's longer-term viability, including the determination of the period over which viability should be assessed, the appropriateness of the viability scenarios identified in light of the Group's Principal Risks and uncertainties and the reasonableness of key assumptions used by management in calculating the financial impact of a viability scenario arising. • With consideration to the macro-economic environment, the Committee reviewed the key assumptions underpinning management's longer-term forecasting, and the sufficiency and adequacy of future funding requirements. As part of this review, the Committee considered the level of available liquidity and covenant compliance over the forecast period. • The Committee reviewed the results of management's scenario-specific stress testing for both going concern and viability, as well as reverse stress testing, which demonstrated the resilience of the Group's business model. • It was noted that under scenario-specific stress testing, the Group maintains sufficient available liquidity and covenant compliance over the forecast period. The results of reverse stress testing highlighted that such a scenario would only arise following a catastrophic deterioration in performance, well in excess of the assumptions in the scenario-specific stress testing. • As part of its review and challenge, the Committee took into consideration updates provided by the EVP Chief Risk Officer with respect to the Group's Principal and emerging risks. • The Committee approved the disclosures in relation to both the going concern and viability assessment and recommended to the Board the preparation of the financial statements under the going concern basis.	The Group's going concern and viability statements can be found on pages 182 to 183 and 104 to 105, respectively.

Significant reporting and accounting matters	Response and challenge	Cross reference
Alternative Performance Measures (APMs) The Committee closely monitors management's interpretation and definition of Alternative Performance Measures (APMs), in particular Annualised Recurring Revenue (ARR). In addition, the Committee considers the presentation of APMs in the Group's Annual Report and Accounts in the context of the requirement that they be fair, balanced and understandable.	• The Committee continues to review and challenge management's use of APMs and, as part of the preparation for the interim and annual financial statements, requests a clear reconciliation between key APMs and statutory reporting measures. • There is a continued focus by the Committee on the ARR APM given its importance as a key measure of business performance. At each Committee meeting, an update on ARR performance is provided. • The Committee has challenged the sufficiency, adequacy and clarity of disclosures related to APMs in the Annual Report and Accounts and considers them to be appropriately disclosed. • At the request of the Committee, and on behalf of the Remuneration Committee, EY performed a set of agreed upon procedures over the mathematical calculation of ARR. In doing so, EY considered the appropriateness of the calculation against the defined policy and reviewed in detail any proposed adjustments. • The Committee also reviewed supplementary information issued alongside the financial statements, including the Group's press release, to ensure consistency in the way APMs are disclosed and presented on a balanced basis alongside statutory reporting measures.	The definition of APMs can be located in the glossary on pages 289 to 290. Reconciliations of statutory revenue, operating profit and basic earnings per share to their underlying and organic equivalents are in the Financial review starting on page 82.
Acquisitions The Committee received an update on the acquisitions made during the year, notably the acquisitions of Brightpearl (January 2022) and Lockstep (August 2022). As part of the updates, the Committee focussed on the accounting and reporting judgements taken by management, particularly in relation to the valuation of acquired intangible assets.	• For the acquisitions made during the year, the Committee considered the outputs from the independent external valuer with a particular focus on the key judgements made in the valuation methodologies. • For Brightpearl, key judgements included the determination of longer-term cash flows, the discount rate and the long-term growth rate. In addition, judgement was applied in the determination of how the goodwill arising on acquisition was allocated to the Group's cash-generating units. The Committee also considered the basis for which the fair value of acquisition consideration had been determined. The Committee subsequently approved the valuation of acquisition intangibles, along with the allocation of goodwill. • For Lockstep, the Committee acknowledged the proximity of the acquisition date to the Group's financial year end. Accordingly, a valuation will be put forward in relation to this acquisition at the Committee's next meeting in February 2023.	See note 16 in the financial statements on page 268.

Fair, balanced and understandable

Each year, the Committee advises the Board on whether the Annual Report and Accounts taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess Sage's position, performance, business model and strategy. In reaching its conclusion, the Committee considered the results of management's assessment of going concern and viability, reviewed the Annual Report and Accounts as a whole, and assessed the results of processes undertaken by management to provide assurance that the Group's financial statements were fairly presented.

These processes included an analysis of how the key events in the year had been described and presented in the Annual Report and Accounts, how APMs had been defined and presented, and the outcome of representations received from country management teams on the application of a range of financial controls. The Committee also considered the perspective of the external auditor.

Risk management and internal controls

The Committee assists the Board in its monitoring of the Company's internal control and risk management systems, and in its review of their effectiveness. This monitoring includes oversight of all material controls, including financial, operational, regulatory and compliance controls, and assessing whether the control systems are fit for purpose and whether any corrective action is necessary. The Risk function reports into the EVP Chief Risk Officer, with the Assurance function reporting directly to the Committee to maintain independence, and administratively into the General Counsel and Company Secretary.

During the year, the Committee:

- Reviewed the Principal Risks, their evolution during the year, and the associated risk appetites and metrics, challenging and confirming their alignment to the continued achievement of Sage's strategic objectives. At each meeting, the Committee considered and challenged the ongoing overall assessment of each risk, their associated metrics and management actions and mitigations in place and planned;
- Reviewed and considered an assessment of the effectiveness of risk management more broadly, and reviewed summary reports from Sage Risk and Controls and Sage Legal on the Group's adherence to policies, including Conflicts of Interest, Anti-Money Laundering, Sanctions, Competition Law, Anti-Bribery and Corruption and Modern Slavery;
- Reviewed updates from the Sage Risk and Controls team on the operating effectiveness of controls within the Sage Business Control Framework;
- Received reports from Sage Assurance and management on internal control and monitored the implementation of management actions to remediate issues identified and make improvements. The Committee also satisfied itself that management's response to any financial reporting or internal financial control issues identified by the external auditor was appropriate;
- Received updates from the EVP Group Financial Controller on the progress made towards implementation of our internal financial controls enhancement programme in keeping with key recommendations from the BEIS consultation;
- Reviewed at each Committee meeting any escalated incidents and any instances of whistleblowing and management actions to remediate any issues identified (see Incident management, fraud and whistleblowing paragraph below for further details); and
- Considered individual incidents and associated actions to assess whether they demonstrated a significant failing or weaknesses in internal controls, of which none were identified.

For further details on the Group's risk management and internal control systems, its risk-informed decision-making process and its Principal Risks and uncertainties, refer to the Risk Management section on pages 90 to 103.

Specific areas of focus

The Committee spent time on the following specific areas of focus during the year to consider and challenge relevant, current and important issues:

- At each Committee meeting, consideration was given to the Group's operations, risks and controls. Specifically, this included consideration of the impact of the macro-economic environment upon the Group's wider Enterprise Risk Management Framework, emerging risks, business continuity planning strategy and significant reporting and accounting matters;
- Received updates on how Sage is capturing, monitoring and embedding ESG risks to ensure that the Group has prepared for successful execution of the Group's Sustainability and Society strategy and related TCFD disclosures. During the year this included the appointment of the EVP for Sustainability & Foundation, who the Committee met with in September 2022, and working with external partners to assess compliance with TCFD proposals;
- Received updates from the EVP Group Financial Controller on the key elements of the BEIS consultation on proposed audit and corporate governance reforms. As part of these updates the Committee was presented with progress made during the year in the ongoing implementation of processes and controls to respond to certain recommendations.

Incident management, fraud and whistleblowing

The Committee considered the suitability and alignment of the Incident, Emergency and Crisis Management and Whistleblowing policies and confirmed the effectiveness of these policies in facilitating appropriate disclosure to senior executive management and the Committee. At each meeting, the Committee received a summary report of any escalated incidents and instances of whistleblowing and, together with management, considered whether there were any thematic issues and identified remediating actions. As part of this reporting process, the Committee was notified of all whistleblowing matters raised, including any relating to financial reporting, the integrity of financial management or that included any allegations relating to fraud, bribery or corruption. The Committee was also notified of all non-whistleblowing incidents exceeding an agreed materiality threshold.

Internal audit

Internal audit is delivered by the in-house Sage Assurance function. Reporting directly to the Committee and administratively to the General Counsel and Company Secretary, its remit is to provide independent and objective assurance over the Group's operations and activities, to assist management and colleagues in fulfilling their responsibility to develop and maintain appropriate internal controls.

The specific objectives, authority, scope and responsibilities of Sage Assurance are set out in more detail in the Internal Audit Charter, which is reviewed annually by the Committee. The Committee also considers and evaluates the level of Sage Assurance resource and its quality, experience and expertise, supplemented as appropriate by third-party support and subject matter expertise, to ensure it is appropriate to provide the required level of assurance over the Principal Risks, processes and controls throughout the Group.

Additionally, in line with the Institute of Internal Auditors' (IIA) Code of Practice, the effectiveness of Sage Assurance is reviewed by the Committee on an annual basis and is also subject to a five-yearly external quality assessment (EQA). The most recent EQA was completed in August 2021 by PwC, feedback from which was positive and noted conformance with the IIA International Standards for the Professional Practice of Internal Auditing (IPPF), therefore an internal effectiveness assessment was completed in 2022 which noted timely closure of actions arising from the 2021 EQA and continued conformance with the above standards. This self-assessment was presented and discussed at the September 2022 Committee meeting, and the Committee endorsed these conclusions.

The Committee reviewed and approved the nature and scope of the work of Sage Assurance, and the Sage Assurance plan was approved by the Committee at the beginning of the financial year, along with any subsequent quarterly updates. Specific consideration was given to the impact of business changes, including the restructuring programme in FY21, with no significant or adverse impact on the business' internal control environment identified. Operationally, given key territories' emergence from the Covid-19 pandemic during the period, the Assurance function continued to show flexibility in transitioning from predominantly remote delivery to a hybrid model, with an increased focus on on-site delivery including visits to key locations in the UK, North America, South Africa and Southern Europe.

Progress against the plan and the results of Sage Assurance's activities, including the quality and timeliness of management responses, is monitored at each Committee meeting. This includes consideration of a summary of report findings against the internal audit plan, reported at each meeting by Sage Assurance, as well as an executive summary for each individual internal audit.

Following its review of the Company's internal control systems, the Committee considered whether any matter required disclosure as a significant failing or weakness in internal control during the year. No such matters were identified.

External audit

The Group's current external auditor is EY. Each year, the Committee makes a recommendation to the Board with regard to whether the external auditor should be reappointed. In making its recommendation, the Committee considers the auditor's effectiveness, including its independence, objectivity and scepticism. The Committee also reviews the application of, and compliance with, the Group's Auditor Independence Policy, in particular with regard to any non-audit services provided by EY. The Committee also considers business relationships between the Group and EY, which primarily relate to EY's procurement of Sage products and applications.

Further consideration is given to partner rotation and any other factors which may impact the Committee's judgement regarding the external auditor. EY has now been Sage's external auditor for eight years since the formal tender process conducted in 2014. Kathryn Barrow was appointed as lead audit partner in 2020 and will continue in her role for the next financial year.

The Company is, and has been throughout the year under review, in compliance with the requirements of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014. In accordance with the terms of this Order, Sage anticipates that it will conduct a competitive tender process in respect of the external audit no later than 2024. This allows for any potential new audit firm to take up the role for the year ending September 2025. The Committee believes this approach is in the best interests of shareholders, as over this period the Group will benefit from an efficient and effective independent audit.

Auditor effectiveness

The Committee is responsible for assessing the effectiveness of the external auditor. In doing so, the Committee considers the independence, objectivity and level of professional scepticism exercised by the external auditor, as well as the results of the annual auditor effectiveness review. To fulfil its responsibility for oversight of the external audit process, the Committee reviewed and agreed:

- The terms, areas of responsibility, associated duties and scope of the audit as set out in the external auditor's engagement letter;
- The overall work plan and fee proposal;
- The issues that arose during the course of the audit and their resolution;
- Key accounting and audit judgements;
- The level of errors identified during the audit; and
- Control recommendations made by the external auditor.

In addition to the above, specific considerations made by the Committee during the year included:

- The detail relating to EY's scoping and audit plan for FY22 which was presented to the Committee at its May meeting;
- The findings published by the Financial Reporting Council (FRC) and their view on the effectiveness of EY's audits;
- The experience and expertise demonstrated by the auditor in its direct communication with, and support to, the Committee;
- The content, quality of insight and added value provided by EY's reports;
- Robustness and perceptiveness of EY in its handling of key accounting and audit judgements; and
- The interaction between management and the auditor.

The FRC Audit Quality Review (AQR) team, responsible for monitoring the quality of UK audit firms, reviewed the EY audit file for the Group's FY20 year end as part of the regular cycle of inspections. At the Committee's May meeting EY presented the key findings from the review. EY confirmed that they had acknowledged the AQR comments and had sufficiently addressed them in both EY's FY21 audit and the scope and plan for the FY22 audit. The Committee was satisfied that matters identified for improvement were appropriately implemented by EY. The Committee and management also reviewed the report to satisfy themselves that the findings did not impact the Sage financial reporting processes, policies or internal controls and that no internal remediation was required.

At certain Committee meetings a separate private meeting was held between Committee members and the lead audit partner, Kathryn Barrow, to encourage open and transparent feedback. The Chair of the Committee also met with the external auditor outside of Committee meetings, supporting effective and timely communication.

During the year the Committee also received feedback from the businesses evaluating the performance of each assigned audit team. Management's report to the Committee included a summary of the findings of a survey of key Sage colleagues on the quality of EY's delivery, communication and interaction with the various finance teams across the Group. Management concluded that the working relationship between finance functions and EY across the Group was effective and the audit had been carried out in an independent, professional, organised and constructive manner, with an appropriate level of challenge and scepticism over management's treatment of significant reporting and accounting matters.

Auditor independence

The Committee is responsible for the development, implementation and monitoring of policies and procedures to ensure auditor independence. At Sage this is governed by the Auditor Independence Policy (the "Policy"). The Policy has been in place throughout the year. It specifies the role of the Committee in reviewing and approving non-audit services in order to ensure the ongoing independence of the external auditor. A summary of non-audit fees paid to the external auditor is provided to the Committee on a quarterly basis.

The Policy states that Sage will not use the external auditor for non-audit services, except in limited circumstances, and as permitted by the FRC Ethical Standard, where non-audit services may be provided by the external auditor with pre-approval by the Committee unless clearly trivial. This is provided that the approval process set out in the Policy is adhered to and that potential threats to independence and objectivity have been assessed and safeguards applied to eliminate or reduce these threats to an appropriate level. Any non-audit services individually in excess of £75,000 require pre-approval by the Chair of the Committee, as do any non-audit services where the cumulative total of previously approved non-audit services in the financial year exceed £75,000.

The Committee considered the application of the Policy with regard to non-audit services and confirms it was properly and consistently applied during the year. The Policy also requires that the ratio of audit fees to non-audit fees must be within Sage's pre-determined ratio, and non-audit fees for the year must not exceed 70% of the average of the external audit fees billed over the previous three years. In 2022, the ratio of non-audit fees to audit fees was 10% (2021: 8%), principally reflecting the fee paid for the half-year interim review and permitted assurance services relating to a bond issuance during the year as well as a set of agreed upon procedures over the mathematical calculation of ARR. A breakdown of total audit and non-audit fees charged by the external auditor for the year under review is shown in note 3.2 to the financial statements.

The Committee has also considered the independence of the external auditor's partners and staff involved in the audit of Sage. EY has confirmed that all its partners and staff complied with their ethics and independence policies and procedures that are consistent with the FRC's ethical standards including that none of its employees working on the audit hold publicly listed securities issued by Sage. In addition, the Committee acknowledges management's internal assessment that no employee in a key financial reporting oversight role has a close relationship with any EY employee which may impact their independence.

Auditor reappointment

Having considered the summary set out above relating to the effectiveness and independence of EY, the Committee has recommended to the Board that a resolution to reappoint EY be proposed at the 2022 AGM which the Board has accepted and endorsed.

Evaluation of the performance of the Committee

The evaluation of the Committee for the year was completed as part of the 2022 Board external evaluation process. The overall conclusion from this year's external evaluation was that the Committee continues to operate effectively. An explanation of how this process was conducted, the conclusions arising from it and the action items identified are set out on pages 128 and 129. The Committee has considered this in the context of the matters that are applicable to the Committee.

Jonathan Bewes
Chair of the Audit and Risk Committee

Remuneration Committee

Annette Court
Chair of Remuneration Committee

Composition of the Committee

The Remuneration Committee is composed solely of independent Non-executive Directors, Drummond Hall and Dr John Bates, and is chaired by Annette Court. Details of the skills and experience of the Remuneration Committee members can be found in their biographies on pages 110 and 111.

Other Remuneration Committee members

Drummond Hall

Dr John Bates

During a year of external volatility, we have delivered strong results demonstrating consistent and sustainable growth. Our Remuneration Policy has operated as intended; driving high performance linked to clearly-defined goals fundamental to our business strategy.

Dear shareholder,

On behalf of the Remuneration Committee (the "Committee"), it is my pleasure to present the Directors' Remuneration Report (the "Report") for the year ended 30 September 2022.

This Report complies with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013, the provisions of the 2018 UK Corporate Governance Code, the Companies (Miscellaneous Reporting) Regulations 2018, the Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, and the Listing Rules.

The Report is in sections:

- The Directors' Remuneration Policy (the "Policy") (pages 158 to 162).
- The Directors' Annual Remuneration Report (pages 163 to 181). This section sets out details of how the 2022 Policy was implemented for the year ended 30 September 2022 and how we intend the Policy to apply for the year ending 30 September 2023.

Objectives and responsibilities

The Committee's main objective is to determine the framework, broad policy, and levels of remuneration for the Group's Chief Executive Officer, the Group's Chief Financial Officer, the Chair of the Company, and other executives as deemed appropriate, ensuring compliance with legal and regulatory requirements and striving to enhance Sage's long-term development.

This framework includes, but is not limited to, establishing stretching performance-related elements of reward and is intended to promote the long-term success of the Company. We achieve this through:

- Providing recommendations to the Board, within agreed Terms of Reference, on Sage's framework of executive remuneration;
- Determining the contract terms, remuneration and other benefits for each of the Executive Directors, including performance share awards, performance-related bonus schemes, pension rights, and compensation payments, and aligning such to the Company's purpose, values, and culture;
- Reviewing workforce remuneration, and related policies across the Group and the alignment of incentives and rewards with culture, taking these into account when setting the Policy for Executive Directors;
- Determining remuneration for senior executives below Board level;
- Approving share awards; and
- Ensuring the Policy promotes long-term shareholdings by Executive Directors by ensuring share awards granted are released on a phased basis and subject to a total vesting and holding period of five years.

For more information on the Committee's Terms of Reference, visit: https://www.sage.com

Context for FY23 remuneration decisions

Sage has delivered a strong set of financial results for the year in what has continued to be a challenging operating environment.

Our colleagues have remained resilient and focused, continuing to work hard to create simplicity out of complexity and knock down barriers so everyone can thrive. Colleague engagement has remained high, with eSAT of +79, and the Company has continued to invest in areas to innovate and drive growth.

Recent months have presented new challenges with increasing levels of inflation, and the "cost of living crisis" is front of mind as we head into FY23. I am proud that Sage has taken steps to support colleagues by:

- Funding an increased pay review budget for FY23 with pay review matrices to ensure that budget is focused on our lowest paid and highest performing colleagues;
- Ensuring the majority of our colleagues are eligible for annual bonus or commission payments; and
- Increasing education and communication on the benefits available to colleagues to raise awareness of discounts and support (such as free financial coaching sessions) that colleagues are able to access.

Sage is also an accredited Living Wage Foundation employer, meaning we pay the real Living Wage to all colleagues in the UK, and contract with suppliers who pay the real Living Wage to all regularly contracted staff who are not employees.

Against this backdrop, the Committee is striving to ensure that senior executive remuneration remains aligned to our evolved strategic focus, our external operating environment, and UK corporate governance requirements.

Remuneration updates for Executive Directors in FY23

We are proposing several changes to FY23 remuneration arrangements:

1) Evolutionary changes to FY23 performance measures for the Performance Share Plan (PSP)

In FY22, we introduced a reshaped set of strategically-aligned performance measures for our PSP designed to align with our strategy of growing Sage Business Cloud (SBC), with particular focus on accelerated cloud native growth and to incorporate relevant ESG metrics aligned to our ambitious Sustainability and Society strategy. These broad objectives remain of central strategic importance, so we propose only the following evolutionary changes to the FY23 PSP:

- As indicated in last year's Remuneration Report, the weighting of ESG measures will increase from 15% to 20%.
- In conjunction with the evolution of our Sustainability and Society strategy, the ESG measures will comprise new metrics linked to our progress in reducing carbon emissions against a SBTi-approved Net Zero Plan, our development of products to enable SMBs to address their own sustainability goals, and key Diversity, Equity, and Inclusion metrics.

Full details can be found in our statement of implementation of Remuneration Policy in the following financial year on page 173 of this Report and further details in regard to our Sustainability and Society strategy can be found on pages 44 to 49 and in the 2022 Sustainability Report.

Furthermore, during FY23 the Committee will review the financial metrics in the PSP to ensure close alignment with the business strategy as the Digital Network evolves for FY24.

2) Base salary increase of 4% for the CEO and the CFO

We have undertaken our annual review of salaries and awarded a 4% salary increase for FY23 to the Executive Directors. This is a lower increase than our budgeted UK workforce salary increase for FY23 of 5.8%.

3) PSP opportunity and shareholding guideline for the CFO

Jonathan Howell is an immensely experienced professional; he has worked for over 20 years as a CFO of major listed companies and his contribution since becoming our CFO in 2018 has been invaluable to our recent strategic development. In order to more appropriately reflect his experience and importance to Sage and to ensure he is paid fairly for his contribution to our long-term growth, we propose to increase the level of his PSP award from 200% to 225% of salary (within the existing Policy limit of 300% of salary) subject to the stretching performance conditions set out on pages 174 to 175. To further enhance alignment with shareholders, there will be an accompanying increase in the CFO's shareholding requirement from 250% to 275% of base salary.

No changes are proposed to the CEO's PSP award level or shareholding requirement.

4) Shift in measurement of performance measures from organic to underlying

The business is evolving to give greater emphasis to underlying measures. To align Executives' incentives to key performance indicators, metrics in incentive plans for FY23 will also be measured on an underlying basis. This will apply to ARR growth and the underlying operating profit (UOP) margin underpin in the annual bonus and the absolute growth, cloud native ARR growth and Return on Capital Employed (ROCE) underpins in the FY23 PSP. The Remuneration Committee will review on a case-by-case basis the impact on underlying measures of significant acquisitions and disposals and judge whether to adjust incentive targets our outcomes. For clarity, there are no changes to the measurement of performance measures of current in-flight awards.

The full set of annual bonus and PSP measures and related targets for FY23 are set out on pages 174 to 176.

Our remuneration principles

Our remuneration principles align with the requirements of the 2018 UK Corporate Governance Code. The principles apply across our entire workforce and are designed to drive the behaviours and results required to support our short- and longer-term business strategy as outlined in the Strategic Report.

1

Drives focus on strategy, purpose, and culture

Allows the Committee to give appropriate reward for achievements that support delivery of strategic goals and wider social purpose through a remuneration approach that is consistent with that in place for colleagues across Sage.

2

Market competitive

Reward opportunity aligned to relevant competitive markets, recognising wider context of geographies in which we operate.

3

Simplicity

Clarity and simplicity of design enables transparency for all stakeholders.

4

Aligned with shareholder interests

Close alignment of reward outcomes and value created for shareholders through material "skin in the game" for executives; mitigates against excessive risk-taking that can arise from target-based incentive plans and ensures no reward for failure.

Principles are underpinned by compliance with corporate governance guidelines and specifically with Provision 40 of the 2018 UK Corporate Governance Code:

Clarity—
should be transparent and promote effective engagement with shareholders and the workforce.

Simplicity—
should avoid complexity and their rationale and operation should be easy to understand.

Risk—
should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.

Predictability—
the range of possible values of rewards and any limits or discretion should be identified and explained at the time of approving the policy.

Proportionality—
the link between individual awards, the delivery of strategy and the long-term performance of the company should be clear.

Alignment to culture—
incentive schemes should drive behaviours consistent with company purpose, values, and strategy.

Delivering our remuneration principles in FY23

We aim to align the total remuneration for our Executive Directors to our business strategy through a combination of salary, bonus, and long-term incentive schemes underpinned by stretching performance targets.

The table below summarises the remuneration arrangements for our current Executive Directors in FY23 in accordance with the 2022 Policy. Alignment to our remuneration principles is also denoted.

REMUNERATION PRINCIPLES

1 Drives focus on strategy, purpose, and culture
2 Market competitive
3 Simplicity
4 Aligned with shareholder interests

Element of Policy	Purpose	Implementation in FY23
Base salary 1 2	Enables Sage to attract and retain Executive Directors of the calibre required to deliver the Group's strategy.	CEO: £841,500 (4% increase) CFO: £577,000 (4% increase) The equivalent average increase for colleagues eligible for an annual pay award is 5.8% (in respect of colleagues based in the United Kingdom).
Pension 1 2 3	Provides a competitive post-retirement benefit, in a way that manages the overall cost to the Company.	10% of base salary for both the CEO and CFO
Benefits 2	Provide a competitive and cost-effective benefits package to Executive Directors to assist them in carrying out their duties effectively.	Standard benefits package plus costs of travel, accommodation, and subsistence for the Executive Directors and their partners on Sage-related business.
Annual bonus 1 2 3 4	Rewards and incentivises the achievement of annual financial and strategic targets. A minimum of one third deferral into shares for three years is compulsory, with the remainder delivered in cash.	Maximum 175% of base salary 70% based on ARR growth (with an underlying operating profit margin underpin), 10% on customer-related measure inclusive of Net Promoter Score and 20% based on strategic goals.
Performance Share Plan 1 2 3 4	Supports achievement of our strategy by targeting performance under our key financial performance indicators. Vesting is after three years, and awards are subject on vesting to a holding period for two years before being released.	Face value of 250% of base salary for the CEO Face value of 225% of base salary for the CFO 50% based on Sage Business Cloud penetration with cloud native penetration, ROCE, and absolute growth underpins, 30% based on relative shareholder return performance, and 20% based on ESG basket of measures.
All-employee share plans 1	Provides an opportunity for Executive Directors to voluntarily invest in the Company.	Eligible to participate up to the tax-efficient limit of £500 per month.
Chair and Non-executive Director fees 2	Provide an appropriate reward to attract and retain high-calibre individuals.	**See page 176 of this Report for a list of Non-executive Director fees.**
Shareholding guideline 4	The shareholding guideline for the CEO is 300% of base salary and 275% for the CFO. Achievement of this is expected within a maximum of five years from the time the Executive Director became subject to the guideline. The post-employment shareholding guideline requires Executive Directors to retain shares following cessation of employment as a Director in line with Investment Association guidelines.	Shareholding at 30 September 2022 (inclusive of deferred shares held, net of tax at the current estimated marginal tax withholding rate and Sage shares held by an Executive Director's Connected Person): Steve Hare 478% of base salary Jonathan Howell 311% of base salary. **See page 177 for more information on the shareholding guideline.**

Remuneration at a glance

Our at a glance summary sets out clearly and transparently the total remuneration paid to our Executive Directors in 2021/2022.

Fixed pay for FY22

- base salary
- benefits
- pension

See page **163**

Annual bonus for FY22

- 11.4% ARR growth achieved
- NPS of 16.6

See page **164**

PSP awards vesting in FY22

- 50th TSR percentile rank
- 8.0% CAGR ARR growth achieved
- ROCE underpin met

See page **167**

FY22 single figure for total remuneration summary:

Director	2022 Total £'000	2021 (restated) Total[4] £'000
Executive Directors		
S Hare	**2,481**	2,507
J Howell	**1,686**	1,690
Non-executive Directors		
A Duff[1]	**400**	25
S Anand	**67**	60
J Bates	**63**	60
J Bewes	**81**	77
A Court	**81**	77
D Hall	**80**	77
I Wasti[2]	**50**	60
D Harding[3]	**63**	35

Notes:

1. Andrew Duff was appointed as a Non-executive Director on 1 May 2021 and Chair of the Sage Board on 1 October 2021.
2. Irana Wasti stepped down as a Non-executive Director on 22 July 2022.
3. Derek Harding was appointed as a Non-executive Director on 2 March 2021.
4. 2021 values are restated. Full details are provided in the footnotes to the full single figure for total remuneration table on page 163.

Key remuneration outcomes for FY22

	Measure	Weighting	% of the overall maximum award
Annual bonus	ARR growth*	70%	70%
	Net Promoter Score (NPS)	10%	0%
	CEO performance against personal strategic goals	20%	18%
	CFO performance against personal strategic goals	20%	18.7%
	CEO total bonus opportunity achieved	100%	88%
	CFO total bonus opportunity achieved	100%	88.7%
Performance Share Plan	ARR growth**	70%	14%
	Relative Total Shareholder Return (TSR)	30%	6%
	Total Performance Share Plan opportunity achieved	100%	20%

Notes:

* Payment of a bonus for ARR growth is subject to the achievement of an underpin condition of Group UOP margin of 16%. Group UOP was 19.3% and the underpin met.

** For any of this portion of the PSP award to vest, a ROCE underpin of 12.0% must be met. ROCE of 18.7% was achieved and the underpin met.

Key remuneration outcomes for FY22

2022 bonus: 88.0% to 88.7% of potential payable

The 2022 bonus was aligned to our strategy of delivering annual growth with improving margin, such that 70% of bonus potential was based on ARR growth with a UOP margin underpin. 10% of bonus potential was based on customer NPS to reflect the criticality of maintaining and improving the experience for Sage customers. ARR growth of 11.4% (at stretch level) was achieved; the UOP margin of 19.3% met the underpin level. The NPS of 16.6 fell short of the challenging threshold set. The remaining 20% is determined by assessments of individual Executive Directors' performance against their goals. In summary:

- For the CEO, 88.0% would be payable
- For the CFO, 88.7% would be payable

The Committee determined that the formulaic outcome is appropriate, therefore no discretion has been applied, so between 88.0% and 88.7% of maximum bonus will be payable. Further detail is set out on page 164.

2020 PSP: 20% of the total shares under award vesting

PSP awards granted in December 2019 were based on ARR growth (with a ROCE underpin) and relative TSR performance measured over the three-year performance period from 1 October 2019 to 30 September 2022. Reflecting on general business performance, and the experience of shareholders, customers, and colleagues over the period, the Committee determined that the formulaic outcome is appropriate, so 20% of the total number of shares under award will vest in December 2022, subject to a two-year holding period for both Executive Directors. Further detail is set out on page 167.

Engagement with stakeholders

The Committee values input from shareholders and is committed to ensuring open and transparent dialogue between parties in regard to executive remuneration. Where appropriate, the Committee seeks the views of the largest shareholders individually and others through shareholder representative bodies when considering any significant changes to the Policy. Any feedback received is thoughtfully reviewed and, where appropriate, changes are implemented. Ahead of the 2023 AGM, the Committee consulted individually with Sage's top 20 shareholders and proxy agencies on the proposed changes to Performance Share Plan metrics for 2023. This was initially in written format and included several virtual meetings to discuss in detail the metrics being proposed.

Colleague Success is critical for Sage and engaging with the workforce in meaningful, two-way dialogue underpins this. The CEO hosts frequent "All-Hands" calls for the whole workforce, during which he provides Company performance updates explaining how this translates to the bonus plan.

Colleagues are encouraged to ask questions and the CEO provides open and transparent answers. Additionally, Company performance at a Group and regional/functional level and bonus updates are periodically provided on our intranet site and by email; this ensures that colleagues are able to understand how the business is performing during the financial year and the impact that can have on their reward package. This is supplemented by personalised bonus update letters for colleagues three times a year.

Colleagues receive a detailed personal annual reward statement annually in December outlining their basic salary and annual bonus plan structure (where applicable) for the year.

Colleagues have the opportunity to share their thoughts and feedback on all topics, including our remuneration policies and practices, through our "Always Listening" survey. Originally launched during 2020 in response to the pandemic, this is a continuous feedback survey which colleagues can access at any time. Our bi-annual colleague Pulse Surveys and CEO roundtables also provide opportunities for colleagues to provide feedback.

A global Reward and Recognition policy is available to all colleagues and applies across the entire workforce. Furthermore, colleagues are able to access a more detailed explanation of executive pay through this Report and of our equity awards through our colleague intranet.

Corporate Governance Code considerations

From 1 October 2021, we have been fully compliant with the 2018 UK Corporate Governance Code. When reviewing the Policy for Executive Directors and determining the approach to pay, in line with the Code, the Committee gives consideration to the following:

Clarity	**Code provision:** remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	Engaging with stakeholders effectively, in a timely, transparent, and relevant manner is important for the Company. Further details on how we engage with stakeholders can be found on page 69 to 77. The purpose, strategic alignment, and structure of each element of pay is provided in the Policy and easily accessible on our Company website.
Simplicity	**Code provision:** remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	Simplicity is one of our remuneration principles and guides the design of our remuneration structures. Remuneration arrangements in place for Executive Directors are not complex: executives are eligible for an annual bonus and a long-term incentive award under our PSP, the metrics of which are aligned to the Company's strategy. Salaries are reviewed annually across the whole workforce and benefits are provided in line with local market norms. The pension provision for Executive Directors is 10% of salary. This policy was applied for the first time to the appointment of Jonathan Howell as CFO in December 2018. This Report provides open and transparent disclosure of executive remuneration for our workforce and our shareholders.
Risk	**Code provision:** remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	There is an appropriate mix of fixed and variable pay and financial and non-financial measures and goals in our remuneration plans. There are mechanisms in place to ensure alignment with long-term shareholder interests and the ongoing performance of the business; one third of annual bonus is deferred into Sage shares, a holding period of two years is applicable to the PSP and Executive Directors are required to build up and maintain a significant holding of Sage shares both whilst an Executive Director (300% of salary for the CEO and 275% of salary for the CFO) and for a two-year period after stepping down from that position (100% of their "in-employment" guideline for two years after stepping down as a Director). The Committee is able to exercise discretion over the formulaic outcomes of the bonus and PSP to ensure outturns reflect the performance of the Executive Directors and the business. Malus and clawback provisions are applicable to these plans in the event of a trigger event.
Predictability	**Code provision:** the range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the Policy.	Incentive opportunities are capped with clearly defined payout schedules, deferral requirements, and holding periods.

Proportionality	**Code provision:** the link between individual awards, the delivery of strategy, and the long-term performance of the company should be clear. Outcomes should not reward poor performance.	Executive Directors' total remuneration package is designed to ensure that remuneration increases or decreases in line with business performance and aligns the interests of Executive Directors and shareholders, specifically with the annual bonus and PSP rewarding over the short and long term. Stretching targets over an annual (applicable to annual bonus) and three-year performance period (applicable to the PSP) are approved by the Committee and assessed at the end of the respective performance period, taking into account the wider business performance and the internal and external context. The Committee has overriding discretion over the formulaic outcomes of the bonus and PSP to ensure outturns reflect performance of Executive Directors, the business, and the shareholder experience, ensuring that poor performance is not rewarded.
Alignment to culture:	**Code provision** incentive schemes should drive behaviours consistent with the company purpose, values, and strategy.	Incentive schemes are aligned to Sage's culture. The bonus plan is split between Company performance and achievement of personal strategic goals, which incorporate non-financial metrics such as employee engagement, leadership development, inclusion, diversity, talent development, and the community. The Company performance measures are central to the strategic progression of Sage and the personal goal assessments are completed taking into account outputs and how they have been delivered in respect of the Company's values and behaviours. The PSP measures align to the Company's strategic priorities in addition to the wider shareholder experience through TSR. The ESG measures first introduced into the PSP in 2022 and updated for 2023 will drive achievement of the Sustainability and Society strategy. Full details of the proposed measures can be found on pages 175 and 176.

In 2022, the Committee undertook a review of remuneration and related policies for the wider workforce and deemed that remuneration for Executive Directors is aligned to the wider workforce. This is achieved by consistent performance measures in the annual bonus plan, pay principles that are applicable across the entire workforce, and application of the annual pay review process consistently across all colleagues. Additionally, Save and Share, our all-colleague share plan, generates Colleague Success through fostering colleagues as shareholders at all levels across the business. In 2022, the take-up rate was 32% of eligible colleagues.

The Committee reviewed the implementation of the Policy over 2022 and judged it to be operating as intended and with no deviation from the approved Policy.

It determined this through the periodic review of potential incentive outcomes and their contribution to the single figure of remuneration; a consideration of wider business performance including customer metrics; the experience of shareholders and our TSR; and the experience of our colleagues.

I hope you find this Report to be clear in understanding our remuneration practices and that you will be supportive of the resolutions relating to remuneration at the 2023 AGM. As ever, the Committee welcomes any questions or comments from shareholders.

Annette Court
Chair of Remuneration Committee
15 November 2022

Remuneration Committee governance

Committee meetings

The Committee held 6 scheduled meetings during FY22. Details of individual attendance at scheduled meetings are provided on page 118.

Activities and evaluation

Details of the Committee's activities are set out below.

Activities of the Committee at a glance

Allocation of time

Note:

Allocation of time has been rounded to the nearest 5%

Activities of the Committee

During the year, the Committee focused on the matters summarised in the table below.

Key area of activity	Matters considered	Outcome
Determining the Policy and its implementation	• Determined bonus targets and outcomes for 2021 and PSP outcomes for the 2019 award. • Reviewed content of 2021 Directors' Remuneration Report.	• 2021 bonus determined at 60.2% to 61% of potential, as disclosed in last year's Report. • 2019 PSP determined at 33.5% of the overall award for vesting, as disclosed in last year's Report. • Approved the 2021 Directors' Remuneration Report.
Considering the views on remuneration of our stakeholders and reviewing trends in executive remuneration	• At least quarterly, the Committee's advisors presented on market trends, legislative change, and corporate governance requirements in executive remuneration.	• Views of shareholders, proxy voting agencies, and market insight provided invaluable context for the Committee's deliberations on the implementation of the Policy and its effectiveness.
Reviewing the effectiveness of the Policy	• Reviewed performance against in-flight incentive plans and the forecast single figure of remuneration for Executive Directors. • Reviewed remuneration-related risks. • Reviewed the structure of remuneration. • Discussed the bonus and PSP structure for 2023.	• Determined that the Policy was operating as intended for FY22.
Other	• Reviewed the Committee's Terms of Reference. • Reviewed workforce remuneration and related policies.	• Determined no change to the Committee's Terms of Reference. • Considered the implementation of the 2022 Policy in light of workforce remuneration.

Remuneration Policy 2022

The current Remuneration Policy (the "2022 Policy") was approved by our shareholders at the 2022 AGM and can be found in full in the 2021 Annual Report, or can be downloaded from www.sage.com/investors.

The table below sets out a summary of key elements of the Policy that shareholders approved at the 2022 AGM on 3 February 2022.

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
Base salary Supports the recruitment and retention of Executive Directors of the calibre required to deliver the Group's strategy. Rewards executives for the performance of their role. Set at a level that allows fully flexible operation of our variable pay plans.	Normally reviewed annually, with any increases applied from January. When determining base salary levels, consideration is given to the following: • Pay increases for other employees in major operating businesses of the Group; • The individual's skills and responsibilities; • Pay at companies of a similar size and international scope to Sage, in particular those within the FTSE 100 (excluding the top 30); and • Corporate and individual performance.	Ordinarily, salary increases will be in line with increases awarded to other employees in major operating businesses of the Group. However, increases may be made above this level at the Remuneration Committee's discretion to take account of individual circumstances such as: • Increase in scope and responsibility; • The individual's development and performance in role (e.g. for a new appointment where base salary may be increased over time rather than set directly at the level of the previous incumbent or market level); and • Alignment to market level. Accordingly, no monetary maximum has been set.	None, although overall performance of the individual is considered by the Remuneration Committee when setting and reviewing salaries annually.
Pension Provides a competitive post-retirement benefit, in a way that manages the overall cost to the Company.	Defined contribution plan (with Company contributions set as a percentage of base salary). An individual may elect to receive some or all of their pension contribution as a cash allowance.	The Company contribution rate for Executive Directors is aligned with the rate available to the majority of the workforce (currently 10% of salary).	None.

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
Benefits Provide a competitive and cost-effective benefits package to executives to assist them to carry out their duties effectively.	The Group provides a range of benefits which may include a car benefit (or cash equivalent), private medical insurance, permanent health insurance, life assurance, and financial advice. Additional benefits may also be provided in certain circumstances which may include relocation expenses, housing allowance, and school fees. Other benefits may be offered if considered appropriate and reasonable by the Remuneration Committee.	Set at a level which the Remuneration Committee considers: • Appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market; and • Provides a sufficient level of benefit based on the role and individual circumstances, such as relocation. As the costs of providing benefits will depend on the Director's individual circumstances, the Remuneration Committee has not set a monetary maximum.	None.
Annual Bonus Rewards and incentivises the achievement of financial and strategic targets over the year. An element of compulsory deferral provides a link to the creation of sustainable long-term value.	Performance measures, weightings, and targets are set and payout levels are determined by the Remuneration Committee based on performance against those targets. The Remuneration Committee may, in appropriate circumstances, override the formulaic outcome and amend the bonus payout should this not, in the view of the Remuneration Committee, reflect overall business performance or individual contribution. A minimum of one third of any annual bonus earned by Executive Directors is delivered in deferred share awards with the remainder delivered in cash. The deferral period will usually be a minimum of three years.	175% of salary. Up to 50% of the bonus can be paid for delivering a target level of performance.	• At least 70% of the bonus will be determined by measure(s) of Group financial performance. • No more than 30% of the bonus will be based on pre-determined financial, strategic, ESG or operational measures appropriate to the individual Director. The measures that will apply for the financial year 2023 are described in the Directors' Annual Remuneration Report.

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
Performance Share Plan (PSP) Motivates and rewards the achievement of long-term business goals. Supports the creation of shareholder value through the delivery of strong market performance aligned with the long-term business strategy. Supports achievement of our strategy by targeting performance under our key financial performance indicators.	Awards vest dependent upon the achievement of performance conditions measured over a period of at least three years. Following the end of the performance period, the performance conditions will be assessed and the percentage of awards that will vest will be determined. The Remuneration Committee may decide that the shares in respect of which an award vests are delivered to participants at that point or that awards will then be subject to an additional holding period before participants are entitled to receive their shares. A holding period will normally last for two years, unless the Remuneration Committee determines otherwise. The Remuneration Committee has discretion to decide whether and to what extent the performance conditions have been met and, in appropriate circumstances, to override the formulaic outcome. If an event occurs that causes the Remuneration Committee to consider that an amended or substituted performance condition would be more appropriate and not materially less difficult to satisfy, the Remuneration Committee may amend or substitute any performance condition.	Awards vest on the following basis: • Threshold performance: 20% of the maximum shares awarded; • Stretch performance: 80% of the maximum shares awarded; • Exceptional performance: 100% of the shares awarded with straight-line vesting between each level of performance; and • Overall individual limit of 300% of base salary under the rules of the plan. Implementation for FY23 is outlined on page 174 to 176. The Remuneration Committee retains the discretion to make awards up to the individual limit under the PSP and, as stated in previous remuneration reports, would expect to consult with significant investors if awards were to be made routinely above current levels.	Vesting will be subject to performance conditions as determined by the Remuneration Committee on an annual basis. The performance conditions will initially be Sage Business Cloud penetration, relative TSR, and ESG, although the Remuneration Committee will retain discretion to include additional or alternative performance measures which are aligned to the corporate strategy. At its discretion, the Remuneration Committee may elect to add additional underpin performance conditions. Details of the targets that will apply for awards granted in 2023 are set out in the Directors' Annual Remuneration Report.

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
All-employees share plans Provide an opportunity for Directors (as well as the general workforce) to voluntarily invest in the Company.	UK-based Executive Directors are entitled to participate in an HMRC-approved all-employee plan, the Save and Share Plan, under which they can make monthly savings over a period of three or five years linked to the grant of an option over Sage shares with an option price which can be at a discount of up to 20% of the market value of shares on grant. Options may be adjusted to reflect the impact of any variation of share capital. Overseas-based Executive Directors are entitled to participate in any similar all-employee scheme operated by Sage in their jurisdiction.	UK participation limits are those set by HMRC from time to time. Currently this is £500 per month (or foreign currency equivalent). Limits for participants in overseas schemes are determined in line with any local legislation.	None.
Chair and Non-executive Director fees Provide an appropriate reward to attract and retain high-calibre individuals. Non-executive Directors do not participate in any incentive scheme.	Fees are reviewed periodically. The fee structure is as follows: • The Chair is paid a single, consolidated fee; • The Non-executive Directors are paid a basic fee, plus fees for additional responsibilities or time commitments such as chairing (and, where appropriate, membership) of Board Committees and to the Senior Independent Director; and • Fees are currently paid in cash but the Company may choose to provide some of the fees in shares. Additional travel allowance payments may be made to the Chair and Non-executive Directors for time spent travelling internationally on Company business, for example to attend a Board meeting. Non-executive Directors may be eligible for benefits such as company car, use of secretarial support, healthcare or other benefits that may be appropriate including where travel to the Company's registered office is recognised as a taxable benefit in which case a Non-executive Director may receive the grossed-up costs of travel as a benefit.	Set at a level which: • Reflects the commitment and contribution that is expected from the Chair and Non-executive Directors; and • Is appropriately positioned against comparable roles in companies of a similar size, complexity and international scope to Sage, in particular those within the FTSE 100 (excluding the top 30). Overall fees paid to Directors will remain within the limit stated in our articles of association, currently £1.25m. Actual fee levels are disclosed in the Directors' Annual Remuneration Report for the relevant financial year.	None.

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
Shareholding guideline Aligns the interests of Executive Directors and shareholders and encourages a focus on long-term performance.	Whilst in employment, Executives Directors are expected to build up a shareholding worth 300% of salary in respect of the CEO and 250%[1] of salary in respect of other Executive Directors over five years from the Director becoming subject to the guideline. The Remuneration Committee will review progress towards the guideline on an annual basis and has the discretion to adjust the guideline in what it feels are appropriate circumstances.	Executive Directors are also expected to remain compliant with this guideline or, if lower, their actual shareholding at leaving for two years post-cessation of employment. Shares acquired by an Executive Director in their personal capacity at any time, or shares released to an Executive Director prior to 11 September 2019 are exempt from this guideline. The Committee retains discretion to waive this guideline if it is not considered appropriate in the specific circumstances.	None.

Notes:

- Annual bonus and PSP performance measures and targets are selected each year so as to align with key financial and operational objectives.
- Awards granted under the Deferred Bonus Plan and the PSP may:
  a. Be made in the form of conditional awards or nil-cost options and may be settled in cash on vesting;
  b. Incorporate the right to receive an amount (in cash or shares) equal to the dividends which would have been paid or payable on the shares that vest in the period up to vesting (or, where PSP awards are made subject to a holding period, the end of the holding period). This amount may be calculated assuming the dividends were reinvested in the Company's shares on a cumulative basis; and
  c. Be adjusted in the event of any variation of the Company's share capital, demerger, delisting, special dividend, rights issue or other event which may, in the opinion of the Remuneration Committee, affect the current or future value of the Company's shares.

1. The shareholding guideline for the CFO has been increased to 275% effective from 1 October 2022 as outlined on page 150.

Provisions to withhold (malus) or recover (clawback) sums paid under the annual bonus and PSP in the event of material negative circumstances, such as a material misstatement in the Company's audited results, serious reputational damage or significant financial loss to the Company (as a result of the participant's conduct), an error in assessing the performance metrics relating to the award or the participant's gross misconduct, are incorporated into the PSP, the annual bonus and the deferred bonus plan. These provisions may apply up to three years from the release date of a PSP award or three years from the date a cash bonus is paid or a deferred share award is granted. Details of the proposed implementation of those provisions in the forthcoming year are set out in the Directors' Annual Remuneration Report.

All Directors submit themselves for re-election annually.

The Remuneration Committee intends to honour any commitments entered into with current or former Directors on their original terms, including outstanding incentive awards, which have been disclosed in previous remuneration reports and, where relevant, are consistent with a previous policy approved by shareholders. Any such payments to former Directors will be set out in the Remuneration Report as and when they occur.

The Remuneration Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above, where the terms of the payment were agreed (i) before the Policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved Remuneration Policy in force at the time they were agreed; or (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Remuneration Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes "payments" includes the Remuneration Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

The Remuneration Committee may make minor amendments to the Policy (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

Directors' Annual Remuneration Report

Purpose of this section:

- Provides remuneration disclosures for Executive and Non-executive Directors
- Details financial measures for bonus and PSP
- Illustrates Company performance and how this compares to the pay of Executive Directors
- Outlines implementation of the 2022 Policy for Executive and Non-executive Directors for 2023

Single figure for total remuneration (audited information)

The following table sets out the single figure for total remuneration for Executive Directors for the financial years ended 30 September 2021 and 2022.

	(a) Salary/ fees[4] £'000		(b) Benefits[5] £'000		(c) Bonus[6] £'000		(d) PSP awards[7] £'000		(e) Pension[8] £'000		Total fixed remuneration[9] £'000		Total variable remuneration[10] £'000		Total[11] £'000	
Director	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021 (restated)	**2022**	2021	**2022**	2021	**2022**	2021 (restated)	**2022**	2021 (restated)
Executive Directors																
S Hare	**803**	785	**44**	42	**1,237**	827	**317**	736	**80**	118	**927**	945	**1,554**	1,563	**2,481**	2,507
J Howell	**553**	545	**7**	5	**858**	582	**220**	511	**48**	47	**608**	597	**1,078**	1,093	**1,686**	1,690
Non-executive Directors																
A Duff[1]	**400**	25	**–**	–	**–**	–	**–**	–	**–**	–	**400**	25	**–**	–	**400**	25
S Anand	**63**	60	**4**	–	**–**	–	**–**	–	**–**	–	**63**	60	**4**	–	**67**	60
J Bates	**63**	60	**–**	–	**–**	–	**–**	–	**–**	–	**63**	60	**–**	–	**63**	60
J Bewes	**81**	77	**–**	–	**–**	–	**–**	–	**–**	–	**81**	77	**–**	–	**81**	77
A Court	**81**	77	**–**	–	**–**	–	**–**	–	**–**	–	**81**	77	**–**	–	**81**	77
D Hall	**80**	77	**–**	–	**–**	–	**–**	–	**–**	–	**80**	77	**–**	–	**80**	77
D Harding[2]	**63**	35	**–**	–	**–**	–	**–**	–	**–**	–	**63**	35	**–**	–	**63**	35
I Wasti[3]	**50**	60	**–**	–	**–**	–	**–**	–	**–**	–	**50**	60	**–**	–	**50**	60

Notes:

1. Andrew Duff was appointed as a Non-executive Director on 1 May 2021 and Chair of the Sage Board on 1 October 2021.
2. Derek Harding was appointed as a Non-executive Director on 2 March 2021.
3. Irana Wasti stepped down as a Non-executive Director on 22 July 2022.
4. Details of salary progression since 2018 for the current Executive Directors are summarised in the "Statement of implementation of Remuneration Policy in the following financial year" on page 173 of this Report. Following a review of Non-executive Director fees, the basic Non-executive Director fee, the Audit and Risk Chair additional fee, and the Remuneration Committee Chair additional fee were increased with effect from 1 June 2022; further details are provided on page 176.
5. Benefits provided to the Executive Directors included: car benefits or cash equivalent (Steve Hare only), private medical insurance, permanent health insurance, life assurance, financial advice and, where deemed to be a taxable benefit, the grossed-up costs of travel, accommodation, and subsistence for the Directors and their partners on Sage-related business if required. Benefits exclude items subject to tax where they are in the nature of business expenses. Sangeeta Anand, who is based on the US West Coast, received a £4,000 travel allowance fee for her attendance at the September Board meeting in the UK, commensurate to the travel time required for her to attend in person.
6. Further information about how the level of FY22 bonus award was determined is provided in the additional disclosures below.
7. The 2022 PSP value for Steve Hare and Jonathan Howell is based on the PSP award granted in financial year 2020 which is due to vest in December 2022. The performance conditions applicable to the awards are outlined on page 167 of this Report. The value is based on the number of shares vesting under the 2020 PSP award multiplied by the average price of a Sage share between 1 July and 30 September 2022, which was £7.063, plus dividend equivalents accrued. For Steve Hare, £-21,343 of the value is attributable to movement in the share price between grant and vesting, and for Jonathan Howell £-14,817 of the value is attributable to movement in the share price between grant and vesting. No discretion has been exercised by the Committee. Further detail is set out below in the notes to the table. The value of Steve Hare and Jonathan Howell's 2019 PSP for 2021 has been updated. The change in value is as a result of changes in the share price reported in 2021 in line with the methodology set out in the 2013 Reporting Regulations (£7.204) and the share price actually achieved at vesting (£7.778).
8. Pension emoluments for Steve Hare from his appointment as CEO on 2 November 2018 were equal to 15% of base salary and reduced to 10% of base salary with effect from 1 October 2021. Pension emoluments for Jonathan Howell were equal to 10% of base salary (less a deduction for Employer National Insurance Contributions). Both elected to receive them as a cash allowance. Maximum pension contribution levels for the wider workforce in the UK are 10% of salary, subject to contributions from the colleagues themselves.
9. Total fixed remuneration is inclusive of salary/fees, benefits, and pension.
10. Total variable remuneration is inclusive of bonus and PSP awards.
11. Total remuneration for Directors in 2022 was £5,052,000 compared with £4,668,000 in 2021 (updated from the 2021 Directors' Remuneration Report).

Additional disclosures for single figure for total remuneration table (audited information)

Annual bonus 2022

The bonus targets for FY22 were set with reference to the strategy for FY22, in particular the achievement of ARR growth and customer Net Promoter Score, taking into account the Company's annual budget and historical performance in determining the payout curve.

Bonus measure	% weighting	Threshold performance	Target performance	Stretch performance	Actual performance (at budget foreign currency exchange rates)	% of maximum bonus payable
ARR growth	70%	7.0% (21% of bonus payable)	8.5% (35% of bonus payable)	10.0% (70% of bonus payable)	11.4%	70%
Net Promoter Score	10%	26.0 (3% of bonus payable)	28.0 (5% of bonus payable)	30.0 (10% of bonus payable)	16.6	0%
Strategic measures	20%	The assessment of strategic measures is set out below this table (between 0% and 20% of bonus payable)				Steve Hare (CEO): 18% of maximum Jonathan Howell (CFO): 18.7% of maximum
Total						Steve Hare: 88% of maximum bonus (154% of salary) Jonathan Howell: 88.7% of maximum bonus (155.2% of salary)

Notes:

- Payment of a bonus for ARR growth was subject to the achievement of an underpin condition of Group UOP margin. Group underlying operating profit margin was 19.3%, which exceeded the underpin target of 16%.
- ARR growth and UOP margin are defined on pages 290 and 289 respectively. Actuals have been retranslated at budgeted foreign currency exchange rates consistent with the basis on which the targets were set. The Committee considered the movement of foreign currency exchange rates over the year and determined that the effect was immaterial and that the use of like-for-like exchange rates was appropriate.
- One third of bonus is deferred into Sage shares for three years.
- The Remuneration Committee determined, after careful consideration of business performance and the interests of Sage's stakeholders such as shareholders, customers, and colleagues, that the calculated outcome was appropriate. Consequently, no discretion has been applied to the calculated outcome.

Executive Directors’ personal strategic objectives

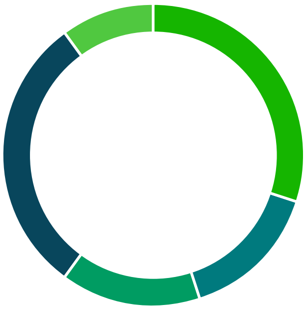
Executive Directors’ personal strategic objectives were set by the Committee at the beginning of the financial year, consistent with the key deliverables within the annual budget. Targets for strategic objectives are considered to be commercially sensitive and are not disclosed. However, details of performance achievements that were taken into account by the Committee in coming to its assessment of this measure are set out below.

Steve Hare, CEO

Steve Hare was set a range of goals linked to the execution of the 2022 budget and long-term strategy plan. These were:

- Demonstrate progress against the five strategic priorities (30% weighting);
- Show evidence of progress against the eight transformation enablers and deliver in-year plans, with particular focus on simplification (15% weighting);
- Demonstrate progress on the Sage promises for our customers, colleagues, society, and shareholders (15% weighting);
- Assess and enhance the organisational capability (30% weighting); and
- Deliver year two of Sage’s Cyber Security Strategy (10% weighting).

Personal strategic objectives



The Committee took into account the following performance against those goals:

Progress against 5 strategic priorities **30% weighting**	Strong progress has been made across all 5 priorities; in the US Sage Intacct ARR growth of 33% and in the UK Intacct growth of 140% has been achieved. The Digital Network business unit has been established and SBC penetration is above plan at 75%, resulting in this target being met.
Progress against 8 transformation enablers and deliver in-year plans **15% weighting**	High level of transformation achieved throughout FY22 with the new operating model. Business units are working successfully and the ethos of a squad culture is embedded. The brand launch is complete to a high quality, with external recognition. Additionally, several strategic acquisitions have been made. Overall, the targets were exceeded.
Progress on Sage promises for customers, colleagues, society, and shareholders **15% weighting**	eNPS remains high at +28 and eSAT+79 is delivering on our colleague promises; our Glassdoor rating of 4.2 is also positive. Year one sustainability and society plans delivered, with SBTi submission made and 149,409 volunteering hours achieved. Personally, completed in excess of 5 days for society, sustainability, and volunteering. NPS is below target and a refreshed approach to customer experience is being launched for FY23, meaning that this target was partially met.
Assess and enhance organisational capability **30% weighting**	The Executive Leadership Team structure has transitioned and is functioning effectively, with a new leader for North America also appointed. The increased focus on talent has significantly improved succession. Targets were therefore exceeded.
Deliver year two of Sage’s Cyber Security Strategy **10% weighting**	Year two of the strategy has been successfully delivered. In addition, the security and privacy hub have also launched, which exceeded the targets set.

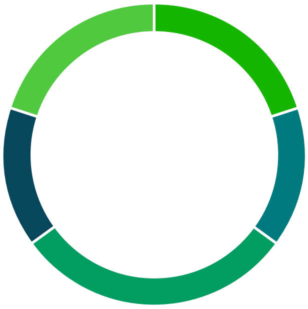
In consideration of these factors and the overall performance of the business, the Committee determined that a bonus of 18% of the maximum 20% for this element was an appropriate award.

Jonathan Howell, CFO

Jonathan Howell was set a range of goals linked to the execution of the 2022 budget and long-term strategy plan. These were:

- Support the business through enhanced business partnering capability and by delivering data-driven SaaS insights (20% weighting);
- Ensure robust financial management (15% weighting);
- Enhance the equity story by showing improvement in SaaS KPIs (30% weighting);
- Build skills and capabilities for the future (15% weighting); and
- Ensure compliant, efficient, and scalable financial operations (20% weighting).

Personal strategic objectives



The Committee took into account the following performance against those goals:

Enhanced business partnering capability and data-driven SaaS insights **20% weighting**	Salesforce Einstein roll out completed, covering 99% of Total Group ARR at year end. CAC/LTV and CAA/LTV metrics are embedded across all key regions and used as part of monthly business reviews and management accounts. Refreshed approach to finance business partnering, with increased focus given to key functions. The target has been met.
Robust financial management **15% weighting**	Strong balance sheet maintained. Net debt:EBITDA ratio of 1.6x, and liquidity of £1.3bn. £400m raised in UK bond market with attractive terms, particularly amid current market uncertainty. Maintained credit rating at BBB+. Cash conversion of 107% at year end exceeded the targets set.
Improvement in SaaS KPIs **30% weighting**	Improvement in SaaS KPIs, with SBC penetration of 75% and ARR growth of 12%. Full-year organic operating margin 19.9%, up from 19.5% in FY21. US shareholding of 27% of register, up from 17% in FY19. Two Investor webinars took place in March and September, c.120 investors and analysts joined. Overall, the targets set were met.
Build skills and capabilities for the future **15% weighting**	Internal hire fill rate c.40%, voluntary turnover remains controlled and within the Group risk parameters, and colleague engagement remains high. Ongoing personal volunteering initiatives with Circle Collective and Chance to Shine—both Sage Foundation charities. Continued development of key finance team, with onboarding of regional leadership team ongoing. The targets were partially met.
Ensure compliant, efficient, and scalable financial operations **20% weighting**	Quality, accurate, and on-time reporting delivered throughout FY22 (MPRs, Management Accounts, Board/ELT reporting, quarterly, half-year, and full-year external reporting). FY22 robotics and automation roadmap in place to continue to deliver efficiencies and cost savings within the shared service centres. Since March 2021, 20 robots installed and achieved saving of 20,000 employee hours. BEIS readiness assessment undertaken and FY23 project roadmap planning exceeding the targets set.

In consideration of the above and the overall performance of the business, the Committee determined that a bonus of 18.7% of the maximum 20% for this element was an appropriate award.

PSP awards

Awards granted under the PSP to Steve Hare and Jonathan Howell in December 2019 vest depending on performance against two measures, measured over three years, from 1 October 2019 to 30 September 2022:

- 70% annualised recurring revenue growth with an underpin for ROCE.
- 30% relative TSR performance against the FTSE 100 (excluding financial services and extracting companies).

For each measure, three levels of performance are defined below, with straight-line vesting between each level of performance: target, stretch, and exceptional.

Measure	Between target (20% vests) and stretch (80% vests)	Between stretch (80% vests) and exceptional (100% vests)
Annualised recurring revenue growth (Compound Annual Growth Rate (CAGR))	Between 8% and 10% (with ROCE of 12%)	Between 10% and 11% (or above) (with ROCE of 12%)
Relative TSR	Between median and upper quartile	Between upper quartile and upper decile (or above)

Measure	Achieved	Vesting
Annualised recurring revenue growth (CAGR)	8.0%	14.0%
Relative TSR	50^{th} percentile	6.0%
Total		20.0%

The ROCE was 18.7% (compared with 12%), meaning that the underpin condition was achieved.

The Committee determined, after careful consideration of business performance and the interests of Sage's stakeholders such as shareholders, customers, and colleagues, that the formulaic outcome was appropriate. Consequently, 20.0% of the total award will vest.

Awards are scheduled to vest on 2 December 2022, and for both Executive Directors will be subject to a two-year holding period and released on 2 December 2024.

PSP awards granted in FY22 (audited information)

Awards were granted under the PSP on 4 February 2022 at a market value of £7.834 to Executive Directors in the form of conditional share awards. In alignment with our business strategy for FY22, performance conditions for awards granted in FY22 are:

Sage Business Cloud Penetration

55%
of award

Underpins met:

ROCE of 12.0% per annum

Cloud native penetration of 25%

Organic revenue growth in absolute terms at the end of the performance period

Yes

Sage Business Cloud penetration in FY24:

Less than 75% = 0% of award vests

75% = 11% of award vests

80% = 44% of award vests

85% = 55% of award vests

No

This portion of the award does not vest

TSR

30%
of award

TSR percentile ranking:

Below median = 0% of award vests

Median = 6% of award vests

Upper quartile = 24% of award vests

Upper decile = 30% of award vests

ESG—Delivering impact in society

7.5%
of award

Volunteering hours (measured in aggregate over the three-year performance period):

Below 400,000 = 0% of award vests

400,000 = 0.75% of award vests

500,000 = 3% of award vests

600,000 = 3.75% of award vests

Individuals supported (measured in aggregate over the three-year performance period):

Below 22,000 = 0% of award vests

22,000 = 0.75% of award vests

27,000 = 3% of award vests

32,000 = 3.75% of award vests

ESG—ESG strategy impact

7.5%
of award

ESG process effectiveness and performance impact (measured at the end of the three-year performance period):

Not achieving GRI CORE and full SASB alignment = 0% of awards vests

Achieving GRI CORE and full SASB alignment = 1.5% of awards vests

Achieving GRI COMPREHENSIVE and full SASB alignment = 6% of award vests

Achieving GRI COMPREHENSIVE and full SASB alignment—and top 10% ranking in at least 3 ESG rating schemes = 7.5% of award vests

Vesting is on a straight-line basis between the points. The following key areas are highlighted in relation to the performance measures:

- 55% of the awards being determined by Sage Business Cloud penetration aligns with our medium-term strategy of growth of Sage Business Cloud in both cloud native and cloud connected solutions. This measure ensures Executive Directors are rewarded for creating value through the Digital Network opportunity.
- Continued focus on overall Group growth and delivery of shareholder value is achieved by:
  - Requiring the achievement of a ROCE underpin of 12.0% p.a., a cloud native underpin of 25%, and organic revenue growth in absolute terms at the end of the performance period. The Committee will exclude from the ROCE calculation, where appropriate, any write down that arises from an asset that was acquired prior to the appointment of the current Executive Directors.
- 15% of the awards being determined by an ESG basket of measures aligns to our Sustainability and Society strategy.
- 30% of the awards being determined by relative TSR performance provides shareholder alignment.

Awards will vest, subject to satisfaction of those performance conditions, in December 2024. A holding period for the PSPs will apply for two years from the vesting date. No further performance conditions attach to the awards during the holding period.

	Type of award	Maximum number of shares	Face value (£)[1]	Face value (% of salary)	Threshold vesting (% of award)	End of performance period
Steve Hare	Performance	258,169	2,022,500	250%	20%	30 September 2024
Jonathan Howell	shares	141,690	1,110,000	200%	20%	30 September 2024

Note:

1. The face value of the PSP awards has been calculated using the market value (middle market quotation) of a Sage share on 1 December 2021 (the trading day prior to the grant for all eligible colleagues) of £7.834. Awards were granted to Executive Directors on 4 February 2022 following approval of the 2022 Policy at the 2022 AGM.

Change in remuneration of Directors compared to colleagues

The table below shows the annual percentage change in total remuneration of Directors with colleagues employed by The Sage Group plc. who are not also Directors of the Group.

	% change 2021/2022			% change 2020/2021			% change 2019/2020		
	Salary/ fees[1]	**Taxable benefits[2]**	**Annual incentive[3]**	Salary/ fees[1]	Taxable benefits[2]	Annual incentive[3]	Salary/ fees[1]	Taxable benefits[2]	Annual incentive[3]
Executive Directors									
S Hare	**2.3%**	**3.8%**	**49.5%**	0.5%	(65)%	229%	2%	14%	(80)%
J Howell	**1.4%**	**36.3%**	**47.4%**	0.5%	(6)%	223%	25%	37%	(75)%
Non-executive Directors									
A Duff[4]	**1,500%**	**–%**	**–%**	–	–	–	–	–	–
S Anand	**5.6%**	**–%**	**–%**	140%	–	–	–	–	–
J Bates	**5.6%**	**–%**	**–%**	0%	–	–	197%	–	–
J Bewes	**5.6%**	**–%**	**–%**	0%	–	–	100%	–	–
A Court	**5.6%**	**–%**	**–%**	0%	–	–	100%	–	–
D Hall	**4.3%**	**–%**	**–%**	0%	–	–	(6)%	–	–
I Wasti[5]	**(16.2)%**	**–%**	**–%**	140%	–	–	–	–	–
D Harding[6]	**82.1%**	**–%**	**–%**	–	–	–	–	–	–
Colleagues of the Company	**4.2%**	**13.8%**	**(8.7)%**	5%	29%	6%	9%	37%	(10)%

Notes:

- This information was published for the first time in 2020. Over subsequent years, this will build up to a rolling five-year period.
- The change in fees for the Non-executive Directors is reflective of their start dates and, for Irana Wasti, her leave date.
- The change in the Non-executive Directors' fees are due to the increase in the basic Non-executive Director fee, the Audit and Risk Committee Chair additional fee, and the Remuneration Committee Chair additional fee that took effect from 1 June 2022. Further information can be found on page 176.

1. Average colleague pay is based on the dataset used for the CEO pay ratio as set out immediately following this section. It excludes colleagues that joined within the reporting period, as the dataset for the Company is so small that to leave them in provides a skewed result, making meaningful judgements difficult. The salary, taxable benefits, and annual incentive are the respective median values in the dataset and may relate to different incumbents. Salaries and fees for Directors for 2022 are as set out on page 163 of this Report. Salaries for colleagues employed by The Sage Group plc. are based on the dataset used for the CEO pay ratio as set out immediately below this section.
2. Steve Hare and Jonathan Howell's taxable benefits for 2022 are as set out on page 163 of this Report. Taxable benefits for colleagues employed by The Sage Group plc. are based on the dataset used for the CEO pay ratio as set out immediately following this section.
3. The annual incentive values for Steve Hare and Jonathan Howell for 2022 are as set out on page 163 of this Report. Annual incentives for colleagues employed by The Sage Group plc. are inclusive of bonus and commission and are based on the dataset used for the CEO pay ratio as set out immediately following this section. Non-executive Directors are not eligible for annual incentives.
4. Andrew Duff was appointed as a Non-executive Director on 1 May 2021 and accordingly no comparison prior to 2021/2022 can be drawn. The significant change in his fee for 2021/2022 is due to his fee being pro-rated in 2021 to his start date of 1 May 2021 and his change in role from Non-executive Director to Chair of the Sage Board with effect from 1 October 2021.
5. Irana Wasti stepped down as a Non-executive Director on 22 July 2022 and accordingly her fee was pro-rated to this date.
6. Derek Harding was appointed as a Non-executive Director on 2 March 2021 and accordingly no comparison prior to 2021/2022 can be drawn. The significant change in his fee for 2021/2022 is due to his fee being pro-rated in 2021 to his start date of 2 March 2021.

Ratio of the pay of the CEO to that of the UK lower quartile, median, and upper quartile colleagues

The table below shows the ratio of the pay of the CEO to that of the UK lower quartile, median, and upper quartile colleagues in 2022, consistent with The Companies (Miscellaneous Reporting) Regulations 2018. As outlined in the Remuneration Committee Chair's letter, the treatment of colleagues has provided important context for the Committee's decisions on executive remuneration in 2022 and the Committee is consequently satisfied that the median pay ratio for 2022 is consistent with the pay and progression policies for Sage's UK employees as a whole.

		Pay ratio				Remuneration values		
Year	Method	25th percentile (lower quartile)	50th percentile (median)	75th percentile (upper quartile)		Y25 (25th percentile)	Y50 (50th percentile)	Y75 (75th percentile)
2022	A	65 : 1	43 : 1	29 : 1	Total remuneration	£38,056	£57,421	£85,380
					Salary only	£32,122	£41,945	£48,854
2021	A	70 : 1	46 : 1	31 : 1	Total remuneration	£34,807	£53,304	£79,739
					Salary only	£29,700	£42,103	£79,091
2020	A	55 : 1	36 : 1	23 : 1	Total remuneration	£29,865	£45,942	£71,524
					Salary only	£27,955	£36,116	£56,983
2019	A	95 : 1	62 : 1	38 : 1	Total remuneration	£26,463	£40,385	£66,095
					Salary only	£20,281	£34,184	£51,087

The change in the pay ratio in 2022 is driven largely by the CEO receiving a pay increase lower than the average increase for Sage's UK employees in the year in addition to his pension contribution reducing to 10% of salary.

Notes:

- Under method A, colleague data is based on full-time equivalent pay for UK colleagues as at 30 September 2022. Pay for each colleague is calculated in accordance with the single figure of remuneration. All components of remuneration except long-term incentives are presented on a full-time equivalent basis by dividing sums by the average working hours divided by full-time equivalent hours for the portion of the year worked. Colleagues who worked no hours during the year are excluded from the dataset.
- Method A has been selected as the basis of the disclosure as it is the best reflection of the underlying colleague data required by The Companies (Miscellaneous Reporting) Regulations 2018.
- Certain benefits have been omitted from the remuneration of colleagues except the CEO. These principally comprise sums paid by way of expenses allowance chargeable to UK income tax and not paid through the payroll. Such expenses are typically irregular and generally immaterial to remuneration and are excluded to enable more meaningful comparison of the ratio of underlying colleague remuneration over time.
- The CEO's pay is based on the single figure of remuneration set out on page 163 of this Report. Because a large portion of the CEO's pay is variable, the pay ratio is heavily dependent on the outcomes of variable pay plans and, in the case of long-term share-based awards, share price movements. Further information on these outcomes for the CEO in FY22 is set out on pages 164 to 167 of this Report.

Historical executive pay and Company performance

The table below summarises the Chief Executive Officer's single figure for total remuneration, annual bonus payout, and PSP vesting as a percentage of maximum opportunity for the current year and previous nine years.

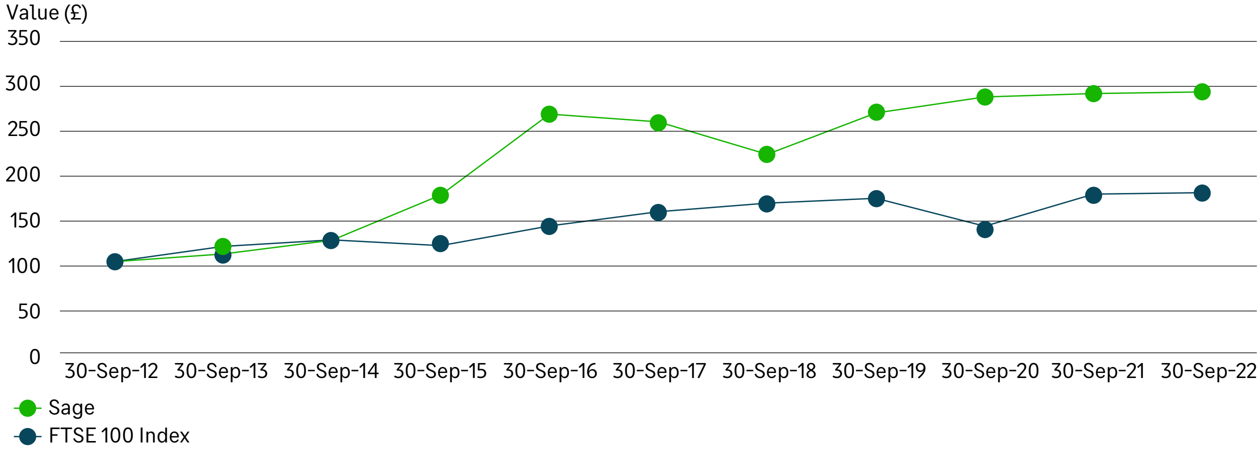
	CEO	2013	2014	2015	2016	2017	2018	2019	2020	2021	**2022**
CEO single figure of remuneration (in £'000)	Steve Hare[1]	–	–	–	–	–	98	2,495	1,557	2,507	**2,481**
	Stephen Kelly[2]	–	–	1,521	1,723	3,547	1,690	–	–	–	**–**
	Guy Berruyer[3]	1,670	1,616	108	–	–	–	–	–	–	**–**
Annual bonus payout (as % maximum opportunity)	Steve Hare	–	–	–	–	–	0%[4]	94%	18%	60%	**88%**
	Stephen Kelly	–	–	67%	69%	19%	0%	–	–	–	
	Guy Berruyer	72%	55%	0%	–	–	–	–	–	–	**–**
PSP vesting (as % of maximum opportunity)	Steve Hare	–	–	–	–	–	29%	15%	27%	34%	**20%**
	Stephen Kelly	–	–	–	–	66%	29%	–	–	–	**–**
	Guy Berruyer	0%	0%	64%	–	–	–	–	–	–	**–**

Notes:

1. Steve Hare was appointed Interim COO & CFO on 31 August 2018. Whilst Steve Hare's job title at 30 September 2018 was Interim COO & CFO, not CEO, he is regarded as being the equivalent of CEO for the purposes of the disclosure.
2. Stephen Kelly stepped down from the position of CEO on 31 August 2018.
3. Guy Berruyer stepped down from the position of CEO on 5 November 2014.
4. Steve Hare waived his entitlement to a bonus in respect of 2018.

Historical Group performance against FTSE 100

The graph below shows the TSR of the Group and the FTSE 100 over the last 10 years. The FTSE 100 index is the index against which the TSR of the Group should be measured because of the comparable size of the companies which comprise that index.



Note:

- This graph shows the value, by 30 September 2022, of £100 invested in The Sage Group plc. on 30 September 2012 compared with the value of £100 invested in the FTSE 100 index. The other points plotted are the values at intervening financial year ends.

Payments to past Directors (audited information)

As reported in the 2020 Annual Report, Blair Crump retains interests in the Company’s PSP and Deferred Shares Bonus Plan. He is eligible to receive a pro-rated proportion of the PSP awards granted during the 2018 and 2019 financial years that remained unvested on his retirement date of 31 March 2020. His DSBP award will not be subject to time pro-rating. The awards vesting are subject to the PSP and DSBP plan rules and compliance with certain post-termination covenants, including the post-cessation shareholding requirement set out on page 145 of the 2020 Annual Report. In FY22, his PSP award granted on 28 February 2019 vested on 4 December 2021 on the same basis as other Executive Directors, as outlined on page 145 of the 2021 Annual Report.

Payments for loss of office (audited information)

No payments were made for loss of office during FY22.

Relative importance of spend on pay

The charts below show the all-employee pay cost (as stated in the notes to the accounts), profit before tax (PBT) and returns to shareholders by way of dividends and share buybacks for 2021 and 2022.

The information shown in this chart is based on the following:

- Underlying PBT (underlying as reported)—Underlying profit before income tax taken from the consolidated income statement on page 200. Underlying PBT has been chosen as a measure of our operational profitability.
- Returns to shareholders—Total dividends taken from note 15.5 on page 268; value of shares purchased during the year taken from consolidated statement of changes in equity on pages 204 and 205;
- Total colleague pay—Total staff costs from note 3.3 on page 220, including wages and salaries, social security costs, pension, and share-based payments.

Underlying PBT (Underlying as reported in £m)

+13

Returns to shareholder (£m) Total dividends

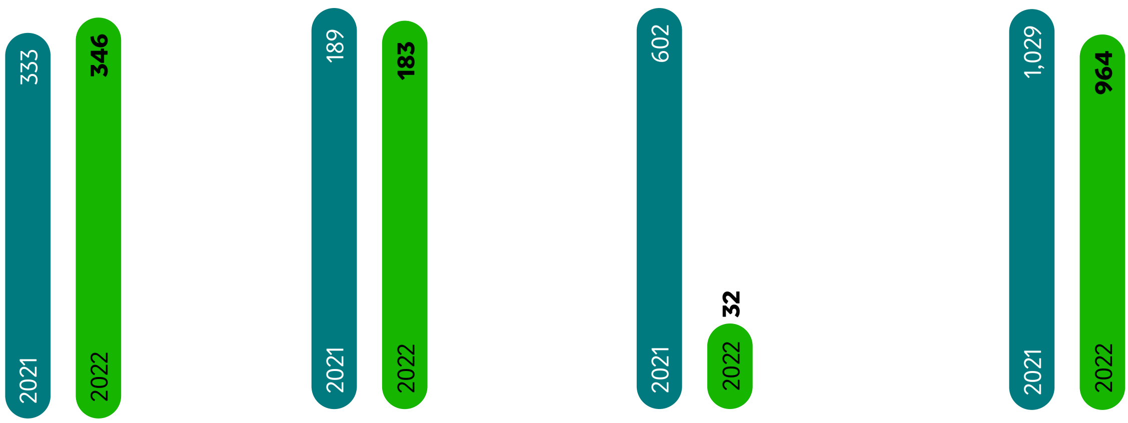
-6

Value of shares purchased during the year

-570

Total colleague pay (£m)

-65



Statement of implementation of Remuneration Policy in the following financial year

This section provides an overview of how the Committee is proposing to implement the Policy in 2023.

Base salary

An annual salary review was carried out by the Committee in November 2022. Following that review, the Committee approved the following:

	Salary 1 January 2023	Salary 1 January 2022	Salary 1 January 2021	Salary 1 January 2020	Salary 1 January 2019
Steve Hare[1]	£841,500 (4% increase)	£809,000 (3% increase)	£785,000 (no increase)	£785,000 (1.9% increase)	£770,000 (appointed CEO 2 Nov 2018)
Jonathan Howell[2]	£577,000 (4% increase)	£555,000 (1.8% increase)	£545,000 (no increase)	£545,000 (1.9% increase)	£535,000 (appointed CFO 10 Dec 2018)

Notes:

1. Steve Hare was appointed CEO on 2 November 2018. His 2018 salary reflected his prior role as CFO.
2. Jonathan Howell was appointed CFO on 10 December 2018.

The equivalent average increase for colleagues eligible for an annual pay award is 5.8% (in respect of colleagues based in the United Kingdom).

Pension and benefits

The CEO and the CFO will continue to receive a pension provision worth 10% of salary, as a contribution to a defined contribution plan and/or as a cash allowance. The pension for the wider workforce is 10% of salary. Executive Directors will also receive a standard package of other benefits and, where deemed necessary, the costs of travel, accommodation, and subsistence for the Directors and their partners on Sage-related business, consistent with that in FY22.

Annual bonus

Key features of the Executive Directors' annual bonus plan for 2023 are as follows:

- The maximum annual bonus potential is 175% of salary;
- One third of any bonus earned will be deferred into shares for three years under the Deferred Bonus Plan; and
- Annual bonuses awarded in respect of performance in 2023 will be subject to potential withholding (malus) or recovery (clawback) if specified trigger events occur within three years of the payment/award of the annual bonus. Trigger events will include a material misstatement of the audited results, error in calculation of the bonus payout, serious reputational damage, or significant financial loss as a result of an individual's conduct or gross misconduct which could have warranted an individual's summary dismissal.

The annual bonus for 2023 for Executive Directors will be determined as detailed below:

As a percentage of maximum bonus opportunity:

Measure[1]	
ARR growth[2]	70%
Customer-related measure inclusive of Net Promoter Score	10%
Strategic goals	20%

Notes:

1. The business is moving to reporting its key metrics primarily on an underlying basis. Accordingly, Executives' incentives for FY23 will also be measured on an underlying basis. This will apply to the ARR growth and the underlying operating profit margin underpin in the annual bonus. The Remuneration Committee will review on a case-by-case basis the impact on underlying measures of significant acquisitions and disposals and judge whether to adjust incentive targets or outcomes.
2. Payout is dependent upon the satisfaction of the underpin condition of underlying operating profit margin.

The selection of measures and targets takes into account the Company's strategic priorities, its internal budgeting and, where relevant, consensus. The ARR growth measure is based on the definition of ARR set out on page 290. Strategic goals will include diversity, equity and inclusion metrics. Targets are not disclosed because they are considered by the Board to be commercially sensitive. Many of the Company's competitors are unlisted companies and not required to disclose their targets; the Company's disclosure could provide its competitors with a considerable advantage. It is intended for retrospective disclosure to be made in next year's Report.

Performance Share Plan

The Committee reviews award sizes annually, taking into account factors such as underlying business performance, individual performance, and share price movement.

The CEO and CFO will be granted PSP awards in December 2022. Awards will be of shares worth 250% of salary for the CEO and 225% of salary for the CFO at the date of grant.

Vesting of these awards will be subject to satisfaction of the following performance conditions measured over the three financial years to 30 September 2025.

The Committee is satisfied that all the targets represent a degree of challenge proportionate to the potential rewards that may be realised for their achievement.

Sage Business Cloud penetration (50% of award)

The growth rate in Sage Business Cloud penetration can be expected to decelerate as the portfolio penetration increases over time, reflecting the additional degree of challenge in shifting the portfolio to the cloud. The stretching targets set reflect an increase from those in the prior year.

	Sage Business Cloud penetration in FY25[1]	% of award vesting[2]
Below threshold	0.0%	0%
Threshold	85.0%	10%
Stretch	89.0%	40%
Exceptional	92.0%	50%

Notes:

1. The business is moving to reporting its key metrics primarily on an underlying basis. Accordingly, Executives' incentives for FY23 will also be measured on an underlying basis. This will apply to the absolute growth, cloud native ARR growth and Return on Capital Employed (ROCE) underpins in the PSP. The Remuneration Committee will review on a case-by-case basis the impact on underlying measures of significant acquisitions and disposals and judge whether to adjust incentive targets or outcomes.
2. Vesting of this portion of the PSP award is subject to i) the achievement of 12.0% p.a. ROCE underpin to be met; ii) the achievement of 30% cloud native penetration underpin; and iii) organic revenue having grown in absolute terms at the end of performance period. ROCE is defined on page 290. Cloud native penetration is penetration from cloud native solutions, which are defined on page 83. Organic revenue is defined on page 289.

Relative TSR performance condition (30% of award)

	TSR ranking	% of award vesting
Below threshold	Below median	0%
Threshold	Median	6%
Stretch	Upper quartile	24%
Exceptional	Upper decile	30%

Notes:

- TSR performance comprises share price growth and dividends paid. Vesting is on a straight-line basis between the points.
- Sage's TSR performance will be measured relative to the TSR of the constituents of the FTSE 100, excluding financial services and extracting companies.

ESG—Protect the Planet (7.5% of award)

Delivering on our climate change commitment, this metric addresses reduction in Scope 1, 2, and 3 carbon emissions:

	% reduction in carbon emissions[1]	% of award vesting
Below threshold	Below 6.9%	0%
Threshold	6.9%	1.5%
Stretch	13.8%	6%
Exceptional	20.7%	7.5%

Notes:

1. Targets are for emissions reduction between FY22 and FY25, aligning to our commitment to achieve 50% reduction in emissions by 2030 (from a 2019 baseline) and our Net Zero goal by 2040.
2. Outturns will be independently verified.
   Vesting is on a straight-line basis between the points.

ESG—Tech for Good (5% of award)

Enabling customers to become more sustainable and supporting them on their own sustainability journey through the number of Sage products that have embedded functionality for carbon accounting:

	Number of Sage products[1]	% of award vesting
Below threshold	Below 3 products	0%
Threshold	3 products	1%
Stretch	6 products	4%
Exceptional	8 products	5%

Note:

1. At the beginning of FY23, Sage had no products or propositions that can support customers on their own sustainability journey. Performance will be assessed at the end of FY25 when the Remuneration Committee will determine how many products meet the materiality test for inclusion. Vesting is on a straight-line basis between the points.

ESG—Diversity, Equity, and Inclusion (7.5% of award)

Progress in the core activities for Diversity, Equity, and Inclusion through the inclusion score in our Employee Engagement Survey:

	Inclusion score[1]	% of award vesting
Below threshold	Below 82	0%
Threshold	82	0.75%
Stretch	84	3%
Exceptional	86	3.75%

Note:

1. The inclusion score will be measured in Q1 2025 Employee Engagement Survey. The FY22 baseline based on the March 2022 survey is 79.

Vesting is on a straight-line basis between the points.

Percentage of leadership teams in the top four levels of Sage meeting our global gender diversity target (namely comprising no more than 60% of any one gender):

	% of teams[2]	% of award vesting
Below threshold	Below 50%	0%
Threshold	50%	0.75%
Stretch	65%	3%
Exceptional	80%	3.75%

Note:

2. The % of teams meeting our global gender diversity target will be assessed at the end of FY25. Currently the baseline is that 30% of our most senior leadership teams meet this target.

Vesting is on a straight-line between the points.

PSP awards granted in FY23 will be subject to potential withholding (malus) or recovery (clawback) if specified trigger events occur prior to the third anniversary of the release date of an award. Trigger events in respect of PSP awards will comprise a material misstatement of the audited results, an error in calculation of the extent of the PSP vesting, serious reputational damage or significant financial loss as a result of an individual's conduct or gross misconduct which could have warranted an individual's summary dismissal, or a material failure of risk management.

Non-executive Director remuneration

The table below shows the fee structure for Non-executive Directors for 2023. Non-executive fees, except for the fee for the Chair, are determined by the executive members of the Board plus the Chair. Following a review of the time commitment and associated responsibilities of the Non-executive Directors, the basic Non-executive Director fee, the Audit and Risk Committee Chair additional fee, and the Remuneration Committee Chair fee were increased with effect from 1 June 2022. The fee for the Senior Independent Director did not change. The fee for the Chair of the Board is determined by the Committee and has not changed.

	2023 fees
Chair of the Board all-inclusive fee	£400,000
Basic Non-executive Director fee	£70,000
Senior Independent Director additional fee	£17,000
Audit and Risk Committee Chair additional fee	£20,000
Remuneration Committee Chair additional fee	£20,000

Directors' shareholdings and share interests (audited information)

The shareholding guideline for the CFO is 275% of salary and 300% of salary for the CEO. Executive Directors are expected to build up the required shareholding within a five-year period of the Executive Director becoming subject to the guideline. As at 30 September 2022, Steve Hare held shares worth 478% of salary and Jonathan Howell held shares worth 311% of salary. Values include unvested deferred shares net of tax at the estimated marginal withholding rates and any shares held by the Executive Directors' connected persons. The values for Executive Directors are derived from interests in shares valued using the average market price of a share in the three months to 30 September 2022 (the last trading day of the financial year), which was £7.063, and the Executive Director's basic salary over the same period.

Additionally, from 11 September 2019 the Committee introduced a requirement for Executive Directors to hold Sage shares for a two-year period after stepping down from that position. This post-employment shareholding guideline is aligned to the Investment Association guidance, such that Executive Directors are required to remain compliant with 100% of their "in-employment" shareholding guideline for two years after stepping down as a Director. The Executive Director's actual shareholding will include any shares acquired through the vesting or release of shares from share incentive plans (net of tax, where applicable) after the date the policy was adopted and unvested shares granted under the Deferred Bonus Plan (net of tax), but excludes shares acquired through purchase and the release of shares under share incentive plans where the release occurred prior to the Committee's adoption of the policy. Additionally, PSP shares vesting after cessation are subject to a two-year holding period at vesting.

On cessation as an Executive Director, the Committee may subject any relevant portion of an unvested share award preserved for "good leaver" reasons to the fulfilment of the post-cessation shareholding requirement as a condition of vesting. Furthermore, for awards granted to an Executive Director on or after 1 October 2019, the Committee may as a condition of grant require an Executive Director to have a relevant portion of a released share award be released into a nominee account to be held on their behalf until such time as the post-cessation shareholding requirement expires.

Interests in shares

The interests as at 30 September 2022 of each person who was a Director of the Company during the year (together with interests held by his or her connected persons) were:

Director	Ordinary shares at 30 September 2022	Ordinary shares at 30 September 2021
S Anand	–	–
J Bates	16,735	16,735
J Bewes	10,000	10,000
A Court	6,350	6,350
D Hall	10,000	10,000
S Hare[1]	408,625	382,510
J Howell	146,660	146,660
I Wasti[2]	–	–
D Harding[3]	10,000	10,000
A Duff[4]	13,150	13,150
Total	**621,520**	**595,405**

Notes:

1. Lucinda Cowley is a person closely associated with Mr Hare. The total for 30 September 2022 includes 20,000 shares also held by Lucinda Cowley.
2. Irana Wasti stepped down as a Non-executive Director on 22 July 2022.
3. Derek Harding was appointed as a Non-executive Director on 2 March 2021.
4. Andrew Duff was appointed as Non-executive Director on 1 May 2021.

There have been no changes in the Directors' holdings in the share capital of the Company, as set out in the table above, between 30 September 2022 and the date of this Report.

Details of the Executive Directors' interests in outstanding share awards under the PSP, Deferred Bonus, and all-employee share option plans are set out below.

All-employee share options (audited information)

All Executive Directors are eligible to join the all-employee share plan, the Sage Save and Share Plan, on the same terms as all colleagues based in their respective local jurisdiction. See note 15.2 on page 261 to 266 for more detail of this plan. In the year under review, Steve Hare participated in this scheme. The outstanding all-employee share options granted to each Director of the Company are as follows:

Director	Exercise price per share	Shares under option at 1 October 2021 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	**Shares under option at 30 September 2022 number**	Date exercisable
S Hare	604p	2,980	–	(2,980)	–	–	1 August 2022–31 January 2023
Total		**2,980**	**–**	**(2,980)**	**–**	**–**	

Notes:

- Steve Hare participated in the 2019 Save and Share Plan. Under the UK Save and Share Plan rules, the scheme has a three-year saving period. No performance conditions apply to options granted under this plan. For the 2019 UK Save and Share grant, the exercise price was set at £6.04, a 20% discount on the average share price on 20, 21, and 22 May 2019 of £7.546. Steve exercised 2,980 options during 2022 at a fair market value per share of £7.126; this resulted in a gain of £3,236.28.
- Jonathan Howell did not participate in the 2019 Save and Share Plan.
- The market price of a share of the Company at 30 September 2022 (the last trading day of the financial year) was £6.972 (mid-market average) and the lowest and highest market prices during the year were £5.956 and £8.538 respectively.

Performance Share Plan (audited information)

The outstanding awards granted to each Executive Director of the Company under the PSP are as follows:

Director	Grant date	Under award 1 October 2021 number	Awarded during the year number	Vested during the year number	Lapsed during the year number	**Under award 30 September 2022 number**	Vesting date
S Hare	4 February 2022	–	258,169	–	–	**258,169**	2 December 2024
	2 December 2020	267,006	–	–	–	**267,006**	2 December 2023
	2 December 2019	208,278	–	–	–	**208,278**	2 December 2022
	28 February 2019	265,975	–	(89,101)	(176,874)	**–**	4 December 2021
		741,259	**258,169**	**(89,101)**	**(176,874)**	**733,453**	
J Howell	4 February 2022	–	141,690	–	–	**141,690**	2 December 2024
	2 December 2020	185,374	–	–	–	**185,374**	2 December 2023
	2 December 2019	144,600	–	–	–	**144,600**	2 December 2022
	28 February 2019	184,801	–	(61,908)	(122,893)	**–**	4 December 2021
		514,775	**141,690**	**(61,908)**	**(122,893)**	**471,664**	
Total		**1,256,034**	**399,859**	**(151,009)**	**(299,767)**	**1,205,117**	

Notes:

- No variations were made in the terms of the awards in the year.
- PSP awards for 2022 were granted to Executive Directors on 4 February 2022. The market price of the award was £7.834.
- The performance conditions for awards granted in February 2019, December 2019, and December 2020 and are set out in the respective Reports for the year of grant and for awards granted in February 2022 on page 168.
- The performance conditions for Steve Hare and Jonathan Howell's awards that vested during 2022 are set out on page 145 of the 2021 Report.
- Awards for Steve Hare granted in December 2017 and after are subject to a holding period of two years on vesting. Awards for Jonathan Howell vesting in 2020 and after are subject to a holding period of two years on vesting.
- All PSP awards were granted as conditional awards.

Deferred shares (audited information)

The outstanding awards granted to each Executive Director of the Company under The Sage Group Deferred Bonus Plan are as follows:

Director	Grant date	Under award at 1 October 2021 number	Awarded during the year number	Vested during the year number	Lapsed during the year number	**Under award 30 September 2022 number**	Vesting date
S Hare	2 December 2021	–	35,188	–	–	**35,188**	2 December 2024
	2 December 2020	14,260	–	–	–	**14,260**	2 December 2023
	2 December 2019	55,620	–	–	–	**55,620**	2 December 2022
J Howell	2 December 2021	–	24,754	–	–	**24,754**	2 December 2024
	2 December 2020	10,225	–	–	–	**10,225**	2 December 2023
	2 December 2019	32,102	–	–	–	**32,102**	2 December 2022
Total		**112,207**	**59,942**	**–**	**–**	**172,149**	

Notes:

- Awards are not subject to further performance conditions once granted. The market price of a share on 1 December 2021, the trading day prior to the date of the awards made in the year ended 30 September 2022, was £7.834.
- No variations were made in the terms of the awards in the year.

There are limits on the number of newly issued and treasury shares that can be used to satisfy awards under the Group's share schemes in any 10 year period. The limits and the Group's current position against those limits as at 30 September 2022 (the last practicable date prior to publication of this Report) are set out below:

Limit	Current position
5% of Group's share capital can be used for discretionary share schemes	3.9%
10% of Group's share capital can be used for all share schemes	4.8%

The current position consists of shares released during the period plus committed shares inclusive of dividend equivalents accrued, with the total adjusted for forfeitures and, where applicable, performance expectations. The Company has previously satisfied all awards through the market purchase of shares or transfer of treasury shares and will continue to consider the most appropriate approach, based on the relevant factors at the time.

External appointments

Executive Directors are permitted, where appropriate and with Board approval, to take non-executive directorships with other organisations in order to broaden their knowledge and experience in other markets and countries. Fees received by the Directors in their capacity as directors of these companies are retained, reflecting the personal responsibility they undertake in these roles. The Board recognises the significant demands that are made on Executive and Non-executive Directors and has therefore adopted a policy that no Executive Director should hold more than one directorship of other listed companies. Except in exceptional circumstances, where approved in advance by the Chair of the Committee, if an Executive Director holds non-executive positions at more than one listed company then only the fees from one such company will be retained by the Director. Jonathan Howell was appointed as independent non-executive director to the board of Experian plc, with effect from 1 May 2021 and as such receives an annual fee of €162,250. For the year ended 31 March 2022, he received €159,000, as reported on page 144 of the Experian Annual Report 2022. This is the only appointment of this nature he holds. Steve Hare does not currently hold any appointments of this nature.

No formal limit on other board appointments applies to Non-executive Directors under the Policy, but prior approval (not to be unreasonably withheld) from the Board is required in the case of any new appointment.

Unexpired term of contract table

Director	Date of contract	Unexpired term of contract on 30 September 2022, or on date of contract if later	Notice period under contract
Executive Directors			
S Hare	3 January 2014	12 months	12 months from the Company and/or individual
J Howell	10 December 2018	12 months	12 months from the Company and/or individual
Non-executive Directors			
S Anand	1 May 2020	7 months	1 month from the Company and/or individual
J Bates	31 May 2022	2 years 8 months	1 month from the Company and/or individual
J Bewes	1 April 2022	2 years 6 months	1 month from the Company and/or individual
A Court	1 April 2022	2 years 6 months	1 month from the Company and/or individual
D Hall	1 January 2020	3 months	1 month from the Company and/or individual
D Harding	2 March 2021	1 year 5 months	1 month from the Company and/or individual
A Duff	1 May 2021	1 year 7 months	1 month from the Company and/or individual

Consideration by the Directors of matters relating to Directors' remuneration

The following Directors were members of the Committee when matters relating to the Directors' remuneration for the year were being considered:

- Annette Court (Chair);
- Drummond Hall; and
- Dr John Bates.

The Committee received assistance from Amanda Cusdin (Chief People Officer), Tara Gonzalez (Executive Vice President, Reward & Recognition), Vicki Bradin (General Counsel and Company Secretary), and other members of management (including the CEO and CFO), who may attend meetings by invitation, except when matters relating to their own remuneration are being discussed.

External advisors

The Committee continues to receive advice from Deloitte LLP, an independent firm of remuneration consultants appointed by the Committee after consultation with the Board. During the year, Deloitte's executive compensation advisory practice advised the Committee on developments in market practice, corporate governance, institutional investor views, the development of the Company's incentive arrangements, and the review of the Policy. Total fees for advice provided to the Committee during the year were £96,650 (charged on a time spent basis).

The Committee is satisfied that the advice it has received has been objective and independent.

Deloitte is a founding member of the Remuneration Consultants Group and adheres to its code in relation to executive remuneration consulting in the UK. Other parts of Deloitte have provided tax advice, specific corporate finance support in the context of merger and acquisition activity, and unrelated corporate advisory services.

Pay Governance LLC provided the Committee with advice on market practice and executive remuneration pay and incentive structures in the United States. Total fees for advice provided to the Committee in July 2022 were $28,110 (charged on a time spent basis).

Stitch, a Deloitte business, provided the Sage reward team with communication support on colleague reward and share plan communications during 2022.

Statement of shareholding voting

The table below sets out the results of the vote on the 2022 Policy at the 2022 AGM and the Directors' Remuneration Report at the 2022 AGM:

	Votes for		Votes against		Votes cast	Votes withheld
	Number	%	Number	%		
Remuneration Policy	825,904,476	99.12	7,332,300	0.88	833,236,776	189,118
Remuneration Report	816,960,269	98.46	12,768,964	1.54	829,729,233	3,696,661

Annette Court
Chair of the Remuneration Committee
15 November 2022

Directors' Report

The Directors present their report together with the audited consolidated financial statements for the financial year ended 30 September 2022 (the "Annual Report and Accounts"). The Annual Report and Accounts contain statements that are not based on current or historical fact and are forward-looking in nature. Please refer to the "Disclaimer" on page 187.

Information included in the Strategic Report

The Directors' Report, together with the Strategic Report on pages 1 to 105, represents the management report for the purpose of compliance with the Disclosure Guidance and Transparency Rules 4.1.R.

As permitted by legislation, some of the matters required to be included in the Directors' Report have instead been included in the Strategic Report, as the Board considers them to be of strategic importance. Specifically, these are:

Subject matter	Page reference
Future business developments	12 to 15—Chief Executive's review (relevant information is also in the Strategic Report on pages 24 to 25)
Greenhouse gas emissions, energy consumption and energy-efficiency action	44 to 45, 47, and 50 to 67—Sustainability section (relevant information is also available in our Sustainability and Society Report on our website)
Employment of disabled persons Engagement with colleagues Engagement with suppliers, customers and others	38 to 43—People section 78 to 81—section 172(1) statement, 69 to 77 (relevant information is also in the Strategic Report on pages 70 and 71, in the Corporate Governance Report on pages 124 to 127, and in this Directors' Report on page 183)
Important events affecting the Group after year end	pages 14 and 15 of the Strategic Report and Note 18 to the financial statements on page 275

Corporate governance statement

The DTRs require certain information to be included in a corporate governance statement in the Directors' Report. This information can be found in the Corporate Governance Report on pages 106 to 181, which is incorporated into this Directors' Report by reference and, in the case of the information referred to in DTR 7.2.6, in this Directors' Report.

Disclosure of information under Listing Rule 9.8.4

Sub-section of Listing Rule 9.8.4R	Detail	Page reference
7	Allotments of shares for cash pursuant to the Group employee share schemes	261, 262
12, 13	Shareholder waiver of dividend	186

Results and dividends

The results for the financial year are set out from page 189 to 288. Full details of the proposed final dividend payment for the year ended 30 September 2022 are set out on page 268. The Board is proposing a final dividend of 12.10 pence per share following the payment of an interim dividend of 6.30 pence per share on 17 June 2022. The proposed total dividend for the year is therefore 18.40 pence per share.

Going concern

After making enquiries, the Directors have a reasonable expectation that Sage has adequate resources to continue in operational existence for at least 12 months from the date of signing these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. In reaching this conclusion, the Directors have had due regard to the following:

- The Group has a robust balance sheet with £1.3bn of cash and available liquidity as at 30 September 2022 and strong underlying cash conversion of 107%, reflecting the strength of the subscription business model. Further information on the available cash resources including the undrawn revolving credit facility and committed bank facilities is provided in note 13 to the financial statements on pages 249 to 252.

- The financial position of Sage, its cash flows, financial risk management policies and available debt facilities, which are described in the financial statements, and Sage's business activities, together with the factors likely to impact its future growth and operating performance, are set out in the Strategic Report on pages 82 to 89.
- The Directors have reviewed liquidity and covenant forecasts for the Group for the period to 31 March 2024, (the going concern assessment period), which reflect the expected impact of economic conditions on trading. In reviewing the forecasts, consideration has been given to the level of debt maturity, which is considered to be entirely manageable. Stress testing has been performed with the impact of severe increases in churn and significantly reduced levels of new customer acquisition and sales to existing customers being considered.

Viability Statement
The full Viability Statement and the associated explanations made in accordance with provision 31 of the Code can be found on pages 104 and 105.

Research and development
During the year, the Group incurred a cost of £302m (2021: £281m) in respect of research and development. Please see page 219 (note 3.2 in the financial statements) for further details.

Political donations
No political donations were made in the year.

Directors and their interests
A list of Directors, their interests in the ordinary share capital of Sage, their interests in its long-term Performance Share Plan and Deferred Share Bonus Plan and details of their options over the ordinary share capital of Sage are given in the Directors' Remuneration Report on pages 148 to 181. No Director had a material interest in any significant contract, other than a service contract or contract for services, with Sage or any of its operating companies at any time during the year.

The names of all persons who, at any time during the year, were Directors of Sage can be found on pages 110 to 111.

Sage maintains directors' and officers' liability insurance which provides appropriate cover for legal action brought against our Directors. Sage has also granted indemnities (which are qualifying third-party indemnity provisions under the Companies Act 2006) to each member of the Board, under which it has agreed to indemnify the Directors to the extent permitted by law and by Sage's articles of association, in respect of all liabilities incurred in connection with the performance of their duties as a Director of Sage or any of its subsidiaries. These indemnities are currently in force. Neither these indemnities, nor the insurance provides cover in the event that an indemnified individual is proven to have acted fraudulently or dishonestly.

Employment policy
The Group continues to be committed to pursuing equity, diversity, and inclusion in all its employment activities and welcomes the unique culture, identity, and experience that each person can bring. This applies to recruitment, training, career development, and promotion, as well as ensuring that there is no bias or discrimination in the treatment of persons with disabilities.

Applications for employment are welcomed from persons with disabilities and adjustments are made in consultation with the applicant to ensure they can demonstrate their suitability for the role. Wherever possible, we will undertake any adjustments or retraining that is required to retain any colleague who becomes disabled during their employment within the Group.

Further details of the Board's diversity policy can be found on pages 134 to 137, and information regarding the diversity of the workforce is provided on pages 42 and 43.

Engagement with colleagues
The Group has continued its policy of colleague involvement by making information available and consulting, where appropriate, with colleagues on matters of concern to them. Colleagues regularly receive updates on the financial and economic factors affecting the Group, and conversely the Group regularly seeks feedback from colleagues, including through Pulse Surveys. Many colleagues participate in Sage's share option schemes and a long-term Performance Share Plan. Further details of colleague engagement and how the Directors have had regard to colleague interests and the effect of that regard on principal decisions taken by the Board during the year (including the role of our Board Associate) are provided on pages 38 to 43, 70 to 71, and 124 to 127.

Engagement with other stakeholders
Details of engagement with stakeholders, including customers and others in a business relationship with Sage and information on how the Directors have had regard to their interests and the effect of that regard on principal decisions taken by the Board during the year are provided on pages 69 to 81.

Major shareholdings

As at 30 September 2022, Sage had been notified, in accordance with the DTRs, of the following interests in its ordinary share capital[1]:

Name	Ordinary shares	% of capital[2]	Nature of holding
BlackRock, Inc.	64,021,267	5.90	Direct and Indirect
Lindsell Train Limited	54,140,022	5.01	Direct
FIL Limited	55,288,722	5.10	Direct and Indirect
Aviva plc & its subsidiaries	37,536,359	3.43	Direct and Indirect

Notes:

1. In the period from 30 September 2022 to the date of this report, no further notifications were received.
2. % as at date of notification. The DTRs require notification when the % voting rights (through shares and financial instruments) held by a person reaches, exceeds or falls below an applicable threshold specified in the DTRs.

Information provided to Sage under the DTRs is publicly available via the regulatory information service and on Sage's website at sage.com.

Share capital

Sage's share capital is set out on page 261. Sage has a single class of share capital which is divided into ordinary shares of $1^{4/77}$ pence each.

Rights and obligations attaching to shares

Voting

In a general meeting of Sage, the provisions of the Companies Act 2006 apply in relation to voting rights, subject to the provisions of the articles of association and to any special rights or restrictions as to voting attached to any class of shares in Sage (of which there are none). In summary:

- On a show of hands, each qualifying person (being an individual who is a member of Sage, a person authorised to act as the representative of a corporation or a person appointed as a proxy of a member) shall have one vote, except that a proxy has one vote for and one vote against a resolution if the proxy has been appointed by more than one member and has been given conflicting voting instructions by those members, or has been given discretion as to how to vote; and
- On a poll, every qualifying person shall have one vote for every share which they hold or represent.

No member shall be entitled to vote at any general meeting or class meeting in respect of any shares held by them if any call or other sum then payable by them in respect of that share remains unpaid. Currently, all issued shares are fully paid.

Deadlines for voting rights

Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the Annual General Meeting to be held on 2 February 2023 will be set out in the Notice of Annual General Meeting.

Dividends and distributions

Subject to the provisions of the Companies Act 2006, Sage may, by ordinary resolution, declare a dividend to be paid to the members, but no dividend shall exceed the amount recommended by the Board.

The Board may pay interim dividends, and also any fixed rate dividend, whenever the financial position of Sage, in the opinion of the Board, justifies its payment. All dividends shall be apportioned and paid pro-rata according to the amounts paid up on the shares.

Liquidation

If Sage is in liquidation, the liquidator may, with the authority of a special resolution of Sage and any other authority required by the statutes (as defined in the articles of association):

- Divide among the members in specie the whole or any part of the assets of Sage; or
- Vest the whole or any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit.

Transfer of shares

Subject to the articles of association, any member may transfer all or any of his or her certificated shares by an instrument of transfer in any usual form or in any other form which the Board may approve. The Board may, in its absolute discretion, decline to register any instrument of transfer of a certificated share which is not a fully paid share (although not so as to prevent dealings in shares taking place on an open and proper basis) or on which Sage has a lien.

The Board may also decline to register a transfer of a certificated share unless the instrument of transfer is: (i) left at Sage's Registered Office, or at such other place as the Board may decide, for registration; and (ii) accompanied by the certificate for the shares to be transferred and such other evidence (if any) as the Board may reasonably require to prove the title of the intending transferor or his or her right to transfer the shares.

The Board may permit any class of shares in Sage to be held in uncertificated form and, subject to the articles of association, title to uncertificated shares to be transferred by means of a relevant system and may revoke any such permission. Registration of a transfer of an uncertificated share may be refused where permitted by the statutes (as provided in the articles of association).

Repurchase of shares

In line with common practice for listed companies, Sage requests shareholder authority at its Annual General Meeting ("AGM") each year for the Company to buy back its ordinary shares in the market (the "Buyback Authorities"). Sage obtained shareholder authority at the AGM held on 3 February 2022, to buy back in the market up to 102,374,941 ordinary shares (the "2022 Buyback Authority"). The 2022 Buyback replaced a similar authority granted at the AGM held on 4 February 2021 in respect of 109,355,465 ordinary shares, which expired at the 2022 AGM (the "2021 Buyback Authority"). The 2022 Buyback Authority has not been used and will expire at the AGM to be held in 2023, but will, subject to shareholder approval at the AGM, be replaced by another similar authority. Under the terms of the Buyback Authorities, the minimum price which must be paid for each ordinary share is its nominal value and the maximum price is the higher of an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately before the purchase is made and an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for ordinary shares on the trading venue where the purchase is carried out (in each case exclusive of expenses). The 2021 Buyback Authority was used during FY22 to buy back, under a share buyback programme, a total of 27,979,129 ordinary shares of $1^{4/77}$ pence each in Sage, as explained further below. Share repurchases are used from time to time as a method to control the Group's leverage and decisions are made against strict price, volume and returns criteria that are agreed by the Board and regularly reviewed.

On 3 September 2021, Sage had announced that a capital return of up to £300m would be executed via a new share buyback programme. The share buyback programme, executed using the 2021 Buyback Authority, commenced on 6 September 2021 and ended on 24 January 2022. A total number of 27,979,129 ordinary shares of $1^{4/77}$ pence each in Sage were repurchased between 1 October 2021 and 24 January 2022, as part of the share buyback programme and were held in treasury, to be utilised to meet obligations arising from share option programmes, or other allocation of shares, to colleagues or Directors. The aggregate amount of the consideration paid by Sage for these shares was £ 210,458,831.64 and the average price paid per ordinary share was £7.52. The shares purchased during FY22 represent approximately 2.54% of the called-up share capital of the Company, as at 30 September 2022.

The share buyback programme was consistent with the Group's disciplined approach to capital allocation and reflects its medium-term leverage objectives, strong ongoing cash generation and the sale proceeds from disposals completed in FY21 and FY22. Please refer to note 16.2 on pages 273 and 274 for further information on disposals completed in FY22 and to page 236 of the FY21 Annual Report for further information on disposals completed in FY21. For Board considerations setting out why share buyback was the chosen method of capital return, please refer to page 97 of the FY21 Annual Report.

All repurchases of ordinary shares under the share buyback programme were carried out in accordance with Chapter 12 of the Listing Rules and those provisions of Article 5(1) of Regulation (EU) No. 596/2014 (as incorporated into UK domestic law by the European Union (Withdrawal) Act 2018) and the Commission Delegated Regulation (EU) 2016/1052 (as incorporated into UK domestic law by the European Union (Withdrawal) Act 2018) dealing with buyback programmes.

Amendment of Sage's articles of association

Any amendments to Sage's articles of association may be made in accordance with the provisions of the Companies Act 2006 by way of special resolution. Sage's articles of association were last amended at the Annual General Meeting held on 4 February 2021.

Appointment and replacement of Directors

Directors shall be not less than two and no more than 15 in number. Directors may be appointed by Sage by ordinary resolution or by the Board. A Director appointed by the Board holds office until the Annual General Meeting and is then eligible for election by the shareholders, in accordance with Sage's articles of association.

The Board may from time to time appoint one or more Directors to hold employment or executive office for such period (subject to the provisions of the Companies Act 2006) and on such terms as they may determine and may revoke or terminate any such appointment.

Under the articles of association, at every Annual General Meeting of Sage, every Director who held office on the date seven days before the date of the Notice of Annual General Meeting, shall retire from office (but shall be eligible for election or re-election by the shareholders). Sage may by special resolution (or by ordinary resolution of which special notice has been given) remove, and the Board may by unanimous decision remove, any Director before the expiration of his or her term of office. The office of Director shall be vacated if: (i) he or she resigns; (ii) he or she has become physically or mentally incapable of acting as a director and may remain so for more than three months and the Board resolves that his or her office is vacated; (iii) he or she is absent without permission of the Board from meetings of the Board for six consecutive months and the Board resolves that his or her office is vacated; (iv) he or she becomes bankrupt or makes an arrangement or composition with his or her creditors generally; (v) he or she is prohibited by law from being a director; or (vi) he or she is removed from office pursuant to the articles of association.

Powers of the Directors

The business of Sage will be managed by the Board which may exercise all the powers of Sage, subject to the provisions of Sage's articles of association, the Companies Act 2006 and any ordinary resolution of Sage. Authority is sought from shareholders at each Annual General Meeting to grant the Directors powers, in line with institutional shareholder guidelines and relevant legislation, in relation to the issue and buyback by the Company of its shares.

Shares held in the Employee Benefit Trust

The trustee of The Sage Group plc. Employee Benefit Trust (EBT) has agreed not to vote any shares held in the EBT at any general meeting. If any offer is made to shareholders to acquire their shares the trustee will not be obliged to accept or reject the offer in respect of any shares which are at that time subject to subsisting awards, but will have regard to the interests of the award holders and will have power to consult them to obtain their views on the offer. Subject to the above the trustee may take action with respect to any offer it thinks fair. The trustee has waived its right to dividends on the shares held in the EBT.

Significant agreements

The following significant agreements contain provisions entitling the counterparties to exercise termination or other rights in the event of a change of control of Sage:

- Under the terms of (i) the £350m 1.625 per cent guaranteed Notes due 25 February 2031; and (ii) the £400m 2.875 per cent guaranteed Notes due 8 February 2034, both issued by the Company and guaranteed by Sage Treasury Company Limited, a Noteholder has the right to require the Company to redeem or repay its Notes on a change of control of the Company where at the time of the occurrence of the change of control: (i) the Notes then in issue carry, on a solicited basis, an investment-grade credit rating which is either downgraded to non-investment grade or withdrawn (so long as the Notes are not upgraded or reinstated to an investment-grade rating by the relevant rating agency, or a replacement investment-grade rating of another rating agency on a solicited basis is not obtained, in each case within a set period of time, and the relevant rating agency confirms that its rating decision resulted, in whole or in part, from the occurrence of the change of control), or (ii) the Notes then in issue carry a non-investment grade credit rating from each rating agency then assigning a credit rating on a solicited basis or no credit rating from any rating agency on a solicited basis. Under the terms of the Notes, "change of control" is defined as: (i) any person or any persons acting in concert (as defined in the City Code on Takeovers and Mergers), other than a holding company (as defined in Section 1159 of the Companies Act 2006, as amended) whose shareholders are or are to be substantially similar to the pre-existing shareholders of the Company, shall become interested (within the meaning of Part 22 of the Companies Act 2006, as amended) in (x) more than 50 per cent. of the issued or allotted ordinary share capital of the Company or (y) shares in the capital of the Company carrying more than 50 per cent. of the voting rights normally exercisable at a general meeting of the Company; or (ii) Sage Treasury Company Limited ceases to be a direct or indirect subsidiary of the Company.
- Under a note purchase agreement dated 20 May 2013 relating to US$150m senior notes, Series F, due 20 May 2023 and US$50m senior notes, Series G, due 20 May 2025 between Sage Treasury Company Limited and the note holders and guaranteed by the Company, on a change of control of the Company, the Company will not take any action that consummates or finalises a change of control unless at least 15 business days prior to such action it shall have given to each holder of notes written notice containing and constituting an offer to prepay all notes on a date specified in such offer which shall be a business day occurring subsequent to the effective date of the change of control which is not less than 30 days or more than 60 days after the date of the notice of prepayments. Where a holder of notes accepts the offer to prepay, the prepayment shall be 100% of the principal amount of the notes together with accrued and unpaid interest thereon and shall be made on the proposed prepayment date. No prepayment under a change of control shall include any premium of any kind.
- Under a note purchase agreement dated 26 January 2015 relating to €30m senior notes, Series I, due 26 January 2023 and US$200m senior notes, Series J, due 26 January 2025 between Sage Treasury Company Limited and the note holders and guaranteed by the Company, on a change of control of the Company, the Company will not take any action that consummates or finalises a change of control unless at least 15 business days prior to such action it shall have given to each holder of notes written notice containing and constituting an offer to prepay all notes on the date specified in such offer which shall be a business day occurring subsequent to the effective date of the change of control which is not less than 30 days or more than 60 days after the date of notice of prepayments. Where a holder of notes accepts the offer to prepay, the prepayment shall be 100% of the principal amount of the notes together with accrued and unpaid interest thereon and any applicable net loss and, in each case, including the deduction of

any applicable net gain and shall still be made on the proposed payment date. No prepayment under a change of control shall include any premium of any kind.

- Under the terms of the note purchase agreements above, "control" is defined as per section 450 of the Corporation Tax Act 2010, and a "change of control" occurs if any person or group of persons acting in concert gains control of the Company.
- Under a dual tranche US$719m and £135m five-year multi-currency revolving credit facility agreement dated 7 February 2018 (as amended and restated on 15 December 2021) between, amongst others, Sage Treasury Company Limited and the facility agent, and guaranteed by the Company, on a change of control, if any individual lender so requires and after having consulted with Sage Treasury Company Limited in good faith for not less than 30 days following the change of control, the facility agent shall, by not less than 10 business days' notice to Sage Treasury Company Limited, cancel the commitment of that lender and declare the participation of that lender in all outstanding loans, together with accrued interest and all other amounts accrued under the finance documents, immediately due and payable, whereupon the commitment of that lender will be cancelled and all such outstanding amounts will become immediately due and payable. In respect of this revolving credit facility agreement, "control" is defined as per section 840 of the Income and Corporation Taxes Act 1998.
- The platform reseller agreement dated 31 January 2015 relating to the Company's strategic arrangements with Salesforce.com EMEA Limited contains a change of control right enabling Salesforce to terminate the agreement in the event there is a change of control in favour of a direct competitor of Salesforce.com EMEA Limited. The agreement contains post-termination requirements upon Salesforce to support a transition for up to a specified period. In respect of the platform reseller agreement with Salesforce.com EMEA Limited, "change of control" occurs where a corporate transaction results in the owners of the subject entity owning less than 50% of the voting interests in that entity as a result of the corporate transaction.
- All of Sage's employee share plans contain provisions relating to a change of control of The Sage Group plc. Outstanding awards and options may vest and become exercisable on a change of control, subject, where applicable, to the satisfaction of any applicable performance conditions and time pro-rating.

Branch

The Group, through various subsidiaries, has a branch in France. Further details are included in note 19 on pages 275 to 279.

Financial risk management

The Group's exposure to and management of capital, liquidity, credit, interest rate and foreign currency risk are shown in note 14.6 to the financial statements.

Our approach to risk management generally and our Principal Risks can be found in note 14.6 and on pages 90 to 103.

Disclaimer

The purpose of this Annual Report and Accounts is to provide information to the members of Sage. The Annual Report and Accounts has been prepared for, and only for, the members of Sage, as a body, and no other persons. Sage, its Directors and employees, agents or advisors do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. The Annual Report and Accounts contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and Accounts and Sage undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report and Accounts should be construed as a profit forecast.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Accounts, including the Directors' Remuneration Report and the financial statements of the Group and the Company, in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with UK-adopted International Accounting Standards (UK-IFRS) and the Company financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period.

In preparing these financial statements the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether, for the Group applicable UK-IFRS have been followed, subject to any material departures disclosed and explained in the financial statements;
- State whether, for the Company, applicable 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" have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for the maintenance and integrity of Sage's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' statement

The Directors as at the date of this report, whose names and functions are listed in the Board of Directors' section on pages 110 to 111, confirm that:

- To the best of their knowledge, the Group's financial statements, which have been prepared in accordance with UK-adopted International Accounting Standards (UK-IFRS), give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group;
- To the best of their knowledge, the Company's financial statements, which have been prepared in accordance with 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", give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- To the best of their knowledge, the Directors' Report and the Strategic Report include a fair review of the development and performance of the business and the position of the Group and the Company together with a description of the principal risks and uncertainties that it faces.

Each Director as at the date of this report further confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Group's and the Company's auditors are unaware; and
- The Director has taken all the steps that they ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Group's and the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

In addition, the Directors as at the date of this report consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's and the Group's position, performance, business model and strategy.

By Order of the Board

Vicki Bradin
Company Secretary

15 November 2022

The Sage Group plc.
Company number 02231246

Independent Auditor's Report to the members of The Sage Group plc.

Opinion

In our opinion:

- The Sage Group plc's group financial statements and parent company financial statements (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 2022 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of The Sage Group plc. (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 September 2022 which comprise:

Group	Parent company
Consolidated balance sheet as at 30 September 2022	Company Balance sheet as at 30 September 2022
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	Related notes 1 to 8 to the financial statements including a summary of significant accounting policies
Consolidated statement of changes in equity for the year then ended	
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 19 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and UK adopted international accounting standards. 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, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the group and parent in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.

Independent Auditor's Report to the members of The Sage Group plc.
continued

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- We understood the process undertaken by management to perform the going concern assessment, including the Group's access to available sources of liquidity and any associated covenants;
- We obtained management's going concern assessment, including the cash flow forecast and covenant calculation for the going concern period to 31 March 2024 and assessed whether the period applied is appropriate, also considering the existence of any significant events or conditions beyond this period based on management's forecasting and knowledge arising from the audit;
- We assessed the reasonableness of all key assumptions, with a particular focus on New Customer Acquisition (NCA), churn, margin and working capital. This has been performed by:
  - assessing the historical forecasting accuracy of the Group by comparing actual revenue and underlying profit to forecast for the previous five years;
  - checking for consistency of the forecasts with other areas of the audit including the goodwill and other intangibles impairment assessment; and
  - assessing whether the assumptions made were reasonable and appropriately severe, through our own independent assessment of the impact of the current macro-economic environment and considering whether this contradicted any of the assumed growth.
- We also considered the impact of Sage's climate commitments on the cash flow forecasts;
- We reviewed the borrowing facilities to confirm both the availability of the revolving credit facilities ('RCF') to the Group, the forecast loan repayments through the going concern period and to gain an understanding of the applicable covenants. We reviewed the related covenants by comparing to the underlying agreements and reperforming management's forecast covenant ratio compliance calculations to check for breaches of each covenant ratio throughout the going concern period under each scenario presented by management;
- We reperformed management's reverse stress test to establish the level of change in revenue necessary to cause a liquidity or financial covenant breach and whether the reduction in revenue required has no more than a remote possibility of occurring; and
- We reviewed the appropriateness of management's going concern disclosure in describing the risks associated with its ability to continue to operate as a going concern from the date of the approval of the financial statements to 31 March 2024.

We observed that in management's base case and in the downside sensitivities, with churn assumptions increasing by up to 75% and a significant reduction in the level of NCA, management has determined that there is headroom in relation to both liquidity and covenants without taking the benefit of any identified controllable mitigations. Furthermore, management's reverse stress test to model the extent of the EBITDA reduction compared to forecasts required to breach covenants during the going concern assessment period is considered by the Directors to be remote due to the resilient nature of the subscription business model, available liquidity and strong cash conversion.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for the period to 31 March 2024.

In relation to the group and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of 6 components and audit procedures on specific balances for a further 4 components. • The components where we performed full or specific audit procedures accounted for 94% of adjusted Profit before tax, 94% of Revenue and 98% of Total assets.
Key audit matters	• Inappropriate timing of revenue recognition, including cut-off and deferral. • Recoverability of goodwill and other intangible assets.
Materiality	• Overall Group materiality of £13.2 million which represents 5% of Profit before tax adjusted for non-recurring items

An overview of the scope of the parent company and group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company 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 company.

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 23 reporting components of the Group, we selected 10 components covering entities within the United Kingdom and Ireland, France, North America, Germany, Spain and South Africa which represent the principal business units within the Group.

Of the 10 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 4 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.

The reporting components where we performed audit procedures accounted for 94% (2021: 92%) of the Group's adjusted Profit before tax, 94% (2021: 90%) of the Group's Revenue and 98% (2021: 98%) of the Group's Total assets. For the current year, the full scope components contributed 80% (2021: 87%) of the Group's adjusted Profit before tax, 62% (2021: 61%) of the Group's Revenue and 90% (2021: 91%) of the Group's Total assets. The specific scope component contributed 14% (2021: 5%) of the Group's adjusted Profit before tax, 32% (2021: 29%) of the Group's Revenue and 8% (2021: 7%) of the Group's Total assets. 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 tested for the Group.

Of the remaining 13 components that together represent 6% of the Group's adjusted Profit before tax, none are individually greater than 2% of the Group's adjusted Profit before tax. For these components, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations, obtaining a sample of additional cash confirmations, and foreign currency translation recalculations to respond to potential risks of material misstatement to the Group financial statements.

The table below illustrates the coverage obtained from the work performed by our audit teams.

	2022					2021			
Reporting components	**Number**	**% Group adjusted Profit before tax***	**% Group Revenue**	**% Total assets**	**Note**	Number	% Group adjusted Profit before tax*	% Group Revenue	% Total assets
Full scope	**6**	**80%**	**62%**	**90%**	**1,3**	6	87%	61%	91%
Specific scope	**4**	**14%**	**32%**	**8%**	**2,3**	4	5%	29%	7%
Full and specific scope coverage	**10**	**94%**	**94%**	**98%**		10	92%	90%	98%
Remaining components	**13**	**6%**	**6%**	**2%**	**4**	12	8%	10%	2%
Total Reporting components	**23**	**100%**	**100%**	**100%**		22	100%	100%	100%

* Adjusted profit before tax is presented on an absolute basis.

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 other 3 full scope components are UKI, France and North America (excluding Intacct).
2. Specific scope components are Germany, North America Intacct, Spain and South Africa. The audit scope of these specific scope 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.
3. The Group audit risk in relation to revenue recognition was subject to audit procedures at each of the full and specific scope locations with significant revenue streams (being 3 full scope components and 4 specific scope components). The Group audit risk in relation to the recoverability of goodwill and other intangible assets was tested by the Primary audit team.
4. In the current year, the remaining 13 components contributed 6% of adjusted profit before tax and the individual contribution of these components ranged from nil to 2% of the Group's adjusted profit before tax. For these components, the Primary audit team performed other procedures including overall analytical review procedures and testing of consolidation journals, intercompany eliminations, a sample of cash confirmations, and foreign currency translation recalculations to respond to potential risks of material misstatement to the Group financial statements.

Changes from the prior year

The change in the total number of reporting components from 22 to 23 was a result of the disposal of the Swiss business and the acquisition of Brightpearl Limited and Lockstep Network Holdings, Inc. in the year.

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 engagement 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 2 of these directly by the primary audit team. For the 4 specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

Kathryn Barrow continues to be the Senior Statutory Auditor and, together with other group partners and senior members of the primary audit team, has performed a series of visits to the component teams. During the current year's audit cycle, visits were undertaken by the primary audit team to the component teams in the United Kingdom, North America, France 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, attending closing meetings and reviewing relevant audit working papers on risk areas. For all components, the primary team interacted regularly with the component teams during various stages of the audit, reviewed relevant 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.

Climate change
There has been increasing interest from stakeholders as to how climate change will impact companies. The Group has determined that the most significant future impacts from climate change on their operations will be from extreme weather events which may have an impact on workforce productivity, damage to facilities, hosting resilience and changing customer behaviour. These are explained on pages 56 to 59 in the Task Force for Climate related Financial Disclosures, which form part of the "Other information," rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

As explained in Note 1 Basis of Preparation to the consolidated financial statements, the Group concluded that there were no factors identified that would have a material impact on the Group's critical accounting estimates and judgements in the current year. Governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. The degree of certainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of UK-adopted International Accounting Standards. As described in Note 1, there were no factors identified that would have a material impact on the Group's critical accounting estimates and judgements in the current year. The considerations in relation to goodwill impairment testing are set out in Note 6.1.

Our audit effort in considering climate change was focused on evaluating management's assessment of the impact of climate risk, physical and transition, and ensuring that the effects of material climate risks disclosed on pages 56 to 59 have been appropriately reflected by management in reaching their judgements in relation to modelling future cash flows used in the impairment assessments. We also challenged the Directors' considerations of climate change in their assessment of going concern and viability and associated disclosures.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report to the members of The Sage Group plc.
continued

<table>
<tr><th>Risk</th><th>Our response to the risk</th><th>Key observations communicated to the Audit and Risk Committee</th></tr>
<tr><td>Inappropriate timing of revenue recognition, including cut-off and deferral
Refer to the Audit and Risk Committee Report (page 140); Accounting policies (page 209); and Note 3.1 of the Consolidated Financial Statements (pages 217 to 219)
The Group has reported revenues of £1,947 million (FY21: £1,846 million) with deferred income at 30 September 2022 of £742 million (FY21: £621m).
We assessed revenue recognition as a fraud risk as revenue forms the basis for certain of the Group's key performance indicators, both in external communications and for management incentives. The risk specifically relates to the inappropriate timing of revenue recognition, including cut-off and timing of recognition of deferred revenue.
Therefore, we assessed that overstatement of revenue presented a higher risk and a key audit matter.</td><td>Walkthroughs and controls
• We performed walkthroughs of each significant class of revenue transactions and assessed the design effectiveness of key financial controls, however, we did not test the operating effectiveness of these controls at all components. For two components, we tested the operating effectiveness of key controls within the revenue process.
Timing of revenue recognition, including cut-off and deferral
• We evaluated management's determination of whether the nature of the Group's products and services resulted in the provision of a good or service at a point in time or over a contractual term, by reviewing a sample of customer contracts against the requirements of IFRS 15. This included the assessment of new or one-off transactions, by comparing the accounting treatment to the Group accounting policy and IFRS 15. The customer contracts take different forms depending upon the products/services sold and local legal practice. Our procedures included consideration as to whether this fulfilled the IFRS 15 definition of a 'contract with a customer'.
• At all revenue generating full and specific scope components we adopted a data analysis approach in relation to revenue and receivables. Our procedures involved testing full populations of transaction data for all significant revenue streams and included correlation analysis between invoiced revenue, receivables and cash, as well as analysis of credit notes. Where the postings did not follow our expectation, we investigated and assessed their validity by agreeing a sample of transactions back to source documentation.
• In respect of deferred income, for products and services where revenue is earned over a contractual term, we:
  • Tested a sample of transactions to determine that the amount of revenue recognised in the year and the amount deferred at the balance sheet date were accurately calculated based on progress of the contract.
  • At certain components, with support from EY IT team members, we utilised data analysis to facilitate independent reperformance of certain management calculations, including deferred income. This included testing a sample of the data inputs against 3rd party evidence, such as the contract with the customer (as defined above).
• We have performed cut-off testing for a sample of revenue items and credit notes booked either side of the year end date to determine that revenue was recognised in the period in which the performance obligation was fulfilled.
Management override
• Audit teams at full and specific scope components with significant revenue streams performed specific procedures to address the risk of management override, including testing to identify unusual, new or significant transactions or contractual terms and targeted journal entry testing over manual journal entries.
Disclosures
• We also considered the adequacy of the Group's disclosures relating to revenue recognition in note 1 (critical accounting estimates and judgments) and note 3.1 (Revenue) in the consolidated financial statements.</td><td>Based on the procedures performed, we consider the timing of revenue recognition to be appropriate for the year ended 30 September 2022. We did not identify a material misstatement as a result of inappropriate timing of revenue recognition, cut-off or deferral.</td></tr>
</table>

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Recoverability of goodwill and other intangible assets *Refer to the Audit and Risk Committee Report (page 141); Accounting policies (page 209); and Note 6.1 of the Consolidated Financial Statements (page 231 to 235)* Goodwill and other intangible assets of £2,416 million and £294 million are recognised in the Group's consolidated balance sheet at 30 September 2022, respectively. We continue to include the recoverability of goodwill and other intangible assets as a Key Audit Matter due to: • the estimation involved in determining the future performance of the Cash Generating Units (CGUs); • the magnitude of the goodwill and other intangible asset balances; and • the audit effort and executive involvement.	**Valuation model** Management performed its annual impairment assessment as at 30 June 2022. We obtained the impairment assessment and tested the methodology applied in the value in use calculations for each of the CGUs as compared to the requirements of IAS 36, *Impairment of Assets*, including the appropriateness of the forecast periods, which were consistent with management's strategic planning horizon, and the mathematical accuracy of management's model. We considered whether any significant changes occurred between Management's assessment date and the year end that would impact the impairment test conclusion. We did this by reviewing the ongoing performance of the business and reviewing the inputs to the discount rate in light of the current macro-economic environment. **Key assumptions in the valuation** We evaluated the key underlying assumptions used in the valuations including revenue growth rates, margin and the discount rates applied. • We assessed the appropriateness of the key assumptions used in the FY23 forecasts including new customer acquisition, upsell/add-ons and level of churn by assessing these against the results achieved in FY22 and the prior track record of growth. • For forecasts for FY23-FY25, we considered the latest market trends, through reviewing market data such as central bank macroeconomic projections, to evaluate whether there is evidence that the forecast growth rates assumed for this period should be lower than the FY22 current growth rate. • We tested the reasonableness of long-term growth rates applied after the forecast period by comparing the rates used by management to published OECD rates. • We tested the discount rates, with the involvement of our internal valuation specialists, by reference to comparable market data and the specific risk profile relevant to each respective CGU, compared to the rates used by management. • We assessed the appropriateness of Management's forecasts with respect to inclusion of the impact of climate change. • We performed downside sensitivity analysis on key assumptions in the models, including combinations thereof, to understand the parameters that, should they arise, cause an impairment of goodwill. **Disclosures** We considered the appropriateness of the related disclosures provided in note 1 (critical accounting estimates and judgments) and note 6.1 in the consolidated financial statements, in particular the sensitivity disclosures.	We concluded that no impairment of goodwill or other intangible assets is required in the current year. We have concluded that the methodology applied is reasonable, the forecast period is appropriate and the impairment models are mathematically accurate. Key inputs such as; underlying assumptions, forecast growth rates, margin and discount rates have been determined using a reasonable basis. The additional sensitivity disclosures in note 6.1 of the Group financial statements adequately reflect that a reasonably possible change in certain key assumptions in Iberia could lead to a different conclusion in respect of the recoverability of goodwill.

Independent Auditor's Report to the members of The Sage Group plc.
continued

Our application of materiality

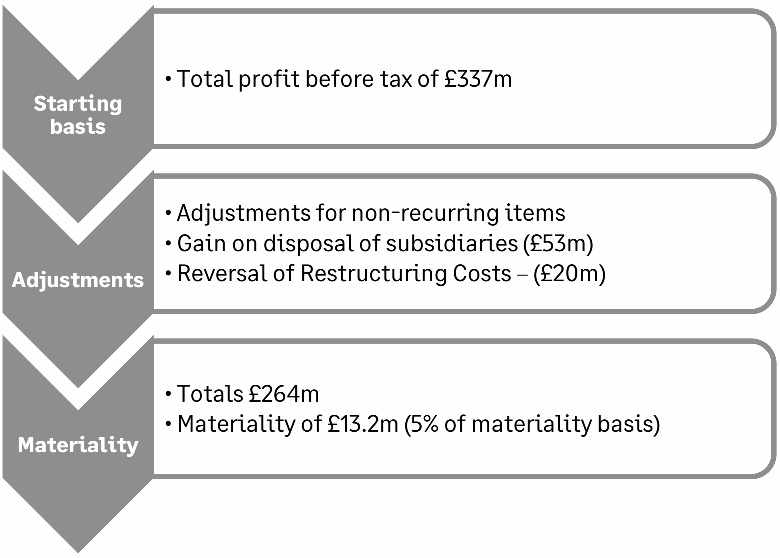
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

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 £13.2 million (2021: £14.6 million), which is 5% (2021: 5%) of adjusted Profit before tax. We believe that Profit before tax adjusted for non-recurring items provides us with 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 and are summarised in the graphic below.

We determined materiality for the Parent Company to be £40.3 million (2021: £42.6 million), which is 1% (2021: 1%) of equity. We believe that equity is an appropriate basis to determine materiality given the nature of the Parent Company as the holding company of the Group. Any balances in the Parent Company financial statements that were relevant to our audit of the consolidated Group were audited using an allocation of Group performance materiality.



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

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 75% (2021: 75%) of our planning materiality, namely £9.9m (2021: £10.9m). We have set performance materiality at this percentage due to our assessment of the control environment and lower likelihood of misstatements.

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 components was £1.0m to £8.0m (2021: £1.0m to £6.7m).

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

We agreed with the Audit and Risk Committee that we would report to them all uncorrected audit differences in excess of £0.7m (2021: £0.7m), 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.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 188, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions 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.

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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

Corporate Governance Statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group and company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 182 to 183;

- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on pages 104 to 105;
- Director's statement on whether it has a reasonable expectation that the group will be able to continue in operation and meets its liabilities set out on pages 182 to 183;
- Directors' statement on fair, balanced and understandable set out on page 188;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 95 to 103;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 90 to 103; and
- The section describing the work of the Audit and Risk Committee set out on pages 138 to 147.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 187, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are those that relate to the reporting framework (IFRS, FRS 102, the Companies Act 2006 and UK Corporate Governance Code) , the relevant tax compliance regulations in the jurisdictions in which the Group operates and the EU General Data Protection Regulation (GDPR).
- We understood how the Group is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the company secretary. We corroborated our enquiries through our review of board minutes and papers provided to the Audit and Risk Committee and attendance at all meetings of the Audit and Risk Committee, as well as consideration of the results of our audit procedures across the Group to either corroborate or provide contrary evidence which was then followed up.

- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud; and assessing whistleblowing incidences for those with a potential financial reporting impact. We also considered performance targets and their propensity to influence on efforts made by management to manage revenue and earnings. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programs and controls. Where the risk was considered to be higher, including areas impacting Group key performance indicators or management remuneration, we performed audit procedures to address each identified fraud risk or other risk of material misstatement. These procedures included those on revenue recognition detailed above, the assessment of items identified by management as non-recurring and testing manual journals and were designed to provide reasonable assurance that the financial statements were free from material fraud or error.
- Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations. Based on our understanding, we designed our audit procedures to identify non-compliance with laws and regulations, including instructions to full and specific scope component audit teams. At a Group level, our procedures involved: enquiries of Group management and those charged with governance, legal counsel and internal audit; journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business. At a component level, our full and specific scope component audit team's procedures included enquiries of component management; journal entry testing; and focused testing, including as referred to in the key audit matters section above.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation from the Audit and Risk Committee we were appointed by the company on 3 March 2015, to audit the financial statements for the year ending 30 September 2015 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 8 years, covering the years ending 30 September 2015 to 30 September 2022.
- The audit opinion is consistent with the additional report to the Audit and Risk Committee.

Use of our report

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.

Ernst + Young LLP

Kathryn Barrow (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
15 November 2022

Notes:

1) The maintenance and integrity of The Sage Group plc. 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 been presented on the web site.
2) Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

For the year ended 30 September 2022

	Note	Underlying 2022 £m	Adjustments (note 3.6) 2022 £m	Statutory 2022 £m	Underlying as reported* 2021 £m	Adjustments (note 3.6) 2021 £m	Statutory 2021 £m
Revenue	2.1, 3.1	**1,949**	**(2)**	**1,947**	1,846	–	1,846
Cost of sales		**(138)**	**–**	**(138)**	(131)	–	(131)
Gross profit		**1,811**	**(2)**	**1,809**	1,715	–	1,715
Selling and administrative expenses		**(1,434)**	**(8)**	**(1,442)**	(1,357)	15	(1,342)
Operating profit	2.2, 3.2, 3.3, 3.6	**377**	**(10)**	**367**	358	15	373
Finance income	3.5	**1**	**–**	**1**	1	–	1
Finance costs	3.5	**(32)**	**1**	**(31)**	(26)	(1)	(27)
Profit before income tax		**346**	**(9)**	**337**	333	14	347
Income tax expense	4	**(83)**	**6**	**(77)**	(83)	21	(62)
Profit for the year		**263**	**(3)**	**260**	250	35	285
Profit attributable to:							
Owners of the parent		**263**	**(3)**	**260**	250	35	285
Earnings per share attributable to the owners of the parent (pence)							
Basic	5	**25.74p**		**25.47p**	23.09p		26.33p
Diluted	5	**25.44p**		**25.17p**	22.87p		26.08p

All operations in the year relate to continuing operations.

Note:

* Underlying as reported is at 2021 reported exchange rates.

Consolidated statement of comprehensive income

For the year ended 30 September 2022

	Note	2022 £m	2021 £m
Profit for the year		**260**	285
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss:			
Fair value gain on reassessment of equity investment	8	**30**	–
Actuarial gain on post-employment benefit obligations	11, 15.4	**3**	2
		33	2
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations and net investment hedges	15.3	**177**	(60)
Exchange differences recycled through income statement on sale of foreign operations	15.3, 16.2	**(13)**	(21)
		164	(81)
Other comprehensive income/(expense) for the year, net of tax		**197**	(79)
Total comprehensive income for the year		**457**	206
Total comprehensive income for the year attributable to:			
Owners of the parent		**457**	206

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Consolidated balance sheet

As at 30 September 2022

	Note	2022 £m	2021 £m
Non-current assets			
Goodwill	6.1	**2,416**	1,877
Other intangible assets	6.2	**294**	190
Property, plant and equipment	7	**152**	164
Equity investments	8	**4**	21
Trade and other receivables	9.1	**128**	113
Deferred income tax assets	12	**19**	40
		3,013	2,405
Current assets			
Trade and other receivables	9.1	**355**	295
Current income tax asset		**39**	37
Cash and cash equivalents (excluding bank overdrafts)	13.3	**489**	553
Assets classified as held for sale	16.2	**–**	39
		883	924
Total assets		**3,896**	3,329
Current liabilities			
Trade and other payables	9.2	**(368)**	(592)
Current income tax liabilities		**(13)**	(31)
Borrowings	13.4	**(178)**	(65)
Provisions	10	**(33)**	(68)
Deferred income	9.3	**(734)**	(611)
Liabilities classified as held for sale	16.2	**–**	(13)
		(1,326)	(1,380)
Non-current liabilities			
Borrowings	13.4	**(1,044)**	(749)
Post-employment benefits	11	**(19)**	(22)
Deferred income tax liabilities	12	**(16)**	(5)
Provisions	10	**(20)**	(49)
Trade and other payables		**(6)**	(3)
Deferred income	9.3	**(8)**	(10)
Derivative financial instruments	14.5	**(60)**	–
		(1,173)	(838)
Total liabilities		**(2,499)**	(2,218)
Net assets		**1,397**	1,111

Consolidated balance sheet

As at 30 September 2022

	Note	2022 £m	2021 £m
Equity attributable to owners of the parent			
Ordinary shares	15.1	**12**	12
Share premium		**548**	548
Translation reserve	15.3	**206**	42
Merger reserve	15.3	**61**	61
Retained earnings	15.4	**570**	448
Total equity		**1,397**	1,111

The consolidated financial statements on pages 200 to 279 were approved by the Board of Directors on 15 November 2022 and are signed on their behalf by:

Steve Hare
Chief Executive Officer

Consolidated statement of changes in equity

For the year ended 30 September 2022

	Note	Attributable to owners of the parent					
		Ordinary shares £m	Share premium £m	Translation reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 1 October 2021		**12**	**548**	**42**	**61**	**448**	**1,111**
Profit for the year		**–**	**–**	**–**	**–**	**260**	**260**
Other comprehensive income/(expense):							
Exchange differences on translating foreign operations and net investment hedges	15.3	**–**	**–**	**177**	**–**	**–**	**177**
Exchange differences recycled through income statement on sale of foreign operations	15.3, 16.2	**–**	**–**	**(13)**	**–**	**–**	**(13)**
Fair value gain on reassessment of equity investment	8	**–**	**–**	**–**	**–**	**30**	**30**
Actuarial gain on post-employment benefit obligations	15.4	**–**	**–**	**–**	**–**	**3**	**3**
Total comprehensive income for the year ended 30 September 2022		**–**	**–**	**164**	**–**	**293**	**457**
Transactions with owners:							
Employee share option scheme — value of employee services including deferred tax	15.4	**–**	**–**	**–**	**–**	**37**	**37**
Proceeds from issuance of treasury shares	15.4	**–**	**–**	**–**	**–**	**7**	**7**
Purchase of shares by Employee Benefit Trust	15.4	**–**	**–**	**–**	**–**	**(32)**	**(32)**
Dividends paid to owners of the parent	15.4, 15.5	**–**	**–**	**–**	**–**	**(183)**	**(183)**
Total transactions with owners for the year ended 30 September 2022		**–**	**–**	**–**	**–**	**(171)**	**(171)**
At 30 September 2022		**12**	**548**	**206**	**61**	**570**	**1,397**

Consolidated statement of changes in equity

For the year ended 30 September 2021

		Attributable to owners of the parent					
	Note	Ordinary shares £m	Share premium £m	Translation reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 1 October 2020		12	548	123	61	908	1,652
Profit for the year		–	–	–	–	285	285
Other comprehensive (expense)/income:							
Exchange differences on translating foreign operations and net investment hedges	15.3	–	–	(60)	–	–	(60)
Exchange differences recycled through income statement on sale of foreign operations	15.3	–	–	(21)	–	–	(21)
Actuarial gain on post-employment benefit obligations	15.4	–	–	–	–	2	2
Total comprehensive (expense)/income for the year ended 30 September 2021		–	–	(81)	–	287	206
Transactions with owners:							
Employee share option scheme — value of employee services including deferred tax	15.4	–	–	–	–	36	36
Proceeds from issuance of treasury shares	15.4	–	–	–	–	8	8
Share buyback programme	15.4	–	–	–	–	(602)	(602)
Dividends paid to owners of the parent	15.4, 15.5	–	–	–	–	(189)	(189)
Total transactions with owners for the year ended 30 September 2021		–	–	–	–	(747)	(747)
At 30 September 2021		12	548	42	61	448	1,111

Consolidated statement of cash flows

For the year ended 30 September 2022

	Note	2022 £m	2021 £m
Cash flows from operating activities			
Cash generated from continuing operations	13.1	**368**	476
Interest paid		**(21)**	(19)
Income tax paid		**(62)**	(81)
Net cash generated from operating activities		**285**	376
Cash flows from investing activities			
Proceeds on settlement of non-current asset		**–**	3
Disposal of subsidiaries, net of cash disposed	16.2	**42**	135
Acquisition of subsidiaries, net of cash acquired	16.1	**(285)**	–
Purchases of equity investments		**–**	(21)
Purchases of intangible assets	6.2	**(40)**	(17)
Purchases of property, plant and equipment	7	**(12)**	(39)
Proceeds from disposals of property, plant and equipment	16.2	**10**	–
Interest received	3.5	**1**	1
Net cash (used in)/generated from investing activities		**(284)**	62
Cash flows from financing activities			
Proceeds from borrowings	13.2	**516**	344
Repayments of borrowings	13.2	**(166)**	(481)
Capital element of lease payments	13.2	**(19)**	(22)
Borrowing costs		**(1)**	(1)
Proceeds from issuance of treasury shares		**7**	8
Share buyback programmes	15.4	**(249)**	(353)
Purchase of shares by Employee Benefit Trust	15.4	**(32)**	–
Dividends paid to owners of the parent	15.5	**(183)**	(189)
Net cash used in financing activities		**(127)**	(694)
Net decrease in cash, cash equivalents and bank overdrafts (before exchange rate movement)		**(126)**	(256)
Effects of exchange rate movement	13.2	**48**	(25)
Net decrease in cash, cash equivalents and bank overdrafts		**(78)**	(281)
Cash, cash equivalents and bank overdrafts at 1 October	13.2	**567**	848
Cash, cash equivalents and bank overdrafts at 30 September	13.2	**489**	567

Notes to the consolidated financial statements

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

On 31 December 2020, as a result of the UK's withdrawal from the European Union, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards (UK-IFRS), with future changes being subject to endorsement by the UK Endorsement Board. With effect from 1 October 2021 the Group's statutory consolidated financial statements were transitioned to UK-IFRS. There was no impact or change in accounting policies from the transition. This change constitutes a change in accounting framework.

The consolidated financial statements of The Sage Group plc. have been prepared in accordance with UK-IFRS in conformity with the requirements of the Companies Act 2006 and also prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

UK-IFRS can differ in certain respects from IFRS as issued by the IASB. The differences have no impact on the Group's consolidated financial statements for the years presented.

The consolidated financial statements have been prepared under the historical cost convention, except where adopted IFRS require an alternative treatment. The principal variations from the historical cost convention relate to derivative financial instruments and equity investments which are measured at fair value. The financial statements of the Group comprise the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared at the end of the reporting period. The accounting policies have been consistently applied across the Group. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity, which is usually from date of acquisition.

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

New or amended accounting standards

There are no accounting standards, amendments, or interpretations effective for the first time this financial year that have had a material impact on the Group. No standards have been early adopted during the year.

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 4 to 105.

The impact of the economic environment on the Group and its key stakeholders has been considered in the preparation of the financial statements and has informed the level of stress testing performed. Specifically, consideration has been given to the risks and uncertainties linked to the changing macro-economic environment, and the possible impact on the Group's customer base. In light of this, we note that the Group's operational and financially robust position is supported by:

- High-quality recurring and subscription-based revenue;
- Resilient cash generation and robust liquidity position, supported by strong underlying cash conversion of 107%, reflecting the strength of the subscription business model; and
- A well-diversified small and medium-sized customer base which is geographically diverse.

The Directors have reviewed the liquidity and covenant forecasts for the Group for the period to 31 March 2024 ("the going concern assessment period"), which reflect the expected impact of economic conditions on trading. In doing so, the Directors have also reviewed the extent to which the macro-economic environment has been considered in building assumptions to support the forecasts.

Scenario-specific stress testing has been performed, with the level of churn assumptions increased by 75%, and a significant reduction in the level of new customer acquisition and sales to existing customers. In these severe stress scenarios, the Group continues to have sufficient resources to continue in operational existence. If more severe impacts occur, controllable mitigating actions to protect liquidity, including the reduction of discretionary spend, are available to the Group should they be required. Stress testing has also been performed as part of the severe but plausible scenarios (as described within the Viability Statement on pages 104 and 105).

1 Basis of preparation and critical accounting estimates and judgements continued

Going concern continued

The Directors also reviewed the results of reverse stress testing performed to provide an illustration of the level of churn and deterioration in new customer acquisition which would be required to trigger a breach in the Group's covenants or exhaust cash down to minimum working capital requirements. The result of the reverse stress testing has highlighted that such a scenario would only arise following a catastrophic deterioration in performance, well in excess of the assumptions considered in the stress testing scenarios. The probability of these factors occurring is deemed to be remote given the resilient nature of the subscription business model, robust balance sheet, and continued strong cash conversion.

After making enquiries, the Directors have a reasonable expectation that Sage has adequate resources to continue in operational existence throughout the going concern assessment period. Accordingly, the consolidated financial information has been prepared on a going concern basis.

Further details for adopting the going concern basis are set out in the Directors' Report on pages 182 to 183.

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 settlement 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 and derivative financial instruments 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 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".

Climate change

In preparing the consolidated financial statements management has considered the impact of climate change, specifically with reference to the disclosures included in the Strategic Report and the Group's stated net zero ambitions. There were no factors identified that would have a material impact on the Group's critical accounting estimates and judgements in the current year. The considerations in relation to goodwill impairment testing are set out in Note 6.1.

The assessment with respect to the impact of climate change will be kept under review by management, as the future impacts depend on factors outside of the Group's control, which are not all currently known.

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

Over a third of the Company's revenue is generated from sales to partners rather than end users. The key judgement is determining whether the business partner is a customer of the Group. The key criteria in this determination is whether the business partner has taken control of the product. Considering the nature of Sage's subscription products and support services, this is usually assessed based on whether the business partner has responsibility for payment, has discretion to set prices, and takes on the risks and rewards of the product from Sage.

Where the business partner is a customer of Sage, discounts are recognised as a deduction from revenue.

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

Goodwill impairment

A key judgement is the ongoing appropriateness of the cash-generating units (CGUs) for the purpose of impairment testing. CGUs are assessed in the context of the Group's evolving business model, the Sage strategy, and the shift to global product development. Management continues to assess performance and allocate resources at a regional level, and so it is appropriate to monitor goodwill at a regional level and CGUs to be based on geographical area of operation.

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

These key assumptions used in performing the impairment assessment, and further information on the level at which goodwill is monitored, are disclosed in note 6.1.

Business combinations

When the Group completes a business combination, the consideration transferred for the acquisition and the identifiable assets and liabilities are recognised at their fair values. The amounts by which the consideration exceeds the net assets acquired is recognised as goodwill. The application of accounting policies to business combinations involves judgement and the use of estimates.

On 17 January 2022, the Group acquired the remaining 83% of shares in Brightpearl, which constituted a significant business combination. The key areas of judgement and estimate include the identification and subsequent measurement of acquired intangible assets. The total fair value of intangible assets (excluding goodwill) acquired was £110m.

The Group engaged an external expert to support the identification and measurement exercise. The intangible assets acquired that qualified for recognition separately from goodwill were technology and customer relationships. The fair value of the acquired technology was determined using the relief from royalty method and the customer relationship was determined using a discounted cash flow approach. These valuation techniques incorporate several key assumptions including revenue forecasts and the application of an appropriate discount rate to state future cash flows at their present value. The relief from royalty method also requires the use of an appropriate royalty rate, which was determined with reference to licensing arrangements for similar technologies. Full analysis of the consideration transferred, assets and liabilities acquired, and goodwill recognised in business combinations are set out in note 16.1.

Judgement was also required in allocating the acquired goodwill to CGUs. Based on the strategic intent and rationale for the acquisition, and the way in which management intends to monitor the performance of the business going forward, goodwill has been allocated to the Group's UK & Ireland and North America CGUs.

On 30 August 2022, the Group acquired 100% equity capital and voting rights of Lockstep Network Holdings Inc ("Lockstep") which constituted a significant business combination. The key areas of judgement include the identification and subsequent measurement of acquired intangible assets.

In line with IFRS 3, the initial accounting for the acquisition of Lockstep is provisional. The residual excess of consideration over the net assets acquired has been provisionally recognised entirely as goodwill. Adjustments to provisional amounts will be made within the permitted measurement period where they reflect new information obtained about facts and circumstances that were in existence at the acquisition date. The acquisition accounting will be finalised within 12 months of the acquisition date.

1 Basis of preparation and critical accounting estimates and judgements continued

Future accounting standards

The Directors also considered the impact on the Group of new and revised accounting standards, interpretations, or amendments which have been issued but were not effective for the Group for the year ended 30 September 2022.

None are expected to have a material impact on the consolidated financial statements when first applied.

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 Northern Europe, International—Central and Southern Europe and North America. The Group's operations in Africa and the Middle East, and Asia (including Australia) do not meet the quantitative thresholds for disclosure as reportable segments under IFRS 8, and so are presented together in the analyses and described as International—Africa & APAC. This is explained further below.

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 statutory, underlying, and organic 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. Underlying measures are adjusted to exclude items which in management's judgement need to be disclosed separately by virtue of their size, nature or frequency. These measures are considered key measures within the business which aid understanding of the performance for the year and comparability between periods. The items excluded include both: a) Recurring items which include purchase price adjustments including amortisation of acquired intangible assets and adjustments made to reduce deferred income arising on acquisitions, acquisition-related items, unhedged FX on intercompany balances and fair value adjustments; and b) Non-recurring items that management judges to be one-off or non-operational such as gains and losses on the disposal of assets, impairment charges and reversals, and restructuring related costs. Management applies judgement in determining which items should be excluded from underlying performance. See note 3.6 for details of these adjustments.

  In addition, underlying measures are presented on a constant currency basis with prior year amounts translated at current year exchange rates. Prior year underlying amounts at prior year exchange rates are "underlying as reported"; prior year and current year amounts at current year exchange rates are "underlying".
- Organic is a non-GAAP measure. In addition to the adjustments made to the underlying measures, the contributions from discontinued operations, disposals, and assets held for sale of standalone businesses in the current and prior period are removed so that results can be compared to the prior year on a like-for-like basis. Results from acquired businesses are excluded in the year of acquisition. Adjustments are made to the comparative period to present prior period acquired businesses as if these had been part of the Group throughout the 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.

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).

Non-GAAP measures should not be viewed in isolation, nor are considered as a substitute for measures reported in accordance with IFRS.

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 Leadership Team (previously known as the Executive Committee) has been identified as the chief operating decision maker, in accordance with its designated responsibility for the allocation of resources to operating segments and assessing their performance, through the Management Performance Reviews. The Executive Leadership Team uses organic and underlying data to monitor business performance. Operating segments are reported in a manner which is consistent with the operating segments produced for internal management reporting.

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

- North America
- Northern Europe
- International—Central and Southern Europe (Central Europe, France, and Iberia)

The reportable segment International – Central and Southern Europe reflects the aggregation of the operating segments for Central Europe, France and Iberia. The aggregated operating segments are considered to share similar economic characteristics because they have similar long-term gross margins and operate in similar markets. Central Europe, France and Iberia operate principally within the EU and the majority of their businesses are in countries within the Euro area.

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

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 2022					Change		
	Statutory £m	Underlying adjustments* £m	Underlying £m	Organic adjustments** £m	Organic £m	Statutory	Underlying	Organic
Recurring revenue by segment								
North America	786	1	787	(8)	779	23%	15%	14%
Northern Europe	427	1	428	(9)	419	9%	10%	7%
International—Central and Southern Europe	490	–	490	(4)	486	(4%)	(1%)	4%
International—Africa & APAC	140	–	140	–	140	(8%)	(9%)	10%
Recurring revenue	1,843	2	1,845	(21)	1,824	9%	7%	9%
Other revenue by segment								
North America	32	–	32	(1)	31	(30%)	(35%)	(37%)
Northern Europe	6	–	6	–	6	(42%)	(42%)	(52%)
International—Central and Southern Europe	53	–	53	(1)	52	(28%)	(26%)	(23%)
International—Africa & APAC	13	–	13	(2)	11	(41%)	(42%)	(16%)
Other revenue	104	–	104	(4)	100	(32%)	(32%)	(30%)
Total revenue by segment								
North America	818	1	819	(9)	810	19%	12%	10%
Northern Europe	433	1	434	(9)	425	8%	8%	6%
International—Central and Southern Europe	543	–	543	(5)	538	(7%)	(4%)	1%
International—Africa & APAC	153	–	153	(2)	151	(12%)	(13%)	8%
Total revenue	1,947	2	1,949	(25)	1,924	5%	4%	6%

	Year ended 30 September 2022					Change		
	Statutory £m	Underlying adjustments* £m	Underlying £m	Organic adjustments** £m	Organic £m	Statutory	Underlying	Organic
Total recurring revenue by type								
Software Subscription Revenue	1,462	2	1,464	(19)	1,445	14%	12%	14%
Other Recurring Revenue	381	–	381	(2)	379	(7%)	(9%)	(6%)
Recurring revenue	1,843	2	1,845	(21)	1,824	9%	7%	9%

Notes:

* Adjustments between statutory and underlying numbers are detailed in note 3.6.

** Adjustments relate to the disposal of the Group's Swiss business and its payroll outsourcing business in South Africa, and the acquisitions of Brightpearl and Lockstep. See note 16.

	Year ended 30 September 2021				
	Statutory and Underlying as reported £m	Impact on foreign exchange £m	Underlying £m	Organic adjustments* £m	Organic £m
Recurring revenue by segment					
North America	641	44	685	–	685
Northern Europe	391	(1)	390	–	390
International—Central and Southern Europe	509	(13)	496	(30)	466
International—Africa & APAC	152	1	153	(27)	126
Recurring revenue	1,693	31	1,724	(57)	1,667
Other revenue by segment					
North America	46	3	49	–	49
Northern Europe	11	–	11	–	11
International—Central and Southern Europe	74	(2)	72	(4)	68
International—Africa & APAC	22	–	22	(8)	14
Other revenue	153	1	154	(12)	142
Total revenue by segment					
North America	687	47	734	–	734
Northern Europe	402	(1)	401	–	401
International—Central and Southern Europe	583	(15)	568	(34)	534
International—Africa & APAC	174	1	175	(35)	140
Total revenue	1,846	32	1,878	(69)	1,809

	Year ended 30 September 2021				
	Statutory and Underlying as reported £m	Impact on foreign exchange £m	Underlying £m	Organic adjustments* £m	Organic £m
Total recurring revenue by type					
Software Subscription Revenue	1,282	22	1,304	(41)	1,263
Other Recurring Revenue	411	9	420	(16)	404
Recurring revenue	1,693	31	1,724	(57)	1,667

Notes:

* Adjustments relate to the disposal of the Group's Swiss business and its payroll outsourcing business in South Africa in the current year, as well as the disposal of the Group's Polish business and Australia and Asia Pacific business (excluding global products) ("Asia Pacific") in the prior year.

2 Segment information continued

2.2 Operating profit by segment

	Year ended 30 September 2022					Change		
	Statutory £m	Underlying adjustments £m	Underlying £m	Organic adjustments £m	Organic £m	Statutory	Underlying	Organic
Operating profit by segment								
North America	**116**	**30**	**146**	**–**	**146**	7%	(1%)	(2%)
Northern Europe	**58**	**47**	**105**	**7**	**112**	(18%)	5%	12%
International—Central and Southern Europe	**152**	**(61)**	**91**	**–**	**91**	86%	1%	13%
International—Africa & APAC	**41**	**(6)**	**35**	**(1)**	**34**	(63%)	15%	37%
Total operating profit	**367**	**10**	**377**	**6**	**383**	(2%)	2%	8%

	Year ended 30 September 2021						
	Statutory £m	Underlying adjustments £m	Underlying as reported £m	Impact of foreign exchange £m	Underlying £m	Organic adjustments £m	Organic £m
Operating profit by segment							
North America	109	28	137	11	148	–	148
Northern Europe	71	28	99	–	99	–	99
International—Central and Southern Europe	82	10	92	(2)	90	(9)	81
International—Africa & APAC	111	(81)	30	1	31	(6)	25
Total operating profit	373	(15)	358	10	368	(15)	353

The results by segment from continuing operations were as follows:

Year ended 30 September 2022	Note	**North America £m**	**Northern Europe £m**	**International – Central and Southern Europe £m**	**Total reportable segments £m**	**International – Africa & APAC £m**	**Group £m**
Revenue		**818**	**433**	**543**	**1,794**	**153**	**1,947**
Segment statutory operating profit		**116**	**58**	**152**	**326**	**41**	**367**
Finance income	3.5						**1**
Finance costs	3.5						**(31)**
Profit before income tax							**337**
Income tax expense	4						**(77)**
Profit for the year							**260**

Reconciliation of underlying operating profit to statutory operating profit:

Year ended 30 September 2022	North America £m	Northern Europe £m	International – Central and Southern Europe £m	Total reportable segments £m	International – Africa & APAC £m	Group £m
Underlying operating profit	**146**	**105**	**91**	**342**	**35**	**377**
Amortisation of acquired intangible assets (note 3.6)	**(21)**	**(18)**	**(3)**	**(42)**	**–**	**(42)**
Adjustment to acquired deferred income (note 3.6)	**(1)**	**(1)**	**–**	**(2)**	**–**	**(2)**
Other acquisition-related items (note 3.6)	**(9)**	**(29)**	**(1)**	**(39)**	**–**	**(39)**
Non-recurring items (note 3.6)	**1**	**1**	**65**	**67**	**6**	**73**
Statutory operating profit	**116**	**58**	**152**	**326**	**41**	**367**

The results by segment from continuing operations were as follows:

Year ended 30 September 2021	Note	North America £m	Northern Europe £m	International – Central and Southern Europe £m	Total reportable segments £m	International – Africa & APAC £m	Group £m
Revenue		687	402	583	1,672	174	1,846
Segment statutory operating profit		109	71	82	262	111	373
Finance income	3.5						1
Finance costs	3.5						(27)
Profit before income tax							347
Income tax expense	4						(62)
Profit for the year							285

Reconciliation of underlying operating profit to statutory operating profit:

Year ended 30 September 2021	North America £m	Northern Europe £m	International – Central and Southern Europe £m	Total reportable segments £m	International – Africa & APAC £m	Group £m
Underlying operating profit as reported	137	99	92	328	30	358
Amortisation of acquired intangible assets (note 3.6)	(19)	(8)	(4)	(31)	–	(31)
Other acquisition-related items (note 3.6)	(2)	(7)	–	(9)	–	(9)
Non-recurring items (note 3.6)	(7)	(13)	(6)	(26)	81	55
Statutory operating profit	109	71	82	262	111	373

Impairment losses of £nil are reported by the Group during the year (2021: £nil).

2 Segment information continued

2.3 Analysis by geographic location

Management considers 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	2022 £m	2021 £m
USA	**702**	584
UK	**409**	378
France	**273**	281
Other individually immaterial countries	**563**	603
	1,947	1,846

Management considers 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 exclude deferred tax assets and financial instruments.

Non-current assets by geographical location	2022 £m	2021 £m
USA	**1,846**	1,330
UK	**588**	454
France	**265**	256
Other individually immaterial countries	**286**	288
	2,985	2,328

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 explains the accounting applied to leases entered into by the Group as a lessee and analyses the amounts recognised for leases on the balance sheet and in the income statement.

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

3.1 Revenue

Accounting policy

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

Category and 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 over a contractual term, with the customer being unable to continue to benefit from the full functionality of the good or service without ongoing payments. Subscription revenue is recurring revenue earned from customers for the provision of a good or service over a contractual term. In the event that the customer stops paying, they lose the legal right to use the software and the Group has the ability to restrict the use of the product or service. Recurring revenue also includes transaction and agent fees for transactions that customers of our software execute through our digital network. Subscription revenue and maintenance and support revenue are usually recognised on a straight-line basis over the term of the contract as control is transferred to the customer (including non-specified upgrades, when included). An exception is revenue from term licences embedded within a subscription contract for software with significant standalone functionality which are expected to recur upon renewal of the subscription offering. Revenue for these term licences is recognised when control is transferred at inception of each subscription contract period.
Other revenue *Software and software-related services* • Perpetual software licences • Upgrades to perpetual licences • Professional services • Training	Perpetual software licences with significant standalone functionality and specified upgrades revenue are recognised when the control relating to the licence has been transferred, which is typically when electronic delivery has taken place. 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.

Identification of performance obligations

When the Group enters into an agreement with a customer, goods and services deliverable under the contract are identified as separate performance obligations ("obligations") to the extent that the customer can benefit from the goods or services on their own and that the separate goods and services are considered distinct from other goods and services in the agreement. Where individual goods and services do not meet the criteria to be identified as separate obligations they are aggregated with other goods and/or services in the agreement until a separate obligation is identified.

Typically, the products and services outlined in the categories of revenue section qualify as separate performance obligations and the portion of the contractual fee allocated (or allocated based on the standalone selling prices) to them is recognised separately. However, certain on-premise subscription contracts, which combine the delivery of on-premise software and maintenance and support services, require unbundling. Sage cloud native services usually do not require unbundling as the terms usually do not provide the customer with a right to terminate the hosting contract and take possession of the software.

3 Profit before income tax continued

3.1 Revenue continued

Determination of transaction price and standalone selling prices
The Group determines the transaction price it is entitled to in return for providing the promised obligations to the customer based on the committed contractual amounts, net of sales taxes and discounts. Contract terms generally are monthly or annual, and customers either pay up-front or over the term of the related service agreement.

The transaction price is allocated between the identified obligations according to the relative standalone selling prices (SSPs) of the obligations. The SSP of each obligation deliverable in the contract is determined according to the prices that the Group would obtain by selling the same goods and/or services included in the obligation to a similar customer on a standalone basis. The Group has established a hierarchy to identify the SSPs that are used to allocate the transaction price of a customer contract to the performance obligations in the contract. Where SSPs for on-premise offerings are observable and consistent across the customer base, SSP estimates are derived from pricing history. Where there are no directly observable estimates available, comparable products are utilised as a basis of assessment or the residual approach is used. Under the residual approach, the SSP for the offering is estimated to be the total transaction price less the sum of the observable SSPs of other goods or services in the contract.

Timing of recognition
Revenue is recognised when the respective obligations in the contract are delivered to the customer and payment remains probable.

- Licences for standard on-premise software products are typically delivered by providing the customer with access to download the software. The licence period starts when such access is granted. Licence revenue is recognised at a point in time or over time depending on whether the Group delivers software with significant standalone functionality or software which is dependent on updates for ongoing functionality. The Group recognises revenue for these licences which have significant standalone functionality at the point in time when the customer has access to and control over the software. For licences which are dependent on updates for ongoing functionality, the Group recognises revenue based on time elapsed and thus rateably over the term of the contract. Typically, this includes our payroll and tax compliance software.
- Where the Group’s performance obligation is the grant of a right to continuously access a cloud offering for a certain term, revenue is recognised based on time elapsed and thus rateably over the term.
- Maintenance and support revenue is typically recognised based on time elapsed and thus rateably over the term of the support arrangement. Under the standardised maintenance and support services, the Group’s performance obligation is to stand ready to provide technical product support and unspecified updates, upgrades, and enhancements on a when-and-if-available basis. The customers simultaneously receive and consume the benefits of these services.
- Professional services and training revenue are typically recognised over time. Where the Group stands ready to provide the service (such as access to learning content), revenue is recognised based on time elapsed and thus rateably over the service period. Consumption-based services (such as separately identifiable professional services and premium support services, messaging services, and classroom training services) are recognised over time as the services are utilised, typically following the percentage-of-completion method or rateably.

Identification of contract with the customer
When the Group sells goods or services through a business partner, a key consideration is determining whether the business partner or the end user is Sage’s customer. The key criteria in this determination is whether the business partner has taken control of the product. Considering the nature of Sage’s subscription products and support services, this is usually assessed based on whether the business partner has responsibility for payment, has discretion to set prices, and takes on the risks and rewards of the product from Sage. See “Critical accounting estimates and judgements” in note 1 for details.

Principal versus agent considerations

When the Group has control of third-party goods or services prior to delivery to a customer, then the Group is the principal in the sale to the customer. As a principal, receipts from customers and payments to suppliers are reported on a gross basis in revenue and cost of sales. If the Group does not have control of third-party goods or services prior to transfer to a customer, then the Group is acting as an agent for the other party and revenue in respect of the relevant obligations is recognised net of any related payments to the supplier and reported revenue represents the margin earned by the Group. Whether the Group is considered to be the principal or an agent in the transaction depends on analysis by management of both the legal form and substance of the agreement between the Group and its supplier. This takes into account whether Sage bears the price, inventory, and performance risks associated with the transaction.

Practical expedients

As the majority of contracts have a term of one year or less, the Group has applied the following practical expedients:

- The aggregate transaction price allocated to the unsatisfied or partially unsatisfied performance obligations at the end of the reporting period is not disclosed.
- Any financing component is not considered when determining the transaction price.

3.2 Operating profit

Accounting policy

Cost of sales includes items such as third-party royalties, hosting costs, 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 from continuing operations	Note	2022 £m	2021 £m
Staff costs		**905**	968
Depreciation of property, plant and equipment	7	**41**	43
Amortisation of intangible assets	6.2	**56**	44
Customer acquisition amortisation expense	9.1	**123**	101
Gain on disposal of subsidiaries	3.6	**(53)**	(126)
Other acquisition-related items	3.6	**39**	9

The Group incurred £302m (2021: £281m) of research and development expenditure in the year, of which £257m (2021: £242m) relates to total Group staff costs included above. See note 6.2 for the research and development accounting policy.

In the prior year, depreciation of property, plant and equipment includes £9m of accelerated depreciation charge, resulting from accelerated depreciation on the Group's UK North Park office following the announced relocation to Cobalt Business Park. The Group had reviewed its estimates of the useful lives and residual values of the assets relating to the previous site in anticipation of the move. As at 30 September 2021, these assets were presented on the balance sheet within assets held for sale and subsequently sold in October 2021; see note 16.2. The accelerated depreciation charge is classified as a non-recurring adjustment between underlying and statutory results, as explained in note 3.6.

3 Profit before income tax continued

3.2 Operating profit continued

Services provided by the Group's auditor and network firms

During the year, the Group obtained the following services from the Group's auditor at costs as detailed below:

	2022 £m	2021 £m
Fees payable to the Group's auditor for the audit of the Company and the consolidated accounts	**2**	2
Fees payable to the Group's auditor for the audit of the Company's subsidiaries	**3**	3
Fees payable to the Group's auditor for audit-related assurance services*	**–**	–
Total audit and audit-related services	**5**	5
Other non-audit services	**–**	–
Total fees	**5**	5

Note:

* Includes costs relating to the half-year review.

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 147.

3.3 Employees and Directors

Average monthly number of people employed (including Directors)	2022 number	2021 number
By segment:		
North America	**2,640**	2,671
Northern Europe	**3,686**	3,446
International—Central and Southern Europe	**3,715**	4,169
International—Africa & APAC	**1,187**	1,499
	11,228	11,785

Staff costs (including Directors on service contracts)	Note	2022 £m	2021 £m
Wages and salaries		**802**	868
Social security costs		**102**	103
Post-employment benefits	11	**24**	22
Share-based payments	15.2	**36**	36
		964	1,029

Staff costs include a total of £59m of capitalised commission costs which are amortised over the expected contract life including probable contract renewals (2021: £61m).

Key management compensation	2022 £m	2021 £m
Salaries and short-term employee benefits	**10**	8
Share-based payments	**5**	4
	15	12

Key management personnel are deemed to be members of the Group's Executive Leadership Team and the Non-executive Directors as shown on pages 110 to 113. The key management figures given above include the Executive Directors of the Group.

3.4 Leases

Accounting policy

The Group as lessee

The Group recognises lease assets and lease liabilities on the balance sheet for most of its leases to account for the right to use leased items and the obligation to make future lease payments. Lease liabilities are measured at the present value of future lease payments over the lease term. The lease term is determined as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if the option is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if the option is reasonably certain not to be exercised. Lease payments normally include fixed payments (including in-substance fixed payments), a deduction for any lease incentives receivable and variable lease payments that depend on an index or a rate. In the event that a lease includes an exercise price for a purchase option that is reasonably certain to be exercised, or a termination penalty that is reasonably certain to be incurred, these too are included in lease payments as are any amounts expected to be paid under any residual value guarantees. Variable lease payments that do not depend on an index or a rate are not included in the lease liability but are recognised as an expense when incurred.

Lease payments are discounted using the incremental borrowing rate applicable to the lease at the lease commencement date, as the rate implicit in the lease cannot normally be readily determined. Lease assets are recognised at the amount of the lease liability, adjusted where applicable for any lease payments made or lease incentives received before commencement of the lease, direct costs incurred at the commencement of the lease and estimated restoration costs to be incurred at the end of the lease.

Right-of-use assets are presented within property, plant and equipment, and depreciated on a straight-line basis over the shorter of their useful life and the lease term. Their carrying amounts are measured at cost less accumulated depreciation and impairment losses. Lease liabilities are presented within current and non-current borrowings. Over the lease term, the carrying amounts of lease liabilities are increased to reflect interest on the liability and reduced by the amount of lease payments made. A lease liability is remeasured if there is a modification, a change in the lease term or a change in lease payments. The costs of these leases are recognised in the income statement split between the depreciation of the lease asset and the interest charge on the lease liability. Depreciation is presented within selling and administrative expenses and interest charges within finance costs.

This policy applies mainly to the Group's leases for properties and vehicles. For short-term leases with a lease term of 12 months or less and leases of low-value items, the Group has elected to apply the exemptions available under the standard. For these leases, rentals payable are charged to the income statement on a straight-line basis as an operating expense presented within selling and administrative expenses. Where rent payments are prepaid or accrued, their balances are reported under prepayments and accruals respectively. The low-value exemption has been applied to most of the Group's leases of IT and other office equipment.

The Group leases various office and warehouse properties and vehicles, plant and equipment under non-cancellable lease agreements. Leases of properties have a range of lease terms, up to a maximum of 15 years. Other leases are generally for lease terms of 3 or 4 years. Property leases include various contractual terms, most commonly variable lease payments and termination and extension options.

3 Profit before income tax continued

3.4 Leases continued

The carrying amounts of right-of-use assets and their movements during the year are presented in note 7.

The carrying amounts of lease liabilities and their movements during the year are below.

	Note	**2022 £m**	2021 £m
At 1 October		**100**	113
• Additions		**6**	9
• Interest charge in the year		**3**	3
• Payment of lease liabilities		**(22)**	(23)
• Exchange movement		**8**	(2)
At 30 September		**95**	100
Presented as			
Borrowings—current	13.4	**17**	18
Borrowings—non-current	13.4	**78**	82

The maturity analysis of lease liabilities is included in note 13.2.

Amounts recognised in profit and loss for leases are as follows:

	Note	**2022 £m**	2021 £m
Depreciation of right-of-use assets		**19**	17
Interest expense charge on lease liabilities	3.5	**3**	3
Lease expense from short-term leases and leases of low-value assets (included in selling and administrative expenses)		**4**	3
		26	23

Total cash outflows for leases in the year, including interest payments and outflows related to short-term leases and leases of low-value assets, was £26m (2021: £26m).

The Group is exposed to potential future increases in variable lease payments that are based on an index or rate, which are initially measured as at the commencement date, with any future changes in the index or rate excluded from the lease liability until they take effect. If adjustments to lease payments based on an index or rate take effect, the lease liability will be reassessed and adjusted against the right-of-use asset.

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, within finance income and costs, unless they are designated as a hedging instrument. Where derivative financial instruments have been designated as hedging instruments, gains or losses on those instruments are recognised in finance income and costs only to the extent the hedging relationship is ineffective. Where the hedging relationship is effective, gains or losses are accumulated in the foreign currency translation reserve. 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.

	2022 £m	2021 £m
Finance income:		
Interest income on short-term deposits	**1**	1
Finance income	**1**	1
Finance costs:		
Finance costs on bank borrowings	**(1)**	(5)
Finance costs on US senior loan notes and bond notes	**(26)**	(16)
Interest charge on lease liabilities	**(3)**	(3)
Amortisation of issue costs	**(1)**	(3)
Finance costs	**(31)**	(27)
Finance costs—net	**(30)**	(26)

3 Profit before income tax continued

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 (due to their size, nature, or frequency).

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

Recurring items

These are items which occur regularly, but the exclusion of which management considers necessary to aid understanding of the underlying results of the Group. These items relate mainly to fair value adjustments on financial instruments and merger and acquisition (M&A) related activity, although other types of recurring items may arise. M&A activity by its nature is irregular in its impact and includes amortisation of acquired intangible assets, adjustments to acquired deferred income and acquisition and disposal-related costs, including integration costs relating to an acquired business and acquisition-related remuneration (which are typically incurred over a period of 1 year or more). Unhedged foreign currency movements on intercompany balances that are charged through the income statement are excluded from underlying results, so that exchange rate impacts do not affect 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 adjusted on the basis 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. Whilst these items are described as non-recurring, similar costs, for example in relation to different restructuring programmes or impairments of other assets, may arise in future periods. As these items are one-off or non-operational in nature, management considers that their exclusion aids understanding of the Group's underlying business performance

	Recurring 2022 £m	**Non-recurring 2022 £m**	**Total 2022 £m**	Recurring 2021 £m	Non-recurring 2021 £m	Total 2021 £m
M&A activity-related items						
Amortisation of acquired intangibles	**42**	**–**	**42**	31	–	31
Gain on disposal of subsidiaries	**–**	**(53)**	**(53)**	–	(126)	(126)
Adjustment to acquired deferred income	**2**	**–**	**2**	–	–	–
Other M&A activity-related items	**39**	**–**	**39**	9	–	9
Other items						
(Reversal of)/restructuring costs	**–**	**(20)**	**(20)**	–	62	62
Office relocation	**–**	**–**	**–**	–	9	9
Total adjustments made to operating profit	**83**	**(73)**	**10**	40	(55)	(15)
Fair value adjustments	**–**	**–**	**–**	1	–	1
Foreign currency movements on intercompany balances	**(1)**	**–**	**(1)**	–	–	–
Total adjustments made to profit before income tax	**82**	**(73)**	**9**	41	(55)	(14)

Recurring items

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

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

Other M&A activity-related items relate to advisory, legal, accounting, valuation, and other professional or consulting services which are related to M&A activity as well as acquisition-related remuneration, directly attributable integration costs and any required provision for future selling costs for assets held for sale. £14m (2021: £7m) of these costs have been paid in the year, while the remainder is expected to be paid in subsequent financial years.

Foreign currency movements on intercompany balances occur due to retranslation of unhedged intercompany balances other than those where settlement is not planned or likely in the foreseeable future and resulted in a gain of £1m (2021: £nil).

In the prior year, fair value adjustments of £1m were in relation to an embedded derivative asset which related to contractual terms agreed as part of the US private placement debt. The related US private placement debt matured during the current year, resulting in the extinguishment of the embedded derivative asset. There were no associated gains or losses.

Non-recurring items

Net credit in respect of non-recurring items amounted to £73m (2021: net credit £55m).

The gain on disposal of subsidiaries of £53m relates to the disposal of the Group's Swiss business (£49m) and the Group's payroll outsourcing business in South Africa (£4m). In the prior year, the gain on disposal of subsidiaries of £126m related to the Group's Polish business (£41m) and the Group's Australia and Asia Pacific business (£85m). Further details can be found in note 16.2.

Reversal of restructuring costs of £20m primarily relates to unutilised provisions recognised in the prior year, as some colleagues were redeployed or left the business (2021: charge £67m). The provision was recognised in the prior year following the implementation of a business transformation plan to rebalance investment towards the Group's strategic priorities and simplify the business.

In the prior year, the restructuring costs of £62m were comprised of charges of £67m noted above, offset by the reversal of £5m of previous restructuring costs related to unutilised Professional Service provisions created in 2020.

In the prior year, office relocation costs of £9m related to the incremental depreciation charge resulting from accelerated depreciation in the UK North Park office in advance of the relocation to Cobalt Business Park. Further details can be found in note 3.2.

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 recognise liabilities or benefits that are 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 and deferred tax. The expense is recognised in the income statement, in the statement of comprehensive income or in equity according to the accounting treatment of the related transaction.

Current tax 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 expense in the year	Note	2022 £m	2021 £m
Current income tax			
Current tax on profit for the year		**76**	79
Adjustment in respect of prior years		**(7)**	(4)
Current income tax		**69**	75
Deferred tax			
Origination and reversal of temporary differences		**3**	(14)
Adjustment in respect of prior years		**5**	1
Deferred tax	12	**8**	(13)
The current year tax expense is split into the following:			
Underlying tax expense		**83**	83
Tax credit on adjustments between the underlying and statutory operating profit		**(6)**	(21)
Income tax expense reported in income statement		**77**	62

A deferred tax charge of £2m relating to employee benefits has been recognised directly in other comprehensive income (2021: £nil). A current tax benefit of £6m relating to foreign currency derivatives and share options has been recognised directly in other comprehensive income (2021: £nil).

The effective tax rate for the year is higher (2021: lower) than the rate of UK corporation tax applicable to the Group of 19% (2021: 19%). The differences are explained below:

	2022 £m	2021 £m
Profit before income tax	**337**	347
Statutory profit before income tax multiplied by the rate of UK corporation tax of 19% (2021: 19%)	**64**	66
Tax effects of:		
Adjustments in respect of prior years	**(2)**	(3)
Foreign tax rates in excess of UK rate of tax	**19**	18
US tax reform	**1**	(1)
Non-deductible expenses and permanent items	**8**	10
Other corporate taxes (withholding tax, business tax)	**8**	6
Tax incentive claims	**(12)**	(14)
Non-taxable gain on disposal	**(9)**	(20)
At the effective income tax rate of 23% (2021: 18%)	**77**	62
Income tax expense reported in the income statement	**77**	62

The underlying effective tax rate for the year is higher (2021: higher) than the rate of UK corporation tax applicable to the Group of 19% (2021: 19%). The differences are explained below:

	2022 £m	2021 £m
Underlying profit before income tax	**346**	333
Underlying profit before income tax multiplied by the rate of UK corporation tax of 19% (2021: 19%)	**66**	63
Tax effects of:		
Adjustments in respect of prior years	**(2)**	(1)
Foreign tax rates in excess of UK rate of tax	**19**	23
US tax reform	**1**	(1)
Non-deductible expenses and permanent items	**3**	7
Other corporate taxes (withholding tax, business tax)	**8**	6
Tax incentive claims	**(12)**	(14)
At the effective income tax rate of 24% (2021: 25%)	**83**	83
Underlying tax expense	**83**	83

The effective tax rate on statutory profit before tax was 23% (2021: 18%), whilst the effective tax rate on underlying profit before tax on continuing operations was 24% (2021: 25%). The statutory effective tax rate is lower than the underlying effective tax rate, mainly due to non-taxable accounting net gains on our disposals in the year.

The underlying effective tax rate is higher than the UK corporation tax rate applicable to the Group, primarily due to the geographic profile of the Group and the inclusion of local business taxes in the corporate tax expense. This net increase to the rate is offset by innovation tax credits for registered patents and software, and research and development activities which attract government tax incentives in a number of operating territories. The underlying effective tax rate was decreased in the year, principally due to a reduction in the French corporation tax rate and certain non-recurring items.

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 a provision of £24m at 30 September 2022 (2021: £34m). The provision decreased in the year principally due to developments in the EU State Aid matter, as discussed below.

4 Income tax expense continued

The tax provision is sensitive to a number of issues which are not always within the control of the Group and are 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.

Management has applied the principles set out in IFRIC 23 in determining the measurement of uncertain tax positions. In making these 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 environment.

When making this assessment, the Group utilise our specialist in-house tax knowledge and experience of similar situations. These judgements also, where appropriate, take into consideration specialist tax advice provided by third-party advisors.

Management continually assesses the impact of legislative developments in the jurisdictions in which we operate. As the main UK corporation tax rate will increase from 19% to 25% from 1 April 2023, the Group expects its effective tax rate to increase by 1–2% in the medium term, depending on our future geographic profit mix. The OECD's two pillar global tax reform, expected to apply to the Group from the financial year ended 30 September 2025, may also have an impact on the Group's tax profile and is actively monitored by management.

EU State Aid

The Group continues to monitor developments following the EU Commission's decision published on 25 April 2019 that the UK's Controlled Foreign Company regime does not comply with EU State Aid rules in certain circumstances.

In the prior year, the Group made a payment to HMRC of £10m following the EU Commission's decision. This was recognised in the financial year ended 30 September 2021 as a receivable on the expectation that the UK would be successful in its appeal. HMRC previously confirmed that if the State Aid appeal is unsuccessful, then this exposure can be offset against a separate matter, for which the Group holds an uncertain tax provision.

On 8 June 2022, the EU General Court dismissed the UK Government's appeal and ruled in favour of the EU. Management have re-assessed the Group's position on this matter and concluded that it is more likely than not that the EU Commission's decision will be upheld.

As a result, a previously recognised receivable of £10m in relation to the matter has been derecognised, offset against a decrease of a recorded tax provision, with no net impact on the income statement.

5 Earnings per share

This note sets out 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 potentially dilutive ordinary shares in respect of 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, 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.

Reconciliations of the earnings and weighted average number of shares	**Underlying 2022**	Underlying as reported* 2021	Underlying 2021	**Statutory 2022**	Statutory 2021
Earnings attributable to owners of the parent** (£m)					
Profit for the year	**263**	250	257	**260**	285
Number of shares (millions)					
Weighted average number of shares	**1,020**	1,080	1,080	**1,020**	1,080
Dilutive effects of shares	**12**	10	10	**12**	10
	1,032	1,090	1,090	**1,032**	1,090
Earnings per share attributable to owners of the parent** (pence)					
Basic earnings per share	**25.74**	23.09	23.79	**25.47**	26.33
Diluted earnings per share	**25.44**	22.87	23.57	**25.17**	26.08

Note:

* Underlying as reported is at 2021 reported exchange rates.

** All operations in the years relate to continuing operations.

5 Earnings per share continued

Reconciliation of earnings	2022 £m	2021 £m
Earnings—statutory profit for the year attributable to owners of the parent	**260**	285
Adjustments:		
• Amortisation of acquired intangible assets	**42**	31
• Gain on disposal of subsidiaries	**(53)**	(126)
• Adjustment to acquired deferred income	**2**	–
• Other M&A activity-related items	**39**	9
• (Reversal of)/restructuring costs	**(20)**	62
• Office relocation	**–**	9
• Foreign currency movements on intercompany balances	**(1)**	–
• Fair value adjustments	**–**	1
• Taxation on adjustments between underlying and statutory profit before tax	**(6)**	(21)
Net adjustments	**3**	(35)
Earnings—underlying profit for the year (before exchange movement)	**263**	250
Exchange movement	**–**	10
Taxation on exchange movement	**–**	(3)
Net exchange movement	**–**	7
Earnings—underlying profit for the year (after exchange movement) attributable to owners of the parent	**263**	257

Exchange movement relates to the retranslation of prior year results to current year exchange rates, as shown in the table on page 89 within the Financial Review.

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 identifiable 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. Goodwill is assessed for the purpose of impairment testing, at either the individual CGU level or group of CGUs, consistent with the level at which goodwill is monitored internally. Impairment is determined by assessing the recoverable amount of each CGU or group of CGUs to which the goodwill relates. When the recoverable amount of the CGU or group of CGUs is less than its carrying amount, an impairment loss is recognised.

At recognition, goodwill is allocated to those CGUs expected to benefit from the synergies of the combination.

	Note	**2022 £m**	2021 £m
Cost and net book amount at 1 October		**1,877**	1,962
Acquisition of subsidiaries	16.1	**255**	–
Disposals of subsidiaries*		**–**	(11)
Transfer to held for sale**		**–**	(2)
Exchange movement		**284**	(72)
Cost and net book amount at 30 September		**2,416**	1,877

Notes:

* In 2021, the amount relates to finalisation of the sale of the Group's Polish business and Australia and Asia Pacific business.

** In 2021, the amount relates to reassessment of goodwill allocated to held for sale entities.

There were no accumulated impairment charges within goodwill for any of the years presented.

6 Intangible assets continued

6.1 Goodwill continued

Cash-generating units

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

	2022 £m	2021 £m
North America	**1,542**	1,154
UK & Ireland	**352**	295
France	**222**	217
Iberia	**133**	130
Central Europe	**56**	53
Africa and the Middle East	**28**	28
Unallocated—Lockstep business combination*	**83**	–
	2,416	1,877

Note:

* Unallocated goodwill relates to Lockstep, which was acquired on 30 August 2022 and calculated on a provisional basis. See note 16.1. In accordance with IAS 36, goodwill will be allocated before the end of the first annual period beginning after the acquisition date, being by 30 September 2023.

Annual goodwill impairment tests

The recoverable amount of a CGU or group of CGUs 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. The Group performed its annual test for impairment as at 30 June 2022. In all cases, the Group's three-year financial plan forms the basis for the cash flow projections for a CGU or a group of CGUs, which is aligned with the Group's three-year strategic planning horizon. Net operating cash flows used in the impairment tests reflect the Group's current assessment of the impact of climate change and associated commitments the Group has made in the short-term. Specific consideration has also been given to the potential impacts of climate change on long-term growth rates, with no material impact on the carrying value of goodwill. Beyond the three-year period, 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 three years. The average medium-term revenue growth rate applied to each CGU's cash flow projections for plan periods of three years are calculated using the specific rates used in the preparation of those plans and reflect rates applicable to 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	**2022**	2021
Average medium-term revenue growth rates*	**8%–17%**	4%–13%
Long-term growth rates to net operating cash flows	**1%–3%**	1%–3%

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 the value in use calculations are disclosed for those CGUs and groups of CGUs where significant goodwill is held. These are deemed by management to be CGUs or groups of 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 for these are shown below:

2022	Local discount rate (post-tax)	Approximate local discount rate (pre-tax) equivalent	Long-term growth rate	Average medium-term revenue growth rate*
UK & Ireland	**7.8%**	**10.4%**	**1.2%**	**11.4%**
France	**7.8%**	**10.4%**	**1.3%**	**7.8%**
North America	**8.7%**	**11.7%**	**1.4%**	**16.5%**

2021	Local discount rate (post-tax)	Approximate local discount rate (pre-tax) equivalent	Long-term growth rate	Average medium-term revenue growth rate*
UK & Ireland	7.7%	10.2%	2.1%	11.5%
France	7.7%	10.4%	2.0%	6.9%
North America	8.6%	11.4%	1.9%	12.7%

Note:

* Average medium-term revenue growth rate is calculated on value in use projections that exclude intercompany revenue. Current year average medium-term revenue growth is based on three (2021: three) year compound annual revenue growth.

Discount rate

The Group uses a discount rate based on a local Weighted Average Cost of Capital (WACC) for each CGU or group of CGUs, applying local government yield bonds and tax rates to each CGU or group of CGUs on a geographical basis. The discount rate applied to a CGU or group of CGUs represents a post-tax rate that reflects the market assessment of the time value of money as at 30 June 2022 and the risks specific to the CGU or group of CGUs.

Use of a post-tax discount rate is consistent with the use of post-tax cash flows in the calculations and produces a result that is not materially different from applying the equivalent pre-tax rate to pre-tax cash flows. For comparison, the equivalent pre-tax rate has been estimated by grossing up the post-tax rate and is considered to provide a reasonable approximation of the rate that would have been used if calculations were on a pre-tax basis considering there are no significant timing differences. The post-tax discount rates applied to CGUs or groups of CGUs were in the range of 7.0% (2021: 6.8%) to 16.5% (2021: 17.0%), reflecting the specific rates for each territory.

Sensitivity analysis

A sensitivity analysis was performed for each of the significant CGUs or groups of CGUs and, other than for the Iberia CGU, management concluded that no reasonably possible change in any of the key assumptions would result in the carrying value of the CGU or group of CGUs to exceed its recoverable amount.

For the Iberia CGU, a reasonably possible change of a 2% increase in the discount rate combined with a decrease in the average medium-term revenue growth rate by 8% p.a. against plan for the next three years would reduce the value in use by £133m down to its carrying value. The Group has concluded that no reasonably possible change in the long-term growth rate would reduce the recoverable amount to below its carrying value, even considering a reasonably possible decrease in the average medium-term revenue growth rate.

Impairment charge

No impairment charge was recognised in the year (2021: £nil).

The Group performed its annual test for impairment for all CGUs as at 30 June 2022. The recoverable amount exceeded the carrying value for each CGU or group of CGUs; accordingly no impairment charge has been recognised in the year.

6 Intangible assets continued

6.2 Other intangibles

Accounting policy

Intangible assets arising on business combinations are recognised initially at fair value at the date of acquisition. Subsequently they are carried at cost less accumulated amortisation and impairment charges. 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	1 to 20 years	Customer relationships	4 to 15 years
Technology/In-process R&D (IPR&D)	3 to 8 years	Computer software	2 to 7 years

Other intangible assets that are acquired by the Group are stated at cost, which is the asset's purchase price and any directly attributable costs of preparing the asset for its intended use, less accumulated amortisation and impairment losses if applicable.

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; and
- 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	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
Cost at 1 October 2021	**32**	**195**	**3**	**160**	**164**	**554**
Additions	**–**	**19**	**–**	**10**	**–**	**29**
Acquisition of subsidiaries	**–**	**75**	**–**	**–**	**35**	**110**
Disposals	**–**	**–**	**–**	**(10)**	**–**	**(10)**
Exchange movement	**3**	**16**	**–**	**17**	**26**	**62**
At 30 September 2022	**35**	**305**	**3**	**177**	**225**	**745**
Accumulated amortisation at 1 October 2021	**30**	**127**	**3**	**109**	**95**	**364**
Charge for the year	**1**	**27**	**–**	**14**	**14**	**56**
Disposals	**–**	**–**	**–**	**(10)**	**–**	**(10)**
Exchange movement	**2**	**12**	**–**	**15**	**12**	**41**
At 30 September 2022	**33**	**166**	**3**	**128**	**121**	**451**
Net book amount at 30 September 2022	**2**	**139**	**–**	**49**	**104**	**294**

	Brands £m	Technology £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
Cost at 1 October 2020	34	187	4	154	171	550
Additions	–	14	–	16	–	30
Disposals	–	–	(1)	(5)	–	(6)
Exchange movement	(2)	(6)	–	(5)	(7)	(20)
At 30 September 2021	32	195	3	160	164	554
Accumulated amortisation at 1 October 2020	31	113	4	105	85	338
Charge for the year	1	17	–	13	13	44
Disposals	–	–	(1)	(5)	–	(6)
Exchange movement	(2)	(3)	–	(4)	(3)	(12)
At 30 September 2021	30	127	3	109	95	364
Net book amount at 30 September 2021	2	68	–	51	69	190

All amortisation charges in the year have been charged through selling and administrative expenses. Of these amortisation charges, £42m (2021: £31m) has been classified as a recurring adjustment; see note 3.6.

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	• Up to 50 years
Long leasehold buildings and improvements	• Shorter of lease term and useful life
Plant and equipment	• 2 to 7 years
Motor vehicles	• 4 years
Office equipment	• 2 to 7 years
Right-of-use lease assets	• Shorter of lease term and useful life

Freehold land is not depreciated.

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

Further information on the policy applied to right-of-use lease assets is included in note 3.4.

	Land and buildings £m	Plant and equipment £m	Motor vehicles and office equipment £m	Right-of-use assets: Property £m	Right-of-use assets: Vehicles £m	Right-of-use assets: Total £m	Total £m
Cost at 1 October 2021	**11**	**141**	**46**	**116**	**5**	**121**	**319**
Additions	**–**	**11**	**1**	**5**	**1**	**6**	**18**
Acquisition of subsidiaries	**–**	**2**	**–**	**–**	**–**	**–**	**2**
Disposals	**–**	**(27)**	**(18)**	**(5)**	**–**	**(5)**	**(50)**
Exchange movement	**3**	**7**	**2**	**10**	**–**	**10**	**22**
At 30 September 2022	**14**	**134**	**31**	**126**	**6**	**132**	**311**
Accumulated depreciation at 1 October 2021	**5**	**77**	**37**	**33**	**3**	**36**	**155**
Charge for the year	**–**	**19**	**3**	**17**	**2**	**19**	**41**
Disposals	**–**	**(27)**	**(18)**	**(5)**	**–**	**(5)**	**(50)**
Exchange movement	**1**	**7**	**2**	**3**	**–**	**3**	**13**
At 30 September 2022	**6**	**76**	**24**	**48**	**5**	**53**	**159**
Net book amount at 30 September 2022	**8**	**58**	**7**	**78**	**1**	**79**	**152**

	Land and buildings £m	Plant and equipment £m	Motor vehicles and office equipment £m	Right-of-use assets: Property £m	Right-of-use assets: Vehicles £m	Right-of-use assets: Total £m	Total £m
Cost at 1 October 2020	87	117	50	114	7	121	375
Additions	–	38	3	8	–	8	49
Disposals	–	(11)	(6)	(3)	(2)	(5)	(22)
Transfer to held for sale	(75)	–	–	–	–	–	(75)
Exchange movement	(1)	(3)	(1)	(3)	–	(3)	(8)
At 30 September 2021	11	141	46	116	5	121	319
Accumulated depreciation at 1 October 2020	61	76	40	22	3	25	202
Charge for the year	9	14	3	16	1	17	43
Disposals	–	(11)	(6)	(3)	(1)	(4)	(21)
Transfer to held for sale	(65)	–	–	–	–	–	(65)
Exchange movement	–	(2)	–	(2)	–	(2)	(4)
At 30 September 2021	5	77	37	33	3	36	155
Net book amount at 30 September 2021	6	64	9	83	2	85	164

All depreciation charges in the years presented have been charged through selling and administrative expenses. In the prior year, £9m of these depreciation charges was classified as a non-recurring adjustment; see note 3.6.

8 Equity investments

This note provides details of the equity investments held by the Group. These are investments the Group has made in unlisted entities that it does not control, jointly control, or have significant influence over, and are not held for trading. Further information is disclosed in note 14.1.

Accounting policy

The Group initially recognises its equity investments at cost on the balance sheet as a non-current asset. The Group has irrevocably elected to measure the equity investments currently held at fair value through other comprehensive income, as they are not held for trading. The investments will be measured at fair value at each reporting date (as required under IFRS 9), with changes in fair value of the investments recognised within other comprehensive income. Only dividend income will be recognised within the income statement.

	2022 £m	2021 £m
Fair value at 1 October	**21**	–
Additions	**–**	21
Fair value revaluation	**30**	–
Derecognition	**(47)**	–
Fair value at 30 September	**4**	21

The Group has recognised £nil (2021: £nil) dividend income relating to equity investments held at the balance sheet dates.

The fair value revaluation related to the Group's investment in Brightpearl, which arose on acquisition of the remaining share capital during the year and was subsequently derecognised (see note 16.1). The gain on revaluation of £30m is recognised in other comprehensive income.

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 trade and other receivables, trade and other payables, and deferred income.

Trade and other receivables are made up of amounts owed to the Group by customers, amounts that we pay to our suppliers in advance, and incremental costs to acquire a contract. Trade receivables are shown net of an allowance for expected credit losses. 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 provides an understanding of the credit risk faced by the Group as a part of everyday trading. Credit risk is further disclosed in note 14.6.

9.1 Trade and other receivables

Accounting policy

Trade receivables and contract assets

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for expected credit losses.

The Group uses the term "Trade receivables" for contract receivables. These are recognised when the right to consideration is unconditional. Typically, the Group invoices fees for perpetual licences on contract closure and delivery. For performance obligations satisfied over time, judgement is required in determining whether a right to consideration is unconditional. In such situations, a receivable is recognised for the transaction price of the non-cancellable portion of the contract when the Group starts satisfying the performance obligation.

When revenue recognised in respect of a customer contract exceeds amounts received or receivable from the customer a contract asset is recognised.

The carrying amounts of trade receivables and contract assets are reduced by allowances for expected credit losses using the simplified approach under IFRS 9. The Group uses a matrix approach to determine the allowance, with default rates assessed for each country in which the Group operates. The default rates applied are based on the ageing of the receivable, past experience of credit losses, and forward-looking information. An allowance for a receivable's estimated lifetime expected credit losses is first recorded when the receivable is initially recognised, and subsequently adjusted to reflect changes in credit risk until the balance is collected. In the event that management considers that a receivable cannot be collected, the balance is written off.

Incremental costs of obtaining customer contracts

The incremental costs of obtaining customer contracts are capitalised under IFRS 15. Contract acquisition costs primarily consist of sales commissions earned by the Group's sales force and business partners.

Judgement is required in determining the amounts to be capitalised, particularly where the commissions are based on cumulative targets. The Group capitalises such cumulative target commissions for all customer contracts that count towards the cumulative target but only if nothing other than obtaining customer contracts can contribute to achieving the cumulative target.

The capitalised assets are amortised over the period during which the related revenue is recognised, which may extend beyond the initial contract term where the Group expects to benefit from future renewals as a result of incurring the costs. Typically, either the Group does not pay sales commissions for customer contract renewals or such commissions are not commensurate with the commissions paid for new contracts. Consequently, the Group amortises sales commissions paid for new customer contracts on a straight-line basis over the expected contract life including probable contract renewals. Judgement is required in estimating these contract lives. In exercising this judgement, the Group considers respective renewal history adjusted for indications that the renewal history is not fully indicative of future renewals.

The amortisation periods range from one year to eight years depending on the type of commission arrangement. Amortisation of the capitalised costs of obtaining customer contracts is reported within selling and administrative expenses.

9 Working capital continued

9.1 Trade and other receivables continued

Non-current:	2022 £m	2021 £m
Customer acquisition costs	**123**	97
Other receivables	**4**	15
Prepayments	**1**	1
	128	113

Current:	2022 £m	2021 £m
Trade receivables	**241**	223
Less: allowance for expected credit losses	**(14)**	(22)
Trade receivables—net	**227**	201
Other receivables	**16**	10
Prepayments	**65**	48
Customer acquisition costs	**47**	36
	355	295

The Group has incurred £144m (2021: £126m) to obtain customer contracts and an amortisation expense of £123m (2021: £101m) was recognised in operating profit during the year. There were no material contract assets.

In the prior year, an amount of £10m was included within other receivables due greater than one year related to EU State Aid. In the current year, this receivable has been offset against the corresponding uncertain tax provision. See note 4.

Movements on the Group allowance for expected credit losses of trade receivables were as follows:	2022 £m	2021 £m
At 1 October	**22**	37
Increase in allowance for expected credit losses	**5**	12
Receivables written off during the year as uncollectable	**(4)**	(8)
Unused amounts reversed	**(9)**	(19)
At 30 September	**14**	22

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's businesses implement policies, procedures, and controls to manage customer credit risk. Outstanding balances are regularly monitored and reviewed to identify any change in risk profile. The Group recognises a loss allowance against trade receivables using the simplified approach under IFRS 9. The amount of the allowance reflects the lifetime expected credit losses measured using historical payment default rates determined for each geographical market in which the Group operates. The historical default rates are adjusted where necessary if they do not reflect the level of future expected credit losses, for example because of changes in the local economy or other commercial considerations. The allowance for expected credit losses is calculated using a provision matrix. The amount of the allowance increases as outstanding balances age. A customer balance is written off when it is considered that there is no reasonable expectation that the amount will be collected and legal enforcement activities have ceased.

An analysis of the gross carrying amount of trade receivables showing credit risk exposure by age of the outstanding balance is as follows:

Trade receivables at 30 September 2022	**Not yet due £m**	**1–30 days overdue £m**	**31–60 days overdue £m**	**61–90 days overdue £m**	**91+ days overdue £m**	**Total £m**
Expected credit loss rate	**1%**	**2%**	**7%**	**15%**	**65%**	**–**
Estimated total gross carrying amount at default	**200**	**15**	**6**	**5**	**15**	**241**
Expected credit loss	**(3)**	**–**	**–**	**(1)**	**(10)**	**(14)**

Trade receivables at 30 September 2021	Not yet due £m	1–30 days overdue £m	31–60 days overdue £m	61–90 days overdue £m	91+ days overdue £m	Total £m
Expected credit loss rate	5%	5%	11%	34%	69%	–
Estimated total gross carrying amount at default	190	10	5	3	15	223
Expected credit loss	(9)	–	(1)	(1)	(11)	(22)

Included in selling and administrative expenses in the income statement is a credit of £3m (2021: credit of £6m) in relation to receivables credit losses.

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.

9.2 Trade and other payables

Accounting policy

Trade payables and other 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:	**2022 £m**	2021 £m
Trade payables	**32**	39
Other tax and social security payable	**44**	37
Other payables	**44**	294
Accruals	**248**	222
	368	592

In the prior year, other payables included £249m in relation to the outstanding commitment that the Group was contractually bound for the purchase of its own shares (including costs of purchase) under the non-discretionary buyback programme announced on 3 September 2021. The buyback programme completed in 2022. See note 15.4.

9 Working capital continued

9.3 Deferred income

Accounting policy

If amounts received or receivable from a customer exceed revenue recognised for a contract, a contract liability is recognised. The Group uses the term "deferred income" for a contract liability. Contract liabilities primarily reflect invoices due or payments received in advance of revenue recognition. Deferred income is unwound as related performance obligations are satisfied.

In all material respects, current deferred income at 1 October 2021 was recognised as revenue during the year. Other than business-as-usual movements, and deferred income acquired on the acquisition of subsidiaries (see note 16.1), there were no other significant changes in contract liability balances during the year.

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 contracts, 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 2021	**76**	**23**	**15**	**3**	**117**
• Additional provision in the year	**–**	**2**	**–**	**–**	**2**
• Provision utilised in the year	**(33)**	**(4)**	**(1)**	**(2)**	**(40)**
• Unused amount reversed	**(20)**	**(5)**	**(1)**	**–**	**(26)**
At 30 September 2022	**23**	**16**	**13**	**1**	**53**

	Restructuring £m	Legal £m	Building £m	Other £m	Total £m
Maturity profile					
< 1 year	**17**	**11**	**4**	**1**	**33**
1–2 years	**6**	**5**	**1**	**–**	**12**
2–5 years	**–**	**–**	**2**	**–**	**2**
> 5 years	**–**	**–**	**6**	**–**	**6**
At 30 September 2022	**23**	**16**	**13**	**1**	**53**

Restructuring provisions are for the estimated costs of Group restructuring activities and mainly relate to employee severance which remains unpaid at the balance sheet date. These provisions will be utilised as obligations are settled which is currently expected to be within two years. This includes the non-recurring restructuring costs which remain unpaid at the balance sheet date (see note 3.6).

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 property-related contracts that have become onerous. The timing of the cash flows associated with building provisions is dependent on the timing of lease agreement termination. This includes the non-recurring property restructuring costs recognised in previous years which remain unpaid at the balance sheet date.

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 a small defined benefit scheme in France. At 30 September 2021, there was a defined benefit scheme in Switzerland classified as held for sale, which was disposed of with the rest of the business during the year ended 30 September 2022.

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 within 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 post-employment benefit scheme in France. The assets of this scheme 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 this scheme 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 benefit plan assets and the imputed interest on benefit 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 on the balance sheet in respect of the defined benefit 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 benefit obligation 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 significant 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	2022 £m	2021 £m
Defined contribution schemes		**23**	21
Defined benefit plans		**1**	1
	3.3	**24**	22

Defined benefit plans

The most recent actuarial valuations of the post-employment benefit plan has been performed during the year for the year ended 30 September 2022.

Weighted average principal assumptions made by the actuaries	2022 %	2021 %
Rate of increase in pensionable salaries	**1.9**	1.9
Discount rate	**3.7**	0.8
Inflation assumption	**1.9**	1.9

Mortality rate assumptions made by the actuaries	2022 Years	2021 Years
Average life expectancy for 65-year-old male	**19**	19
Average life expectancy for 65-year-old female	**23**	23
Average life expectancy for 45-year-old male	**36**	36
Average life expectancy for 45-year-old female	**41**	41

Amounts recognised on the balance sheet	2022 £m	2021 £m
Present value of funded obligations	**(19)**	(22)
Fair value of plan assets	**–**	–
Net liability recognised on the balance sheet	**(19)**	(22)

At 30 September 2022 and 30 September 2021 there were no plan assets held in relation to the post-employment benefit plan.

Expected contributions to the post-employment benefit plan for the year ending 30 September 2023 are £1m (2021: expected contributions for the year ended 30 September 2022: £1m).

Amounts recognised in the income statement	2022 £m	2021 £m
Current service cost	**(2)**	(2)
Others (Curtailments/Plan amendments)	**1**	1
Total included within staff costs—all within selling and administrative expenses	**(1)**	(1)

11 Post-employment benefits continued

Defined benefit plans continued

Changes in the present value of the defined benefit obligation	2022 £m	2021 £m
At 1 October	**(22)**	(23)
Exchange movement	**(1)**	2
Service cost	**(2)**	(2)
Curtailments/Plan amendments	**1**	1
Actuarial gain	**5**	–
At 30 September	**(19)**	(22)

Analysis of the movement in the balance sheet liability	2022 £m	2021 £m
At 1 October	**(22)**	(23)
Exchange movement	**(1)**	2
Total expense as recognised in the income statement	**(1)**	(1)
Actuarial gain*	**5**	–
At 30 September	**(19)**	(22)

Note:

* In 2021, an actuarial gain of £2m was recognised, relating to the Swiss pension scheme that was classified as held for sale. In the current year, an actuarial gain of £5m has been recognised, gross of a £2m tax charge. The net impact of £3m has been recognised within other comprehensive income. See note 4 for the tax impact of the gain.

Sensitivity analysis on significant actuarial assumptions		2022 £m	2021 £m
Discount rate applied to scheme obligations	+/- 0.5% p.a.	**1**	1
Salary increases	+/- 0.5% p.a.	**1**	1

12 Deferred income tax

Deferred income tax is an accounting adjustment to recognise liabilities or benefits that are 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 previous 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.

Deferred tax	Other intangible assets (excluding goodwill) £m	Tax losses £m	Accounting provisions/ accruals £m	Goodwill £m	Deferred revenue £m	Other £m	Total £m
At 30 September 2020	(29)	7	27	(21)	18	19	21
Income statement credit/(debit)	4	–	4	1	(1)	5	13
Exchange movement	1	–	(1)	–	1	–	1
At 30 September 2021	(24)	7	30	(20)	18	24	35
Income statement credit/(debit)	**7**	**3**	**(22)**	**(1)**	**(3)**	**8**	**(8)**
Acquisition or disposal of subsidiaries	**(26)**	**6**	**–**	**–**	**–**	**–**	**(20)**
Other comprehensive income movement	**–**	**–**	**–**	**–**	**–**	**(2)**	**(2)**
Exchange movement	**(4)**	**1**	**–**	**(3)**	**–**	**4**	**(2)**
At 30 September 2022	**(47)**	**17**	**8**	**(24)**	**15**	**34**	**3**

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12 Deferred income tax continued

The net deferred tax asset at the end of the year is analysed below:	2022 £m	2021 £m
Deferred tax assets	**19**	40
Deferred tax liabilities	**(16)**	(5)
Net deferred tax asset	**3**	35

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. Each of these assets are reviewed to ensure there is sufficient evidence to support their recognition. Deferred tax liabilities for the taxable temporary differences associated with the Group's investments in subsidiaries have been appropriately recognised to the extent that it is probable that the temporary differences will reverse in the future. Deferred taxes have been provided for the future tax impact of repatriating the Group's undistributed earnings, which is consistent with the position in 2021.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as required by IAS 12 "Income Taxes") during the year are shown in the above table. 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" in the above table include various balances in relation to the following items:

	2022 £m	2021 £m
Share options and awards	**11**	10
Interest carried forward	**11**	9
R&D capitalisation	**12**	2
Lease liability	**12**	14
Right-of-use lease assets	**(11)**	(11)
Other amounts	**(1)**	–
	34	24

The Company has unrecognised carried forward losses of £123m (2021: £109m) available to reduce certain future taxable profits. Deferred tax assets of £26m (2021: £23m) have not been recognised in respect of these losses due to uncertainty regarding whether suitable profits will arise in future periods against which the deferred tax asset would reverse. Of these, £18m (2021: £18m) relate to UK capital losses that are available indefinitely but cannot be used to offset UK trading profit.

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 consolidated statement of cash flows. 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 and overdrafts.

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

13.1 Cash flow generated from continuing operations

Reconciliation of profit for the year to cash generated from continuing operations	2022 £m	2021 £m
Profit for the year	**260**	285
Adjustments for:		
• Income tax	**77**	62
• Finance income	**(1)**	(1)
• Finance costs	**31**	27
• Amortisation and impairment of intangible assets	**56**	44
• Depreciation and impairment of property, plant and equipment	**41**	43
• Loss on disposal of property, plant and equipment	**–**	1
• R&D tax credits	**(4)**	(2)
• Equity-settled share-based transactions	**36**	36
• Gain on disposal of subsidiaries	**(53)**	(126)
• Exchange movement	**(1)**	(2)
Changes in working capital (excluding effects of acquisitions and disposals of subsidiaries):		
• Increase in trade and other receivables	**(50)**	(35)
• (Decrease)/increase in trade and other payables and provisions	**(70)**	107
• Increase in deferred income	**46**	37
Cash generated from continuing operations	**368**	476

13.2 Net debt

Reconciliation of net cash flow to movement in net debt	2022 £m	2021 £m
Cash outflows in the year (pre-exchange movements)	**(124)**	(233)
Cash (inflows)/outflows from loans and lease liabilities	**(331)**	160
Change in net debt resulting from cash flows	**(455)**	(73)
Cash and lease liabilities recognised from acquisitions of subsidiaries or similar transactions	**12**	–
Cash and lease liabilities derecognised on disposals of subsidiaries or similar transactions	**(13)**	(16)
Other non-cash movements	**(7)**	(14)
Exchange movement	**(23)**	7
Movement in net debt in the year	**(486)**	(96)
Net debt at 1 October	**(247)**	(151)
Net debt at 30 September	**(733)**	(247)

13 Cash flow and net debt continued

13.2 Net debt continued

Analysis of change in net debt (inclusive of leases)	At 1 October 2021 £m	Cash flow £m	Acquisition of subsidiaries £m	Disposal of subsidiaries £m	Non-cash movements £m	Exchange movement £m	At 30 September 2022 £m
Cash and cash equivalents	553	**(124)**	**12**	**–**	**–**	**48**	**489**
Cash amounts included in held for sale	14	**–**	**–**	**(14)**	**–**	**–**	**–**
Cash, cash equivalents and bank overdrafts including cash held for sale	567	**(124)**	**12**	**(14)**	**–**	**48**	**489**
Liabilities arising from financing activities							
Loans due within one year	(47)	**46**	**–**	**–**	**(144)**	**(16)**	**(161)**
Loans due after more than one year	(667)	**(396)**	**–**	**–**	**143**	**(46)**	**(966)**
Lease liabilities due within one year	(18)	**19**	**–**	**–**	**(17)**	**(1)**	**(17)**
Lease liabilities after more than one year	(82)	**–**	**–**	**–**	**11**	**(7)**	**(78)**
Lease liabilities included in held for sale	–	**–**	**–**	**1**	**–**	**(1)**	**–**
	(814)	**(331)**	**–**	**1**	**(7)**	**(71)**	**(1,222)**
Total	(247)	**(455)**	**12**	**(13)**	**(7)**	**(23)**	**(733)**

Analysis of change in net debt (inclusive of leases)	At 1 October 2020 £m	Cash flow £m	Disposal of subsidiaries £m	Non-cash movements £m	Exchange movement £m	At 30 September 2021 £m
Cash and cash equivalents	831	(254)	–	–	(24)	553
Cash amounts included in held for sale	17	21	(23)	–	(1)	14
Cash, cash equivalents and bank overdrafts amounts included in held for sale	848	(233)	(23)	–	(25)	567
Liabilities arising from financing activities						
Loans due within one year	–	–	–	(49)	2	(47)
Loans due after more than one year	(877)	138	–	44	28	(667)
Lease liabilities due within one year	(20)	20	–	(18)	–	(18)
Lease liabilities after more than one year	(93)	–	–	9	2	(82)
Lease liabilities included in held for sale	(9)	2	7	–	–	–
	(999)	160	7	(14)	32	(814)
Total	(151)	(73)	(16)	(14)	7	(247)

13.3 Cash and cash equivalents (excluding bank overdrafts and cash amounts included in held for sale)

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. Cash and cash equivalents are measured at amortised cost.

	2022 £m	2021 £m
Cash at bank and in hand	**377**	349
Short-term bank deposits	**112**	204
	489	553

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.

Cash and cash equivalents are classified and measured at amortised cost under IFRS 9 and are therefore subject to the expected loss model requirements of that standard. However, no material expected credit losses have been identified. At 30 September 2022, 97% (2021: 97%) 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 on the balance sheet.

13.4 Borrowings (excluding borrowings included in held for sale)

Accounting policy

Interest-bearing borrowings are recognised initially at fair value less attributable issue costs, which are amortised over the period of the borrowings. 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.

Further information on the policy applied to lease liabilities is included in note 3.4.

13 Cash flow and net debt continued

13.4 Borrowings (excluding borrowings included in held for sale) continued

Current	2022 £m	2021 £m
US senior loan notes	**161**	47
Lease liabilities	**17**	18
	178	65

Non-current	2022 £m	2021 £m
US senior loan notes	**225**	323
Sterling denominated bond notes	**741**	344
Lease liabilities	**78**	82
	1,044	749

Included in loans above is £386m (2021: £370m) of unsecured loans (after unamortised issue costs).

In the table above, loan notes and sterling denominated bond notes ("bond notes") are stated net of unamortised issue and discount costs of £9m (2021: £6m).

Borrowings	Year issued	Interest coupon	Maturity	2022 £m	2021 £m
US private placement					
• USD 150m loan note	2013	3.71%	20-May-23	**135**	111
• USD 50m loan note	2013	3.86%	20-May-25	**45**	37
• EUR 55m loan note	2015	1.89%	26-Jan-22	**–**	47
• EUR 30m loan note	2015	2.07%	26-Jan-23	**26**	26
• USD 200m loan note	2015	3.73%	26-Jan-25	**180**	149
GBP 350m bond	2021	1.63%*	25-Feb-31	**350**	350
GBP 400m bond	2022	2.88%	8-Feb-34	**400**	–

Note:

* This does not include the impact of the cross currency interest rate swap entered into in the current year in relation to the £350m bond.

The Group's debt is sourced from a syndicated multi-currency Revolving Credit Facility (RCF), US private placements (USPP), and the bond notes.

Total USPP loan notes at 30 September 2022 were £386m (USD 400m and EUR 30m) (2021: £370m, USD 400m and EUR 85m).

The Group's RCF expires in February 2025 with facility levels of £781m (USD 719m and £135m tranches). At 30 September 2022, £nil (2021: £nil) of the RCF was drawn. The unsecured RCF attracted an average interest rate of 0.8%. In the prior year, unsecured bank loans that comprised the RCF and the previously held £200m Term Loan attracted an average interest rate of 1.0%.

In February 2022, the Group issued bond notes for a nominal amount of £400m with an expiry date of February 2034. Net cash proceeds from the issuance were £396m.

During the prior year, the Group issued bond notes for a nominal amount of £350m with an expiry date of February 2031. Net cash proceeds from the issuance were £344m.

Further information on lease liabilities is included in note 3.4.

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, derivative financial instruments, equity investments, short-term bank deposits, and cash at bank and in hand. 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 sets out the maturity of these items and analyses their sensitivity to changes in key inputs, such as interest rates and foreign exchange rates. An 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 at the end of this note.

Accounting policy

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

Financial assets are derecognised 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.

The Group may use derivative financial instruments to manage its exposures to fluctuating foreign exchange rates. These instruments are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

At the inception of designated hedge relationships, the Group documents its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

14 Financial instruments continued

The amounts on the consolidated balance sheet that are accounted for as financial instruments, and their classification under IFRS 9, are as follows:

		IFRS 9 classification				
As at 30 September 2022	Note	**At amortised cost £m**	**Derivatives used for hedging £m**	**At fair value through profit or loss £m**	**At fair value through other comprehensive income £m**	**Total £m**
Non-current assets						
Equity investments	8	–	–	–	4	4
Trade and other receivables: other receivables	9.1	1	–	3	–	4
Current assets						
Trade and other receivables: trade receivables	9.1	227	–	–	–	227
Trade and other receivables: other receivables	9.1	15	–	1	–	16
Cash and cash equivalents	13.3	489	–	–	–	489
Current liabilities						
Trade and other payables excluding other tax and social security	9.2	(324)	–	–	–	(324)
Borrowings	13.4	(178)	–	–	–	(178)
Non-current liabilities						
Borrowings	13.4	(1,044)	–	–	–	(1,044)
Trade and other payables: other payables		(6)	–	–	–	(6)
Derivative financial instruments – cross currency interest rate swaps	14.5	–	(60)	–	–	(60)
		(820)	(60)	4	4	(872)

As at 30 September 2021	Note	IFRS 9 classification At amortised cost £m	At fair value through profit or loss £m	At fair value through other comprehensive income	Total £m
Non-current assets					
Equity investments		–	–	21	21
Trade and other receivables: other receivables	9.1	13	2	–	15
Current assets					
Trade and other receivables: trade receivables	9.1	201	–	–	201
Trade and other receivables: other receivables	9.1	9	1	–	10
Cash and cash equivalents	13.3	553	–	–	553
Current liabilities					
Trade and other payables excluding other tax and social security	9.2	(555)	–	–	(555)
Borrowings	13.4	(65)	–	–	(65)
Non-current liabilities					
Borrowings	13.4	(749)	–	–	(749)
		(593)	3	21	(569)

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, lease liabilities, and short-term bank deposits, and cash at bank and in hand.

Borrowings (excluding lease liabilities)

The fair value of the sterling denominated bond notes is determined by reference to quoted market prices and therefore can be considered as a level 1 fair value as defined within IFRS 13.

The fair value of US loan notes is determined by reference to interest rate movements on the USD private placement market and therefore can be considered as a level 2 fair value as defined within IFRS 13.

The fair value of bank loans is determined using a discounted cash flow valuation technique calculated at prevailing interest rates, and therefore can be considered as a level 3 fair value as defined within IFRS 13.

	Note	**2022** **Book value £m**	**Fair value £m**	2021 Book value £m	Fair value £m
Long-term borrowing (excluding lease liabilities)	13.4	**(966)**	**(753)**	(667)	(682)
Short-term borrowing (excluding lease liabilities)	13.4	**(161)**	**(158)**	(47)	(48)

Contingent consideration receivable

The Group recognises contingent consideration receivable of £4m (2021: £3m) relating to the disposal of Sage Payroll Solutions in the year ended 30 September 2019. This is classified as a financial asset measured at fair value through profit or loss. Its fair value is determined using a discounted cash flow valuation technique. The main inputs to the calculation for which assumptions have been made are the discount rate and the period over which the consideration will be received. This is a level 3 fair value under IFRS 13.

Equity investments

The fair value of the unlisted equity investments held by the Group is determined using a market-based valuation approach. The significant unobservable inputs used in level 3 fair value measurement are transaction prices paid for identical or similar instruments of the investee and revenue growth factors.

14 Financial instruments continued

14.1 Fair values of financial instruments continued

Derivative financial instruments—Cross currency interest rate swaps

The fair value of the cross currency interest rate swaps held by the Group is determined using a discounted cash flow valuation technique at market rates and therefore can be considered as a level 2 fair value as defined within IFRS 13.

14.2 Maturity of financial liabilities

The maturity profile of the undiscounted contractual amount of the Group's financial liabilities (excluding cross currency interest rate swaps) at 30 September was as follows:

	2022			
	Borrowings: bank loans, bond notes and loan notes £m	**Borrowings: lease liabilities £m**	**Trade and other payables excluding other tax and social security £m**	**Total £m**
In less than one year	**192**	**20**	**324**	**536**
In more than one year but not more than two years	**273**	**16**	**4**	**293**
In more than two years but not more than five years	**52**	**44**	**2**	**98**
In more than five years	**825**	**28**	**–**	**853**
	1,342	**108**	**330**	**1,780**

	2021			
	Borrowings: bank loans, bond notes and loan notes £m	Borrowings: lease liabilities £m	Trade and other payables excluding other tax and social security £m	Total £m
In less than one year	66	20	555	641
In more than one year but not more than two years	154	20	1	175
In more than two years but not more than five years	214	41	–	255
In more than five years	375	33	–	408
	809	114	556	1,479

The maturity profile of the undiscounted contractual amounts of the Group's cross-currency interest rate swaps, including expected interest payments, at 30 September 2022 was as follows:

	2022		
	Receipts £m	**Payments £m**	**Total £m**
In less than one year	**4**	**(7)**	**(3)**
In more than one year but not more than two years	**6**	**(9)**	**(3)**
In more than two years but not more than five years	**17**	**(28)**	**(11)**
In more than five years	**373**	**(423)**	**(50)**
	400	**(467)**	**(67)**

The Group did not hold any cross-currency interest rate swaps at 30 September 2021.

The maturity profile of provisions is disclosed in note 10.

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:

	2022 £m	2021 £m
Expiring in more than two years but not more than five years	**781**	669

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 sterling/Euro exchange rates.

The sensitivity analysis assumes reasonable movements in foreign exchange rates before the effect of tax. 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 equity resulting from changes in sterling/US Dollar and sterling/Euro exchange rates:

	2022	2021
	Equity gains/(losses) £m	Equity gains/(losses) £m
10% strengthening of sterling versus the US Dollar	**62**	27
10% strengthening of sterling versus the Euro	**2**	7
10% weakening of sterling versus the US Dollar	**(75)**	(33)
10% weakening of sterling versus the Euro	**(3)**	(8)

14.5 Hedge accounting

Accounting policy

On transition to IFRS 9, the Group elected to continue to apply the hedge accounting requirements of IAS 39. The Group applies hedge accounting to external borrowings and cross-currency interest rate swap contracts that are designated as a hedge of a net investment in foreign operations. 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.

Where borrowings denominated in a currency other than sterling, or cross-currency interest rate swap contracts, are used to hedge the Group's exposure to foreign currency exchange movements of its net investment in its subsidiaries, these relationships are designated as net investment hedges for accounting purposes. The hedges are documented and assessed for effectiveness on an ongoing basis.

The Group applies hedge accounting to certain exchange differences arising between the functional currencies of a foreign operation and Parent Company, regardless of whether the net investment is held directly or through an intermediate parent.

14 Financial instruments continued

14.5 Hedge accounting continued

The Group hedges the risk exposure to foreign currency exchange movements of its net investment in its subsidiaries in the US and Eurozone. A proportion of the Group's external US Dollar denominated borrowings, and the total of its Euro denominated borrowings, are designated as hedging instruments. The underlying risk of the hedging instruments exactly matches the hedged risk as the borrowings and net investments in subsidiaries are denominated in the same currencies, giving a hedge ratio of 1:1. Hedge ineffectiveness will arise if the carrying amount of the net investment falls below the carrying amount of the designated borrowings.

During the year, the Group has designated USD cross-currency interest rate swap contracts totalling £350m (USD 400m) (2021: £nil, USD nil) as hedging instruments to hedge risk exposure to foreign currency exchange movements of its net investment in its subsidiaries in the US. Sources of ineffectiveness on this hedge relationship will arise from a difference in credit ratings between the counterparties and modifications to the terms of either the hedged item or the instrument. During the year, £nil (2021: £nil) has been recognised in the income statement as ineffective.

Changes in the carrying amount of the loan notes relate to foreign exchange movements recognised through other comprehensive income. The change in the carrying amount of the derivative financial instrument is due to fair value movements also recognised through other comprehensive income.

The impact of the hedging instrument on the consolidated balance sheet is as follows:

As at 30 September 2022		Nominal amount	**Carrying amount £m**	**Change in carrying amount as a result of movements in the year recognised in OCI £m**
Non-current borrowings	USD loan notes	USD 250m	**225**	**39**
Current borrowings	USD loan notes	USD 150m	**135**	**23**
Current borrowings	EUR loan notes	EUR 30m	**26**	**1**
Derivative financial instruments	Cross-currency interest rate swap	USD 400m	**60**	**60**
			446	**123**

As at 30 September 2021		Nominal amount	Carrying amount £m	Change in carrying amount as a result of movements in the year recognised in OCI £m
Non-current borrowings	USD loan notes	USD 398m	296	(13)
Non-current borrowings	EUR loan notes	EUR 30m	26	(1)
Current borrowings	EUR loan notes	EUR 55m	47	(3)
			369	(17)

The impact of the hedged item on the consolidated balance sheet is as follows:

	2022		2021	
	Change in value of hedged item used to determine hedge effectiveness £m	**Foreign currency translation reserve £m**	Change in value of hedged item used to determine hedge effectiveness £m	Foreign currency translation reserve £m
Net investment in foreign subsidiaries—USD	**122**	**155**	(13)	33
Net investment in foreign subsidiaries—EUR	**1**	**4**	(4)	9
	123	**159**	(17)	42

The hedging movement recognised in other comprehensive income is equal to the change in value for measuring effectiveness. No ineffectiveness is recognised in profit or loss.

Further information on the Group's exposure to foreign currency risk and how the risk is managed is included in note 14.6.

14.6 Financial risk management

The Group's exposure to and management of capital, liquidity, credit, interest rate and foreign currency risk are summarised below.

Capital risk

The Group's objectives when managing capital (defined as net debt plus equity) are to safeguard our ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders, while optimising returns to shareholders through an appropriate balance of debt and equity funding. The Group manages its capital structure through regular review by the Board and makes adjustments to it with respect to changes in economic conditions and our strategic objectives. Priorities for capital allocation are organic and inorganic investment, including through acquisitions of complementary technology and partnerships to enhance Sage Business Cloud and further develop the digital network; the progressive growth of the dividend; and additional capital returns to shareholders, if appropriate. Over the medium term, the Group plans to operate in a broad range of 1–2x net debt to EBITDA, with flexibility to move outside this range as the business needs require. In the event that the Group needs to adjust its capital structure, the Group retains the flexibility to adjust capital allocation priorities in response to changing requirements of the business.

In the prior year, Sage launched two £300m share buyback programmes, one of which was completed in the prior year and the other was completed on 24 January 2022. The share buyback programmes are consistent with the Group's disciplined approach to capital allocation and reflect its medium-term leverage objectives, strong ongoing cash generation, and the sale proceeds from disposals completed during the years.

Liquidity risk

The Group manages its exposure to liquidity risk by reviewing cash resources required to meet business objectives through both short- and long-term cash flow forecasts. The Group has committed facilities which are available to be drawn for general corporate purposes including working capital. The Treasury function has responsibility for optimising the level of cash across the business.

Credit risk

The Group's credit risk primarily arises from trade and other receivables. The Group has a low operational credit risk due to the transactions being principally of a high-volume, low-value, and short maturity. The Group has no significant concentration of operational credit risk, with the exposure spread over a large number of well-diversified counterparties and customers.

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. All counterparties must meet minimum credit rating requirements or be specifically authorised as an exception.

Further information on the credit risk management procedures applied to trade receivables is given in note 9.1 and to cash and cash equivalents in note 13.3. The carrying amounts of trade receivables and cash and cash equivalents shown in those notes represent the Group's maximum exposure to credit risk.

14 Financial instruments continued

14.6 Financial risk management continued

Interest rate risk

The Group is exposed to interest rate risk on floating rate deposits and borrowings. The Group's borrowings principally comprise sterling denominated bond notes and US private placement loan notes, which are at fixed interest rates, and a bank RCF, which is subject to floating interest rates. The Group regularly reviews forecast debt, cash and cash equivalents, and interest rates to monitor this risk. Interest rates on debt and deposits are fixed when management decides this is appropriate.

At 30 September 2022, the Group had £489m (2021: £553m) of cash and cash equivalents, while its borrowings comprised:

- Sterling denominated bond notes of £741m (2021: £344m), comprising a £350m bond issued in 2021 and a £400m bond issued in 2022. During the year, a cross-currency interest rate swap was entered into in relation to the £350m bond, as a result of which the bond had an effective average fixed interest rate of 1.89% (2021: 1.63%). The £400m bond had an average fixed coupon of 2.88%.
- US private placement loan notes of £386m (2021: £370m), which attracted an average fixed interest rate of 3.56% (2021: 3.39%).
- Unsecured bank loans of £nil (2021: £nil), which comprises an undrawn RCF, which had an average interest rate of 0.8% in 2022, resulting from a drawdown and subsequent repayment during the year. In the prior year, unsecured bank loans that comprised the RCF and the previously held £200m Term Loan attracted an average interest rate of 1.0%.

Foreign currency risk

Although a substantial proportion of the Group's revenue and profit is earned outside the UK, operating companies generally only trade in their own currency. The Group is therefore not subject to any significant foreign exchange transactional exposure within these subsidiaries.

The Group's principal exposure to foreign currency lies in the translation of overseas profits into sterling; this exposure is not hedged.

The Group's external US Dollar denominated borrowings and Euro denominated borrowings are designated as a hedge of the net investment in its subsidiaries in the US and Eurozone. The foreign exchange movements on translation of the borrowings into sterling have therefore been recognised in the translation reserve.

During the year, the Group also entered into a cross-currency swap contract and designated this as a hedge of the net investment in its subsidiaries in the US. See note 14.5.

Certain of the Group's intercompany balances have been identified as part of the Group's net investment in foreign operations. Foreign exchange effects on these balances that remain on consolidation are also reflected in the translation reserve. The Group's other currency exposures comprise those currency gains and losses recognised in the income statement, reflecting other monetary assets and liabilities of the Group that are not denominated in the functional currency of the entity involved. At 30 September 2022 and 30 September 2021, these exposures were immaterial to the Group.

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. The Group incurs costs in respect of these schemes in the 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	2022 shares	2022 £m	2021 shares	2021 £m
At 1 October	**1,120,789,295**	**12**	1,120,789,295	12
Cancellation of treasury shares	**(20,000,000)**	**–**	–	–
At 30 September	**1,100,789,295**	**12**	1,120,789,295	12

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) are subject to some non-market performance conditions. These are annualised recurring revenue growth and cloud native annualised recurring revenue, Sage Business Cloud penetration and ESG attainment. 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.

15 Equity continued

15.2 Share-based payments continued

The total charge for the year relating to employee share-based payment plans was £36m (2021: £36m), all of which related to equity-settled share-based payment transactions.

Scheme	2022 £m	2021 £m
Performance Share Plan	**5**	5
Restricted Share Plan	**29**	28
Share options	**2**	3
Total	**36**	36

The Sage Group Performance Share Plan

Annual grants of performance shares will normally be made to Executive Directors after the preliminary declaration of the annual results. Under the Performance Share Plan, 1,036,987 (2021: 452,380) awards were made during the year.

Awards for 2019 and 2020

These performance shares are subject to a service condition and two performance conditions. Performance conditions are weighted 70% on the achievement of a revenue growth target and 30% on the achievement of a Total Shareholder Return (TSR) target.

The revenue growth target is based on compound annualised recurring revenue growth. Where annualised recurring revenue growth is between prescribed target ranges, the extent to which the revenue performance condition is satisfied will be calculated on a straight-line, pro-rata basis within a defined range.

2019 awards	Range 1	Range 2
• Annualised recurring revenue growth (%)	6.2%–7.7%	7.7%–8.5%
• Performance condition satisfied (%)	14%–56%	56%–70%

2020 awards	Range 1	Range 2
• Annualised recurring revenue growth (%)	5.6%–7.0%	7.0%–7.7%
• Performance condition satisfied (%)	14%–56%	56%–70%

The performance target relating to TSR measures share price performance against a designated comparator group. Where TSR is between median and upper quartile, the TSR vesting percentage will be calculated on a straight-line, pro-rata basis between 6% and 24%, and where TSR is between upper quartile and upper decile, TSR vesting percentage will be calculated on a straight-line, pro-rata basis between 24% and 30%.

The comparator group for awards granted for 2019 and 2020 is the companies comprised in the FTSE 100 Index at the start of the performance period, excluding financial services and extraction companies.

Awards for 2021

These performance shares are subject to a service condition and three performance conditions. Performance conditions are weighted 70% on the achievement of revenue targets and 30% on the achievement of a TSR target.

The revenue targets are based on compound annualised recurring revenue growth and Cloud Native annualised recurring revenue over the performance period. Where annualised recurring revenue is between prescribed target ranges, the extent to which the revenue performance conditions are satisfied will be calculated on a straight-line, pro-rata basis within a defined range.

2021 awards	Range 1	Range 2
Annualised recurring revenue growth (%)	6.0%–8.5%	8.5%–10.0%
Performance condition satisfied (%)	7%–28%	28%–35%
Cloud native annualised recurring revenue (£m)	£600m–£750m	£750m–£900m
Performance condition satisfied (%)	7%–28%	28%–35%

The performance target relating to TSR measures share price performance against a designated comparator group. Where TSR is between median and upper quartile, the TSR vesting percentage will be calculated on a straight-line, pro-rata basis between 6% and 24%, and where TSR is between upper quartile and upper decile, the TSR vesting percentage will be calculated on a straight-line, pro-rata basis between 24% and 30%.

The comparator group for awards granted for 2021 onwards is the companies comprised in the FTSE 100 Index at the start of the performance period, excluding financial services and extraction companies.

Awards for 2022

These performance shares are subject to a service condition and three performance conditions. Performance conditions are weighted 55% on the achievement of a financial performance target, 30% on the achievement of a TSR target, and 15% on the achievement of ESG targets.

The financial performance target is based on the achievement of Sage Business Cloud (SBC) Penetration targets for the final year of the performance period. Where SBC Penetration is between prescribed targets, the extent to which the financial performance condition is satisfied will be calculated on a straight-line, pro-rata basis within a defined range.

2022 awards	**Range 1**	**Range 2**
• SBC Penetration (%)	**75%–80%**	**80%–85%**
• Performance condition satisfied (%)	**11%–44%**	**44%–55%**

The performance target relating to TSR measures share price performance against a designated comparator group. Where TSR is between median and upper quartile, the TSR vesting percentage will be calculated on a straight-line, pro-rata basis between 6% and 24%, and where TSR is between upper quartile and upper decile, the TSR vesting percentage will be calculated on a straight-line, pro-rata basis between 24% and 30%.

The comparator group for awards granted for 2022 onwards is the companies comprised in the FTSE 100 Index at the start of the performance period, excluding financial services and extraction companies.

The performance targets relating to ESG are based on the achievement of targets relating to i) the aggregate number of volunteering hours recorded through the Sage Foundation during the performance period, ii) the aggregate number of individuals supported through Sage's Sustainability and Society strategy during the performance period, and iii) Sage's ESG Strategy Impact at the end of the performance period. Where aggregate volunteering hours and aggregate individuals supported are between prescribed targets, the extent to which the ESG performance conditions are satisfied will be calculated on a straight-line, pro-rata basis within a defined range.

2022 awards	**Range 1**	**Range 2**
• Volunteering hours (number)	**400,000–500,000**	**500,000–600,000**
• Performance condition satisfied (%)	**0.75%–3%**	**3%–3.75%**
• Individuals supported (number)	**22,000–27,000**	**27,000–32,000**
• Performance condition satisfied (%)	**0.75%–3%**	**3%–3.75%**

Sage's ESG Strategy Impact will be measured by i) its alignment to the Sustainability Accounting Standards Board's (SASB's) standards, ii) its achievement of Global Reporting Initiative's (GRI's) sustainability reporting standards (GRI CORE and GRI COMPREHENSIVE are the two levels to which Sage can align), and iii) achievement of a top 10% ranking in at least 3 ESG rating schemes.

15 Equity continued

15.2 Share-based payments continued

Given an achievement of full SASB alignment, achieving GRI CORE would result in the performance condition being 1.5% satisfied, while achieving GRI COMPREHENSIVE would result in the performance condition being 6% satisfied. Where the ESG Strategy Impact is between GRI CORE and GRI COMPREHENSIVE, the extent to which the ESG performance condition is satisfied will be calculated on a straight-line, pro-rata basis within this defined range of 1.5%–6%.

Given an achievement of full SASB alignment and GRI COMPREHENSIVE, achieving a top 10% ranking in at least 3 ESG rating schemes would result in the performance condition being 7.5% satisfied. Where a top 10% ranking is between zero and 3 ESG rating schemes, the extent to which the ESG performance condition is satisfied will be calculated on a straight-line, pro-rata basis within this defined range of 6%–7.5%.

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(s) granted and the assumptions used in the calculation are as follows:

Grant date	December 2021	February 2022	18 May 2022	24 May 2022
Share price at grant date	7.74	7.11	6.51	6.65
Number of employees	6	2	3	1
Shares under award	458,777	399,859	100,225	78,126
Vesting period (years)	3	3	3	3
Expected volatility	27.6%	26.6%	28.2%	28.2%
Award life (years)	3	3	3	3
Expected life (years)	3	3	3	3
Risk-free rate	0.50%	1.04%	1.49%	1.46%
Fair value per award	6.29	5.82	5.72	5.70

Grant date	December 2020
Share price at grant date	5.79
Number of employees	2
Shares under award	452,380
Vesting period (years)	3
Expected volatility	29.0%
Award life (years)	3
Expected life (years)	3
Risk-free rate	(0.02%)
Fair value per award	4.54

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:

	2022		2021	
	Number '000s	**Weighted average exercise price £**	Number '000s	Weighted average exercise price £
Outstanding at 1 October	**4,260**	**–**	6,574	–
Awarded	**1,037**	**–**	452	–
Forfeited	**(899)**	**–**	(2,389)	–
Exercised	**(1,343)**	**–**	(377)	–
Outstanding at 30 September	**3,055**	**–**	4,260	–
Exercisable at 30 September	**–**	**–**	–	–

	2022		2021	
	Weighted average remaining life years		Weighted average remaining life years	
Range of exercise prices	**Expected**	**Contractual**	Expected	Contractual
N/A	**0.9**	**0.9**	0.7	0.7

The Sage Group Restricted Share Plan

The Group's Restricted Share Plan is a long-term incentive plan issued to senior management across the Group. These contingent share awards are usually made only with service conditions. Executive Directors are not permitted to participate in the plan and shares are either purchased in the market or treasury shares are utilised to satisfy vesting awards. During the year, 10,816,324 (2021: 7,499,399) 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 667 to 783p.

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

	2022		2021	
	Number '000s	**Weighted average exercise price £**	Number '000s	Weighted average exercise price £
Outstanding at 1 October	**12,082**	**–**	8,277	–
Awarded	**10,816**	**–**	7,499	–
Forfeited	**(2,005)**	**–**	(1,436)	–
Exercised	**(3,166)**	**–**	(2,258)	–
Outstanding at 30 September	**17,727**	**–**	12,082	–
Exercisable at 30 September	**–**	**–**	–	–

	2022		2021	
	Weighted average remaining life years		Weighted average remaining life years	
Range of exercise prices	**Expected**	**Contractual**	Expected	Contractual
N/A	**2.0**	**2.0**	1.5	1.5

15 Equity continued

15.2 Share-based payments continued

Share options

Share options comprise The Sage Global Save and Share Plan (the "Save and Share Plan") and acquisition options. These are not considered to be material to the Group's overall share-based payment arrangements. The key aspects of the Group's share option arrangements are explained below.

The Save and Share Plan is a savings-related share option scheme for employees of the Group and is available to employees in the majority of countries in which the Group operates. The UK plan is an HMRC-approved savings-related share option scheme, and similar arrangements apply in other countries where they are available. The fair value of the options is expensed over the service period of three years on the assumption that 30% of options will lapse over the service period as employees leave the Group.

In the year, 1,628,909 (2021: 1,920,653) options were granted under the terms of the Save and Share Plan.

As part of certain acquisitions, the Group awards certain employees with options proportional to previously held options in the company acquired. Nil (2021: nil) options have been granted in the year.

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

	2022		2021	
	Number '000s	**Weighted average exercise price £**	Number '000s	Weighted average exercise price £
Outstanding at 1 October	**1,628**	**2.96**	3,256	2.13
Forfeited	**(28)**	**4.88**	(44)	6.34
Exercised	**(637)**	**1.61**	(1,584)	1.15
Outstanding at 30 September	**963**	**3.45**	1,628	2.96
Exercisable at 30 September	**963**	**3.45**	1,628	2.96

	2022		2021	
	Weighted average remaining life years		Weighted average remaining life years	
Range of exercise prices	**Expected**	**Contractual**	Expected	Contractual
72p–702p	**–**	**4.0**	–	4.9

15.3 Other reserves

All components of reserves are presented separately on the face of the consolidated statement of changes in equity. This note explains the nature and purpose of the translation and merger reserves.

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	2022 £m	2021 £m
At 1 October	**448**	908
Profit for the year	**260**	285
Actuarial gain on post-employment benefit obligations, net of tax (note 11)	**3**	2
Employee share option scheme – value of employee services including deferred tax	**37**	36
Proceeds from issuance of treasury shares	**7**	8
Share buyback programme	**–**	(602)
Fair value gain on reassessment of equity investment	**30**	–
Purchase of shares by Employee Benefit Trust	**(32)**	–
Dividends paid to owners of the parent (note 15.5)	**(183)**	(189)
Total	**570**	448

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 a total of 27,979,129 Ordinary shares, held as treasury shares, as part of a non-discretionary share buyback programme entered into on 6 September 2021 and completed on 24 January 2022. In September 2021, 11,868,392 Ordinary shares were purchased under this share buyback programme. Total consideration for this share buyback programme was £300m, of which £249m was paid during the current year.

In the prior year, the Group entered into another non-discretionary share buyback programme under which 45,418,600 shares were bought back for a total consideration of £302m, inclusive of stamp duty and related fees. This programme was completed during the prior year.

During the year, the Group cancelled 20,000,000 treasury shares, which reduced the number of Ordinary shares to 1,100,789,295 at 30 September 2022. See note 15.1.

During the year, the Group agreed to satisfy the vesting of certain share awards, utilising a total of 6,396,278 (2021: 5,544,880) treasury shares.

At 30 September 2022, the Group held 81,168,903 (2021: 79,586,223) treasury shares.

15 Equity continued

15.4 Retained earnings continued

Employee Benefit Trust

The Employee Benefit Trust holds shares in the Company and was set up for the benefit of Group employees. The Employee Benefit Trust purchases the Company's shares in the market or is gifted these by the Company for use in connection with the Group's share-based payments arrangements. Once purchased, shares are not sold back into the market. The Employee Benefit Trust holds 4,610,875 ordinary shares in the Company (2021: 190,962) at a cost of £33m (2021: £1m) with £32m of shares purchased during the year (2021: £nil), funded by the Company, and a nominal value of £nil (2021: £nil).

During the year, the Employee Benefit Trust did not utilise any shares it held to satisfy the vesting of certain share awards (2021: nil). The Employee Benefit Trust did not receive additional funds for future purchase of shares in the market (2021: £nil).

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 of the Company held by the Employee Benefit Trust at 30 September 2022 was £32m (2021: £1m).

15.5 Dividends

Accounting policy

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

	2022 £m	2021 £m
Final dividend paid for the year ended 30 September 2021 of 11.63p per share	**119**	–
(2021: final dividend paid for the year ended 30 September 2020 of 11.32p per share)	**–**	124
Interim dividend paid for the year ended 30 September 2022 of 6.30p per share	**64**	–
(2021: interim dividend paid for the year ended 30 September 2021 of 6.05p per share)	**–**	65
	183	189

In addition, the Directors are proposing a final dividend in respect of the financial year ended 30 September 2022 of 12.10p per share, which will absorb an estimated £124m of shareholders' funds. The Company's distributable reserves are sufficient to support the payment of this dividend. If approved at the AGM, it will be paid on 10 February 2023 to shareholders who are on the register of members on 13 January 2023. These financial statements do not reflect this proposed 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. Additional disclosures are presented for disposals and planned disposals that qualify as businesses held for sale or for presentation as discontinued operations.

Accounting policy

Acquisitions:

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 are recognised in the income statement. Contingent consideration that is classified as equity is not remeasured, 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.

Acquisitions of certain legal entities can be accounted for as an asset acquisition where they do not qualify as a business combination under IFRS 3 "Business Combinations", which is often the case where the value of the acquired legal entity largely comprises a single asset or technology. Where this is applied, no goodwill is recognised as part of the acquisition accounting.

Businesses held for sale and discontinued operations:

The Group classifies the assets and liabilities of a business as held for sale if their carrying amounts will be recovered principally through a sale of the business rather than through continuing use. These assets and liabilities are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for classification as held for sale are met only when the sale is highly probable and the business is available for immediate sale in its present condition. Actions required to complete the sale must indicate that it is unlikely that significant changes will be made to the plan or that the decision to sell will be withdrawn. Management must be committed to the sale and completion must be expected within one year from the date of the classification. Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the consolidated balance sheet.

A business qualifies as a discontinued operation if it is a component of the Group that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations; and
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations.

Discontinued operations are excluded from the results of continuing operations in both the current and prior years and are presented as a single amount in the consolidated income statement as profit or loss on discontinued operations.

16 Acquisitions and disposals continued

16.1 Acquisitions

Lockstep

On 30 August 2022, the Group acquired 100% equity capital and voting rights of Lockstep Network Holdings Inc ("Lockstep"). Lockstep provides cloud native technology that automates accounting workflows between companies. The acquisition of Lockstep accelerates Sage's strategy for growth by broadening its value prioritisation for SMBs and expanding Sage's digital network.

Summary of acquisition	Total £m
Cash consideration	76
Deferred consideration	3
Holdback consideration	1
Acquisition-date fair value of consideration	**80**
Provisional fair value of identifiable net assets	(1)
Provisional goodwill	79

In line with IFRS 3, the initial accounting for the acquisition of Lockstep is provisional. The residual excess of consideration over the net assets acquired has been provisionally recognised as unallocated goodwill. No goodwill is expected to be deductible for tax purposes. Adjustments to provisional amounts will be made within the permitted measurement period where they reflect new information obtained about facts and circumstances that were in existence at the acquisition date. It is expected that the acquisition accounting will be finalised within 12 months. The results of the business are allocated to the North America operating segment in line with the underlying operations.

The outflow of cash and cash equivalents on the acquisition is as follows:

	Total £m
Cash consideration	(76)
Cash and cash equivalents acquired	1
Net cash outflow	**(75)**

Transaction costs of £5m relating to the acquisition have been included in selling and administrative expenses, classified as other M&A activity-related items within recurring adjustments between underlying and statutory results. These costs relate to advisory, legal and other professional services. See note 3.6.

Arrangements have been put in place for retention bonus shares to remunerate employees of Lockstep for future services. The amount recognised to date of £1m is included in selling and administrative expenses, classified as other M&A activity-related items. The total cost of these arrangements will be recognised in future periods over the retention period, contingent on employment.

The consolidated income statement includes revenue and loss after tax relating to Lockstep for the period since the acquisition date, of which both are immaterial. On an underlying basis, revenue would have increased by £3m and profit after tax would have decreased by £7m, if Lockstep had been acquired at the start of the financial year and included in the Group's results for the year ended 30 September 2022. On a statutory basis, revenue would have increased by £3m and profit after tax would have decreased by £21m, which includes £14m of other M&A activity-related items.

Brightpearl

On 17 January 2022, the Group obtained control of Brightpearl Limited ("Brightpearl") by acquiring the remaining share capital for cash consideration of £221m, bringing the Group's ownership interest to 100%. In January 2021, the Group had acquired a 17% minority interest in Brightpearl for £17m.

Brightpearl was acquired to deliver retail operations management capabilities and provides a cloud native multi-channel retail management system for the retail and ecommerce vertical, helping to accelerate the Group's strategy for growth.

Summary of acquisition	**Total £m**
Cash consideration	221
Fair value of previously held minority interest	47
Acquisition-date fair value of consideration	**268**
Fair value of identifiable net assets	(92)
Goodwill	176

The fair value of the previously held minority interest has been included in the determination of goodwill, with the gain on revaluation of £30m recognised in other comprehensive income in line with Sage's accounting policy.

Fair value of identifiable net assets acquired	**Total £m**
Intangible assets	110
Deferred income	(4)
Deferred tax liability	(20)
Other net assets	6
Fair value of identifiable net assets acquired	**92**
Goodwill	176
Total consideration	268

A summary of the acquired intangible assets is set out below:

Acquired intangible assets	**Valuation £m**	Useful economic life (years)
Customer relationships	**35**	9 to 15
Technology	**75**	8
Acquired intangible assets	**110**	

Acquired goodwill of £176m comprises the fair value of the acquired control premium, workforce in place and the expected synergies. The goodwill has been allocated to the Group's geographic CGUs where the underlying benefit arising from the acquisition is expected to be realised. This is predominantly within the UK & Ireland and North America regions. No goodwill is expected to be deductible for tax purposes. The results of the business are allocated to the North America and Northern Europe operating segments in line with the underlying operations.

The outflow of cash and cash equivalents on the acquisition is as follows:

	Total £m
Cash consideration	(221)
Cash and cash equivalents acquired	11
Net cash outflow	**(210)**

16 Acquisitions and disposals continued

16.1 Acquisitions continued

Transaction costs of £7m relating to the acquisition have been included in selling and administrative expenses, classified as other M&A activity-related items within recurring adjustments between underlying and statutory results. These costs relate to advisory, legal, and other professional services. See note 3.6.

Arrangements have been put in place for retention payments to remunerate employees of Brightpearl for future services. The amount recognised to date of £10m is included in selling and administrative expenses, in the consolidated income statement, as other M&A activity-related items. The total cost of these arrangements will be recognised in future periods over the retention period, contingent on employment.

The consolidated income statement includes revenue of £17m and loss after tax of £26m reported by Brightpearl for the period since the acquisition date. The loss after tax includes £22m of other M&A activity-related items.

On an underlying basis, revenue would have increase by £8m and profit after tax would have decreased by £6m, if Brightpearl had been acquired at the start of the finance year and included in the Group's results for the year ended 30 September 2022. On a statutory basis, revenue would have increased by £8m and profit after tax would have decreased by £16m, which includes £10m of other M&A activity-related items.

Futrli

On 12 May 2022, the Group acquired 100% equity capital and voting rights of Futrli Limited ("Futrli"), a company based in the UK, for total consideration of £17m, comprising £15m payable in cash on completion and £2m deferred consideration.

The Futrli acquisition is accounted for as an asset acquisition, which is an acquisition of a legal entity that does not qualify as a business combination under IFRS 3 "Business Combinations". This treatment has been adopted as the value of the Futrli business largely comprises the rights to the acquired technology, the Futrli software. As a result, no goodwill has been recognised as part of the acquisition accounting.

The net assets recognised in the financial statements, including the technology intangible, are based on a valuation of the acquired identifiable net assets as at the acquisition date. The technology intangible has a fair value of £17m and is recognised as an intangible asset (see note 6.2) which will be amortised over a useful life of 8 years. Other net assets acquired are negligible.

GoProposal

In the prior year, the Group acquired 100% equity capital and voting rights of GoProposal Limited ("GoProposal") for total consideration of £13m, which was accrued at 30 September 2021 and paid in cash during the current year.

The GoProposal acquisition was accounted for as an asset acquisition, which is an acquisition of a legal entity that does not qualify as a business combination under IFRS 3 "Business Combinations". As a result, no goodwill was recognised as part of the acquisition accounting, and a technology intangible of fair value £13m was recognised as an intangible asset with a useful life of 8 years (see note 6.2).

16.2 Disposals and discontinued operations

Disposals made during the current year

On 30 November 2021, the Group completed the sale of its Swiss business for gross consideration of £54m. Subsequently, on 4 April 2022 the Group completed the sale of its payroll outsourcing business in South Africa for gross consideration of £5m. Both businesses were held for sale at 30 September 2021. The gains on disposal are calculated as follows:

Gain on disposal	Switzerland £m	Payroll outsourcing business (South Africa) £m	Total £m
Cash consideration	54	5	59
Gross consideration	**54**	**5**	**59**
Transaction costs	(3)	–	(3)
Net consideration	**51**	**5**	**56**
Net assets disposed	(15)	(1)	(16)
Cumulative foreign exchange differences reclassified from other comprehensive income to the income statement	13	–	13
Gains on disposal	**49**	**4**	**53**

Net assets disposed comprise:

	Switzerland £m	Payroll outsourcing business (South Africa) £m	Total £m
Goodwill	10	1	11
Property, plant and equipment	2	–	2
Customer acquisition costs	1	–	1
Trade and other receivables	1	–	1
Cash and cash equivalents	14	–	14
Total assets	28	1	29
Trade and other payables	(3)	–	(3)
Borrowings	(1)	–	(1)
Current income tax liabilities	(1)	–	(1)
Post-employment benefits	(2)	–	(2)
Deferred income	(6)	–	(6)
Total liabilities	(13)	–	(13)
Net assets	15	1	16

The gains are reported within continuing operations, as a non-recurring adjustment between underlying and statutory results.

16 Acquisitions and disposals continued

16.2 Disposals and discontinued operations continued

The net inflow of cash and cash equivalents on the disposals is calculated as follows:

Inflow of cash and cash equivalents on disposal	Switzerland £m	Payroll outsourcing business (South Africa) £m	Total £m
Cash consideration	54	5	59
Transaction costs	(3)	–	(3)
Net consideration received	51	5	56
Cash disposed	(14)	–	(14)
Net inflow of cash and cash equivalents on disposal	37	5	42

Prior to the disposal, the Swiss business formed part of the Group's International—Central and Southern Europe reporting segment and the payroll outsourcing business in South Africa formed part of the International—Africa & APAC reporting segment.

Discontinued operations and assets and liabilities held for sale

There are no assets or liabilities held for sale at 30 September 2022.

Assets and liabilities held for sale at 30 September 2021 included two disposal groups which comprise the Group's business in Switzerland and the payroll outsourcing business in South Africa as well as the Group's North Park property site assets in the UK.

The two disposal groups were disposed in the year as discussed above. The sale of the Group's North Park property completed in October 2021. No gain was recognised on disposal as the assets were sold for their residual value.

The Group had no discontinued operations during the year (30 September 2021: none).

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 and its key management personnel, which comprises the Group's Executive Leadership Team members and the Non-executive Directors. Transactions and outstanding balances between the parent and its subsidiaries within the Group and between those subsidiaries have been eliminated on consolidation and are not disclosed in this note. Compensation paid to the Executive Leadership Team is disclosed in note 3.3.

No other related party transactions occurred during the current year or the prior year.

18 Events after the balance sheet date

On 11 October 2022, the Group acquired 100% equity capital and voting rights of Spherics Technology Limited (Spherics) for total cash consideration of £11m. Spherics provides a carbon accounting solution to help businesses easily understand and reduce their environmental impact. Due to the timing of the acquisition, being after 30 September 2022, the results of Spherics are not included in our financial statements for the year ended 30 September 2022 and the acquisition accounting has not yet been completed. In line with IFRS 3, the purchase price accounting for the acquisition will be finalised within 12 months of the acquisition date.

19 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 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 pages are subsidiaries of the Company or the Group. The Group percentage of equity capital and voting rights is 100% for all subsidiaries listed below unless indicated otherwise. The results for all of the subsidiaries have been consolidated within these financial statements.

Country	Name	Registered address
Australia	Brightpearl Pty Limited	Suite 60 Level 2, 2 O'Connell Street, Parramatta NSW 2150, Australia
Australia	HAMY (Australia) Pty Limited	C/o - Fincorp Accountants, Suite 7, 2–4 Northumberland Road, Caringbah NSW 2229, Australia
Australia	Ocrex Australia Pty. Limited	Level 17, 100 Barangaroo Avenue, Barangaroo NSW 2000, Australia
Australia	Sage Business Solutions Pty Ltd	Level 17, 100 Barangaroo Avenue, Barangaroo NSW 2000, Australia
Australia	Sage Intacct Australia Pty Limited	Level 17, 100 Barangaroo Avenue, Barangaroo NSW 2000, Australia
Australia	Snowdrop Systems Pty Ltd	Level 17, 100 Barangaroo Avenue, Barangaroo NSW 2000, Australia
Austria	Sage GmbH	Stella-Klein-Löw-Weg 15, AT-1020, Wien, Austria
Bahamas	Intelligent Apps Holdings Ltd	Bayside Executive Park, Building No. 2, West Bay Street & Blake Road, P.O. Box N-3910, Nassau, The Bahamas
Belgium	Sage S.A.	Buro & Design Center, Esplanade 1, 1020 Brussels, Belgium
Botswana	Sage Software Botswana (Pty) Ltd	Plot 50371, Fairground Office Park, Gaborone, Botswana
Canada	Sage Software Canada Ltd	111, 5th Avenue SW, Suite 3100-C, Calgary AB T2P 5L3, Canada
France	Inventory Planner SAS [5]	10 Place de Belgique, 92250, La Garenne-Colombes, Paris, France
France	Sage Holding France SAS	10 Place de Belgique, 92250, La Garenne-Colombes, Paris, France
France	Sage Overseas Limited (Branch Registration)	10 Place de Belgique, 92250, La Garenne-Colombes, Paris, France
France	Sage SAS	10 Place de Belgique, 92250, La Garenne-Colombes, Paris, France
Germany	Best Software (Germany) GmbH	Franklinstraße 61–63, 60486, Frankfurt am Main, Germany
Germany	eWare GmbH	Untere Weidenstr. 5, c/o Raè Becker & Koll., 81543, München, Germany
Germany	Sage bäurer GmbH	Josefstraße 10, 78166, Donaueschingen, Germany
Germany	Sage CRM Solutions GmbH	Franklinstraße 61–63 60486, Frankfurt am Main, Germany
Germany	Sage GmbH	Franklinstraße 61–63 60486, Frankfurt am Main, Germany
Germany	Sage Management & Services GmbH	Franklinstraße 61–63 60486, Frankfurt am Main, Germany
Germany	Sage Services GmbH	Karl-Heine-Straße 109–111, 04229, Leipzig, Germany

19 Group undertakings continued

Country	Name	Registered address
India	Sage Business Technology (India) Private Limited [3]	The Atrium at Quark City, Zone–D, Second Floor, A-45, Industrial Focal Point, Phase VIII B, Mohali, 160059, India
India	Intacct Software Private Limited[1,3]	No 501 & 502, Tower C, 5th Floor, The Millenia, No. 1 & 2, Murphy Road, Bangalore, Karnataka, 560 008, India
India	Lockstep Network India Pvt. Ltd. [3]	1st and 2nd Flr Sky Loft, Creaticity Mall Opp Golf Course, Shastrinagar Yerwada, Pune, 411006, India
India	Sage Software India Pvt Ltd [3]	N-34, Lower Ground Floor, Kalkaji, New Delhi, 110 019, India
India	VV Finly Technology Pvt. Ltd. [3]	#S-204, Wilson Court Apts, 6th Cross, 2nd Main, Wilson Garden, Bangalore, 560027, India
Ireland	Ocrex Limited	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Ireland	Sage Global Services (Ireland) Limited	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Ireland	Sage Hibernia Limited	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Ireland	Sage Irish Finance Company Unlimited Company [4]	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Ireland	Sage Technologies Limited	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Ireland	Sage Treasury Ireland Unlimited Company	Number One Central Park, Leopardstown, Dublin 18, Ireland
Ireland	TAS Software Limited [4]	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Ireland	Tonwomp Unlimited Company	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Israel	Budgeta Technologies Ltd	32 HaBarzel St., Tel Aviv, 6971046, Israel
Kenya	Sage Software East Africa Limited	114 & 115, 1st Floor, Nivina Towers, LR NO. 1870/IX/96, Westlands Road, Nairobi, Kenya
Latvia	CakeHR SIA	Brivibas iela 40-27, Riga, LV-1050, Latvia
Malaysia	Sage Malaysia Business Solutions Sdn. Bhd.	Level 11, 1 Sentral, Jalan Rakyat, Kuala Lumpur Sentral, 50470 Kuala Lumpur, Malaysia
Morocco	Sage Software SARL	Tour Crystal 1, Niveau 9, Bd Sidi Mohamed Ben Abdellah, Casablanca, 20030, Morocco
Namibia	Sage Software Namibia (Pty) Ltd	344 Independence Avenue, Windhoek, P O BOX 1571, Namibia
Nigeria	Sage Software Nigeria Limited	Landmark Towers, 5B Water Corporation Road, Victoria Island, Lagos, Nigeria
Poland	Sage Software Poland sp. z o.o.	ul. Towarowa 28, 00-839, Warsaw, Poland
Portugal	Sage Portugal—Software, S.A.	Edifício Olympus II, Av. Dom Afonso Henriques 1462, 4450-013, Matosinhos, Portugal
Romania	Intacct Development Romania SRL	Bulevardul 21 Decembrie 1989, Nr. 77, camera C.1.2, clădirea C-D, The Office, Etaj 1, Cluj-Napoca, Judet Cluj, Romania
Singapore	Sage Singapore Pte. Ltd.	7 Straits View # 12-00, Marina One East Tower, Singapore, 018936, Singapore
South Africa	Sage Alchemex (Pty) Ltd	23A Flanders Drive, Mount Edgecombe, Durban, 4321, South Africa
South Africa	Sage South Africa (Pty) Ltd*	Floor 6 Gateway West, 22 Magwa Crescent, Waterfall 5-1R, Midrand, Gauteng, 2066, South Africa
Spain	Sage Spain Holdco, S.L.U.	Moraleja Building One—Planta 1, Parque Empresarial de La Moraleja, Avenida de Europa no19, 28108 Alcobendas, Madrid, Spain
Spain	Sage Spain, S.L.[1]	Moraleja Building One—Planta 1, Parque Empresarial de La Moraleja, Avenida de Europa no19, 28108 Alcobendas, Madrid, Spain

Country	Name	Registered address
Switzerland	KHK Software AG	c/o Legalis Consulting GmbH, Suurstoffi 29, 6343, Rotkreuz, Switzerland
Switzerland	Sage Bäurer AG	c/o Legalis Consulting GmbH, Suurstoffi 29, 6343, Rotkreuz, Switzerland
United Arab Emirates	Sage Software Middle East FZ-LLC	Premises: 116–120, Floor: 01, Building: 11, Dubai, United Arab Emirates
United Kingdom	ACCPAC UK Limited	3 Field Court, Gray's Inn, London, WC1R 5EF, United Kingdom
United Kingdom	Brightpearl Limited [5]	Prologue Works, Marsh Street, Bristol, England, BS1 4AX, United Kingdom
United Kingdom	FUTRLI LTD	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	GoProposal Ltd	3 Field Court, Gray's Inn, London, WC1R 5EF, United Kingdom
United Kingdom	HR Bakery Ltd	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Interact UK Holdings Limited *	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	KCS Global Holdings Limited	3 Field Court, Gray's Inn, London, WC1R 5EF, United Kingdom
United Kingdom	Multisoft Financial Systems Limited	3 Field Court, Gray's Inn, London, WC1R 5EF, United Kingdom
United Kingdom	Ocrex UK Ltd	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Protx Group Limited	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Protx Limited	3 Field Court, Gray's Inn, London, WC1R 5EF, United Kingdom
United Kingdom	Sage (UK) Ltd	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage CRM Solutions Limited	3 Field Court, Gray's Inn, London, WC1R 5EF, United Kingdom
United Kingdom	Sage Euro Hedgeco 1	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Euro Hedgeco 2	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Far East Investments Limited	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Global Services Limited	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Hibernia Investments No. 1 Limited	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Hibernia Investments No. 2 Limited	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Holding Company Limited *	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Holdings Limited	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Irish Investments LLP [2]	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Irish Investments One Limited *	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Irish Investments Two Limited * [2]	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom

19 Group undertakings continued

Country	Name	Registered address
United Kingdom	Sage Management Limited	3 Field Court, Gray's Inn, London, WC1R 5EF, United Kingdom
United Kingdom	Sage Online Holdings Limited	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Overseas Limited.	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage People Limited	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Treasury Company Limited *	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage US LLP	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage USD Hedgeco 1	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage USD Hedgeco 2	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Whitley Limited	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sagesoft	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Snowdrop Systems Limited	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	TAS Software Limited	3 Field Court, Gray's Inn, London, WC1R 5EF, United Kingdom
United States	Brightpearl, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Lockstep Network Holdings, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Lockstep Network, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Ocrex, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Sage Budgeta, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Sage Global Services US, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Sage Intacct, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Sage People, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Sage Software Holdings, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Sage Software International, Inc.	C/o Corporation Service Company, 100 Shockoe Slip, 2nd Floor, Richmond VA 23219, United States
United States	Sage Software North America	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Sage Software, Inc.	C/o Corporation Service Company, 100 Shockoe Slip, 2nd Floor, Richmond VA 23219, United States

Country	Name	Registered address
United States	Sage Tempus, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Softline Holdings USA, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Softline Software USA, LLC	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Softline Software, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	South Acquisition Corp.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States

Notes:

* Direct subsidiary.

1 Group holding in the subsidiary is >99% and <100%.

2 Accounting date is 30 March 2022.

3 Accounting date is 31 March 2022.

4 Accounting date is 30 December 2022.

5 Accounting date is 31 December 2022.

Contents

Company balance sheet

At 30 September 2022

	Note	2022 £m	2021 £m
Non-current assets			
Investments	2	**3,088**	3,088
Deferred tax assets		**1**	–
		3,089	3,088
Current assets			
Cash at bank and in hand	3	**–**	2
Debtors	4	**1,774**	1,781
		1,774	1,783
Creditors: amounts falling due within one year			
Trade and other payables	5	**(16)**	(269)
Net current assets		**1,758**	1,514
Total assets less current liabilities		**4,847**	4,602
Creditors: amounts falling due after one year			
Borrowings	6	**(741)**	(344)
Net assets		**4,106**	4,258
Capital and reserves			
Called up share capital	8.1	**12**	12
Share premium account		**548**	548
Other reserves	8.2	**(502)**	(424)
Profit and loss account		**4,048**	4,122
Total shareholders' funds		**4,106**	4,258

The Company's profit for the year was £20m (2021: £865m).

The financial statements on pages 281 to 288 were approved by the Board of Directors on 15 November 2022 and are signed on its behalf by:

Steve Hare
Chief Executive Officer

Company statement of changes in equity

	Attributable to owners of the parent				
	Called up share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total equity £m
At 1 October 2021	**12**	**548**	**(424)**	**4,122**	**4,258**
Profit for the year	**–**	**–**	**–**	**20**	**20**
Total comprehensive income for the year ended 30 September 2022	**–**	**–**	**–**	**20**	**20**
Transactions with owners:					
Employee share option scheme—value of employee services	**–**	**–**	**–**	**36**	**36**
Utilisation of treasury shares	**–**	**–**	**41**	**(41)**	**–**
Proceeds from issuance of treasury shares	**–**	**–**	**–**	**7**	**7**
Cancellation of treasury shares	**–**	**–**	**128**	**(128)**	**–**
Share buyback programme	**–**	**–**	**(215)**	**215**	**–**
Purchase of shares by Employee Benefit Trust	**–**	**–**	**(32)**	**–**	**(32)**
Dividends paid to owners of the parent	**–**	**–**	**–**	**(183)**	**(183)**
Total transactions with owners for the year ended 30 September 2022	**–**	**–**	**(78)**	**(94)**	**(172)**
At 30 September 2022	**12**	**548**	**(502)**	**4,048**	**4,106**

	Attributable to owners of the parent				
	Called up share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total equity £m
At 1 October 2020	12	548	(62)	3,642	4,140
Profit for the year	–	–	–	865	865
Total comprehensive income for the year ended 30 September 2021	–	–	–	865	865
Transactions with owners:					
Employee share option scheme—value of employee services	–	–	–	36	36
Utilisation of treasury shares	–	–	25	(25)	–
Proceeds from issuance of treasury shares	–	–	–	8	8
Share buyback programme	–	–	(387)	(215)	(602)
Dividends paid to owners of the parent	–	–	–	(189)	(189)
Total transactions with owners for the year ended 30 September 2021	–	–	(362)	(385)	(747)
At 30 September 2021	12	548	(424)	4,122	4,258

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”.

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.

The Company is deemed a qualifying entity under FRS 102, 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 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.

Foreign currencies

The UK is the home country of The Sage Group plc. (a public company limited by shares). 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

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

Details of the average number of people employed by the Parent Company and the staff costs incurred by the Company are as follows:

Average monthly number of people employed (including Directors)	2022 number	2021 number
By segment:		
Northern Europe	**14**	15

Staff costs (including Directors on service contracts)	2022 £m	2021 £m
Wages and salaries	**4**	4
Social security costs	**1**	1
	5	5

Staff costs are net of recharges to other Group companies.

Auditor’s remuneration

The audit fees payable in relation to the audit of the financial statements of the Company are £42,000 (2021: £39,000).

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 148 to 181.

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 through the profit and loss account. Intergroup recharges to the employing subsidiary, up to the fair value of awards made to employees of that subsidiary, subsequently reverse the decrease to the profit and loss account.

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 Company only enters into basic financial instrument transactions that result in the recognition of basic financial assets and liabilities, including trade and other receivables and payables and loans to and from related parties. These transactions are initially recorded at transaction price, unless the arrangement constitutes a financing transaction where the transaction is measured at the present value of the future receipt discounted at a market rate of interest, and subsequently recognised at amortised cost.

Financial assets
At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in comprehensive income or expense.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party, or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities
Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expired.

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

Employee Benefit Trust
The Company's Employee Benefit Trust is considered an extension of the Company and therefore forms part of these financial statements.

Notes to the Company financial statements

1 Dividends

	2022 £m	2021 £m
Final dividend paid for the year ended 30 September 2021 of 11.63p per share	**119**	–
(2021: final dividend paid for the year ended 30 September 2020 of 11.32p per share)	**–**	124
Interim dividend paid for the year ended 30 September 2022 of 6.30p per share	**64**	–
(2021: interim dividend paid for the year ended 30 September 2021 of 6.05p per share)	**–**	65
	183	189

In addition, the Directors are proposing a final dividend in respect of the financial year ended 30 September 2022 of 12.10p per share, which will absorb an estimated £124m of shareholders' funds. The Company's distributable reserves are sufficient to support the payment of this dividend. If approved at the AGM, it will be paid on 10 February 2023 to shareholders who are on the register of members on 13 January 2023. These financial statements do not reflect this proposed dividend payable.

2 Fixed assets: investments

Equity interests in subsidiary undertakings are as follows:

Cost	
At 30 September 2021	3,224
At 30 September 2022	**3,224**
Provision for diminution in value	
At 30 September 2021	136
At 30 September 2022	**136**
Net book value	
At 30 September 2022	**3,088**
At 30 September 2021	3,088

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 2022, are shown in note 19 of the Group financial statements. All of these subsidiary undertakings are wholly-owned, unless otherwise indicated in note 19 of the Group financial statements. 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, unless otherwise indicated in note 19 of the Group financial statements.

3 Cash at bank and in hand

	2022 £m	2021 £m
Cash at bank and in hand	**–**	2

4 Debtors

	2022 £m	2021 £m
Prepayments and accrued income	**1**	1
Amounts owed by Group undertakings	**1,773**	1,780
	1,774	1,781

Of amounts owed by Group undertakings £nil (2021: £nil) is due greater than one year.

5 Trade and other payables

	2022 £m	2021 £m
Amounts owed to Group undertakings	**–**	10
Other payables	**–**	249
Accruals	**16**	10
	16	269

In the prior year, amounts owed to Group undertakings were unsecured and attracted a rate of interest of 0.0% and LIBOR plus 1.5%.

In the prior year, other payables included £249m in relation to the outstanding commitment to which the Company was contractually bound for the purchase of its own shares, including costs of purchase under the buyback programme announced on 6 September 2021. See note 8.2.

6 Borrowings

	2022 £m	2021 £m
Sterling denominated bond notes	**741**	344
	741	344

In the current year, bond notes were issued in February 2022 for a nominal amount of £400m and expire in February 2034. Net cash proceeds from the issuance were £396m.

In the prior year, bond notes were issued in February 2021 for a nominal amount of £350m and expire in February 2031. Net cash proceeds from the issuance were £344m.

7 Obligations under operating leases

	2022	2021
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	**3**	3
Later than one year and less than five years	**13**	13
After five years	**14**	17
	30	33

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 shares of $1\frac{4}{77}$ pence each	2022 shares	2022 £m	2021 shares	2021 £m
At 1 October	**1,120,789,295**	**12**	1,120,789,295	12
Cancellation of treasury shares	**(20,000,000)**	**–**	–	–
At 30 September	**1,100,789,295**	**12**	1,120,789,295	12

8.2 Other reserves

	Treasury shares £m	Merger reserve £m	Capital redemption reserve £m	Total other reserves £m
At 1 October 2021	**(487)**	**61**	**2**	**(424)**
Utilisation of treasury shares	**41**	**–**	**–**	**41**
Cancellation of treasury shares	**128**	**–**	**–**	**128**
Share Buyback Programme	**(215)**	**–**	**–**	**(215)**
Purchase of shares by Employee Benefit Trust	**(32)**	**–**	**–**	**(32)**
At 30 September 2022	**(565)**	**61**	**2**	**(502)**

	Treasury shares £m	Merger reserve £m	Capital redemption reserve £m	Total other reserves £m
At 1 October 2020	(125)	61	2	(62)
Utilisation of treasury shares	25	–	–	25
Share Buyback Programme	(387)	–	–	(387)
At 30 September 2021	(487)	61	2	(424)

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 a total of 27,979,129 Ordinary shares, held as treasury shares, as part of a non-discretionary share buyback programme entered into on 6 September 2021 and completed on 24 January 2022. In September 2021, 11,868,392 Ordinary shares were purchased under this share buyback programme. Total consideration for this share buyback programme was £300m, of which £249m was paid during the current year.

In the prior year, the Group entered into another non-discretionary share buyback programme under which 45,418,600 shares were bought back for a total consideration of £302m, inclusive of stamp duty and related fees. This programme was completed during the prior year.

During the year, the Group cancelled 20,000,000 treasury shares, reducing the number of Ordinary shares to 1,100,789,295 at 30 September 2022. See note 8.1. The cancellation resulted in a reduction in the profit and loss account of £128m, and an offsetting increase in the treasury share reserve, representing the excess of the purchase price of the shares cancelled above their nominal value.

During the year, the Group agreed to satisfy the vesting of certain share awards, utilising a total of 6,396,278 (2021: 5,544,880) treasury shares.

At 30 September 2022, the Group held 81,168,903 (2021: 79,586,223) treasury shares.

8 Equity continued

8.2 Other reserves continued

Employee Benefit Trust

The Employee Benefit Trust holds shares in the Company and was set up for the benefit of Group employees. The Employee Benefit Trust purchases the Company's shares in the market or is gifted these by the Company for use in connection with the Group's share-based payments arrangements. Once purchased, shares are not sold back into the market. The Employee Benefit Trust holds 4,610,875 ordinary shares in the Company (2021: 190,962) at a cost of £33m (2021: £1m), with £32m of shares purchased during the year, funded by the Company, and a nominal value of £nil (2021: £nil).

During the year, the Employee Benefit Trust did not utilise any shares it held to satisfy the vesting of certain share awards (2021: nil). The Employee Benefit Trust received £nil (2021: £nil) additional funds for future purchase of 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 in the Company held by the Employee Benefit Trust at 30 September 2022 was £32m (2021: £1m).

Glossary

Alternative Performance Measures

Alternative Performance Measures are used by the Group to understand and manage performance. These are not defined under International Financial Reporting Standards (IFRS) or UK-adopted International Accounting Standards (UK-IFRS) and are not intended to be a substitute for any IFRS or UK-IFRS measures of performance but have been included as management considers them to be important measures, alongside the comparable GAAP financial measures, in assessing underlying performance. Wherever appropriate and practical, we provide reconciliations to relevant GAAP measures. The table below sets out the basis of calculation of the Alternative Performance Measures and the rationale for their use.

Measure	Description	Rationale
Underlying (revenue and profit) measures	Underlying measures are adjusted to exclude items which in management's judgement need to be disclosed separately by virtue of their size, nature or frequency to aid understanding of the performance for the year or comparability between periods: • Recurring items include purchase price adjustments including amortisation of acquired intangible assets and adjustments made to reduce deferred income arising on acquisitions, acquisition-related items, unhedged FX on intercompany balances and fair value adjustments; and • Non-recurring items that management judge to be one-off or non-operational such as gains and losses on the disposal of assets, impairment charges and reversals, and restructuring related costs. Recurring items are adjusted each period irrespective of materiality to ensure consistent treatment. Underlying basic EPS is also adjusted for the tax impact of recurring and non-recurring items. All prior period underlying measures (revenue and profit) are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations.	Underlying measures allow management and investors to compare performance without the effects of foreign exchange movements, one off or non-operational items. By including part-period contributions from acquisitions, discontinued operations, disposals and assets held for sale of standalone businesses in the current and/or prior periods, the impact of M&A decisions on earnings per share growth can be evaluated.
Organic (revenue and profit) measures	In addition to the adjustments made for Underlying measures, Organic measures: • Exclude the contribution from discontinued operations, disposals and assets held for sale of standalone businesses in the current and prior period; and • Exclude the contribution from acquired businesses until the year following the year of acquisition; and • Adjust the comparative period to present prior period acquired businesses as if they had been part of the Group throughout the prior period. Acquisitions and disposals where the revenue and contribution impact would be immaterial are not adjusted.	Organic measures allow management and investors to understand the like-for- like revenue and current period margin performance of the continuing business.
Underlying Cash Flow from Operations	Underlying Cash Flow from Operations is Underlying Operating Profit adjusted for non-cash items, net capex (excluding business combinations and similar items) and changes in working capital.	To show the cash flow generated by the operations and calculate underlying cash conversion.

Glossary continued

Measure	Description	Rationale
Underlying Cash Conversion	Underlying Cash Flow from Operations divided by Underlying (as reported) Operating Profit.	Cash conversion informs management and investors about the cash operating cycle of the business and how efficiently operating profit is converted into cash.
EBITDA	EBITDA is Underlying Operating Profit excluding depreciation, amortisation and share based payments.	To calculate the Net Debt to EBITDA leverage ratio and to show profitability before the impact of major non-cash charges.
Annualised recurring revenue	Annualised recurring revenue ("ARR") is the normalised organic recurring revenue in the last month of the reporting period, adjusted consistently period to period, multiplied by twelve. Adjustments to normalise reported recurring revenue include those components that management has assessed should be excluded in order to ensure the measure reflects that part of the contracted revenue base which (subject to ongoing use and renewal) can reasonably be expected to repeat in future periods (such as non-refundable contract sign-up fees).	ARR represents the annualised value of the recurring revenue base that is expected to be carried into future periods, and its growth is a forward-looking indicator of reporting recurring revenue growth.
Renewal Rate by Value	The ARR from renewals, migrations, upsell and cross-sell of active customers at the start of the year, divided by the opening ARR for the year.	As an indicator of our ability to retain and generate additional revenue from our existing customer base through up and cross sell.
Free Cash Flow	Free Cash Flow is Underlying Cash Flow from Operations minus net interest paid and income tax paid and adjusted for non-recurring cash items (which excludes net proceeds on disposals of subsidiaries) and profit and loss foreign exchange movements.	To measure the cash generated by the operating activities during the period that is available to repay debt, undertake acquisitions or distribute to shareholders.
% Subscription Penetration	Organic software subscription revenue as a percentage of organic total revenue.	To measure the progress of migrating our customer base from licence and maintenance to a subscription relationship.
% Sage Business Cloud Penetration	Organic recurring revenue from the Sage Business Cloud (native and connected cloud) as a percentage of the organic recurring revenue of the Future Sage Business Cloud Opportunity.	To measure the progress in the migration of our revenue base to the Sage Business Cloud by connecting our solutions to the cloud and/or migrating our customers to cloud connected and cloud native solutions.
Return on Capital Employed (ROCE)	ROCE is calculated as: • Underlying Operating Profit; minus • Amortisation of acquired intangibles; the result being divided by • The average (of the opening and closing balance for the period) total net assets excluding net debt, provisions for non-recurring costs, financial liability for purchase of own shares and tax assets or liabilities (i.e. capital employed).	As an indicator of the current period financial return on the capital invested in the company. ROCE is used as an underpin in the FY19, FY20 and FY21 PSP awards.
Net debt	• Net debt is cash and cash equivalents less current and non-current borrowings.	To calculate the Net Debt to EBITDA leverage ratio and an indicator of our indebtedness.

AGM
Annual General Meeting

AI
Artificial Intelligence

API
Application Program Interface

CAGR
Compound Annual Growth Rate

CDP
Carbon Disclosure Project

CFO
Chief Financial Officer

CGU
Cash Generating Unit

CRM
Customer Relationship Management

DTR
Disclosure Guidance and Transparency Rules

EBITDA
Earnings Before Interest Taxes Depreciation and Amortisation

ED
Executive Director

EPS
Earnings Per Share

ERP
Enterprise Resource Planning

EU
European Union

FCF
Free Cash Flow

FY19
Financial year ending 30 September 2019

FY20
Financial year ending 30 September 2020

FY21
Financial year ending 30 September 2021

FY22
Financial year ending 30 September 2022

FY23
Financial year ending 30 September 2023

GHG
Greenhouse Gas

HCM
Human Capital Management

HR
Human Resources

IFRS
International Financial Reporting Standards

ISV
Independent Software Vendor

KPI
Key Performance Indicator

LSE
London Stock Exchange

LTIP
Long Term Incentive Plan

ML
Machine Learning

NED
Non-Executive Director

NPS
Net Promoter Score

PBT
Profit Before Tax

PSP
Performance Share Plan

R&D
Research and Development

SBC
Sage Business Cloud

SaaS
Software as a Service

SSRS
Software & Software Related Services

TSR
Total Shareholder Return

Shareholder Information

Financial calendar[1]

Annual General Meeting	2 February 2023
Dividend payments[2]	
FY22 Final payable	10 February 2023
H1 FY23 Interim payable	23 June 2023
Results announcements	
Q1 FY23 Trading update	19 January 2023
H1 FY23 Interim results	17 May 2023
Q3 FY23 Trading update	27 July 2023
FY23 Full-Year results	22 November 2023

Note:

1. Please note that these dates are provisional and subject to change. Please access our financial calendar on sage.com, which is updated regularly.
2. All dividend payments are subject to Board and, in the case of the final dividend, shareholders' approval.

Shareholder information online

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

To take advantage of this service, please go to www.shareview.co.uk, where full details of the shareholder portfolio services 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 decide at a later date that you do not want to receive these emails, you may amend your request by accessing your Shareview Portfolio online and amending your preferred method of communication from "email" to "post".

Our corporate website has more information about our business, products, investors, media, sustainability, and careers at Sage.

Stay up to date at www.sage.com

Annual General Meeting of Shareholders

We consider the Annual General Meeting of shareholders (AGM) to be an important event in our calendar and a significant opportunity to engage with our shareholders. The 2023 AGM will be held on 2 February 2023. Further details will be set out in the Notice of AGM and on our website at sage.com.

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Lines are open 8.30am
to 5.30pm UK time,
Monday to Friday.

Information for investors

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

Investor enquiries

Enquiries can be directed to our Investor Relations department via our website.

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Luminous are certified in using Carbon Balanced paper for The Sage Group plc Annual Report. This support will enable The Woodlands Trust to maintain protection of critically threatened woodland and forestry areas by planting trees which can absorb carbon that would otherwise be released into the atmosphere.

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Design and production
www.luminous.co.uk

Sage exists to knock down barriers so everyone can thrive, starting with the millions of small and mid-sized businesses served by us, our partners and accountants. Customers trust our finance, HR and payroll software to make work and money flow. By digitising business processes and relationships with customers, suppliers, employees, banks and governments, our digital network connects SMBs, removing friction and delivering insights. Knocking down barriers also means we use our time, technology and experience to tackle digital inequality, economic inequality and the climate crisis.

www.sage.com

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