Strong financial performance and continued strategic execution

- Continued strong growth in high quality organic recurring revenue of 8.5%, in line with guidance at the start of the year, with 90% of total revenue now recurring
- Organic operating margin of 22.1%, reflecting ongoing investment in the business
- Sustained strong cash generation, with underlying cash conversion of 123%
- Resilient balance sheet, with c. £1.2bn of cash and available liquidity; net debt to EBITDA ratio of 0.3x
- Good progress in strategic execution, with software subscription penetration of 65% and Sage Business Cloud penetration of 61%
- Further targeted investment planned for FY21 to drive future growth, led by cloud native solutions

Alternative Performance Measures (APMs)[1]	**FY20**	**FY19**[2]	**Change**
Organic Financial APMs (excluding assets held for sale[3]***)***			
Organic Total Revenue	£1,768m	£1,705m	+3.7%
Organic Recurring Revenue	£1,592m	£1,468m	+8.5%
Organic Operating Profit	£391m	£406m	-3.7%
% Organic Operating Profit Margin	*22.1%*	*23.8%*	*-1.7 ppts*
Underlying Financial APMs			
EBITDA	£498m	£502m	-0.7%
Underlying Operating Profit	£411m	£441m	-6.7%
% Underlying Profit Margin	*21.6%*	*23.2%*	*-1.6 ppts*
Underlying Basic EPS	27.43p	27.88p	-1.6%
Underlying Cash Conversion	123%	129%	-6 ppts
KPIs			
Annualised Recurring Revenue (ARR)	£1,611m	£1,538m	+4.8%
Renewal Rate by Value	99%	101%	-2 ppts
% Subscription Penetration	65%	56%	+9 ppts
% Sage Business Cloud Penetration	61%	51%	+10 ppts
Statutory Measures	**FY20**	**FY19**	**% Change**
Revenue	£1,903m	£1,936m	-1.7%
Operating Profit	£404m	£382m	+5.8%
% Operating Profit Margin	*21.3%*	*19.7%*	*+1.6 ppts*
Basic EPS (p)	28.38p	24.49p	+15.9%
Dividend Per Share (p)	17.25p	16.91p	+2.0%

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

FY20 Financial Performance

- Organic recurring revenue (excluding assets held for sale) increased by 8.5% to £1,592m, underpinned by software subscription revenue growth of 20.5% to £1,141m. This was offset by a 26.1% decrease in other revenue (SSRS and processing) to £176m. Total organic revenue grew by 3.7% to £1,768m.
- Including assets held for sale[3], recurring revenue growth increased by 8.2% to £1,674m, underpinned by software subscription revenue growth of 20.2% to £1,197m, and offset by a 25.8% decrease in other revenue (SSRS and processing) to £192m. Total revenue grew by 3.3% to £1,866m.

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

[2] Organic revenue and operating profit for FY19 is restated to aid comparability with FY20. The definition of organic measures can be found in Appendix 1 with a full reconciliation of organic, underlying and statutory measures on page 10. Unless otherwise specified, all references to revenue, profit and margins are on an organic basis.

[3] Assets held for sale at year-end include businesses in Central Europe and International. Further details are included on page 8.

- Growth in recurring revenue reflects the continued focus on attracting new customers and migrating existing customers to subscription and Sage Business Cloud, with particular strength in Northern Europe and North America.
- Decrease in other revenue (SSRS and processing) is in line with our strategy to transition to subscription revenue and away from licence sales and low margin professional services implementations. As expected, this reduction accelerated in the second half due to the impact of COVID-19.
- Organic operating profit of £391m, representing a margin of 22.1% (FY19: 23.8%), reflects continued investment to drive strategic execution, and a £17m bad debt provision in connection with COVID-19. Including assets held for sale, operating profit was £406m, a margin of 21.8%.
- Non-recurring gain of £46m (FY19: loss of £14m) includes a £141m net gain on disposals (Sage Pay and the Brazilian business), offset by office relocation and property restructuring charges of £54m, a £19m charge for goodwill impairment in respect of the Asian business as previously announced, and restructuring charges of £22m reflecting the move away from low margin professional services revenue.
- Continued strong cash generation, with cash conversion above 100% for the second consecutive year. Cash conversion of 123% (FY19: 129%) reflects continued growth in software subscription and sustained improvements in working capital, with particular success in the collection of receivables.
- Resilient balance sheet, with c. £1.2bn of cash and available liquidity (comprising £848m of cash and cash equivalents, and £398m of undrawn facilities), and net debt to EBITDA of 0.3x as at 30 September 2020.
- Full year dividend up 2.0% to 17.25p, including a final dividend of 11.32p. This reflects the Group's strong business performance, cash generation and liquidity position, and is in line with our policy of maintaining the dividend in real terms.

Progress in strategic execution

- We've enhanced customer experience with improved processes and technology, further investing in multichannel support as lockdowns were implemented. We launched online COVID-19 hubs in our major regions with focused content and interactive sessions to help customers navigate the pandemic.
- We've continued to focus on embedding our values and on developing and engaging colleagues. This has been central to our COVID-19 response, driving strong teamwork and customer focus while colleagues continue to work largely from home. Our Glassdoor score is now 4.4 out of 5.
- In innovation, we continued to deliver against our product roadmap. We enhanced our small business proposition with the launch of Sage Accounting Plus in the UK and the acquisition of CakeHR. For medium customers we launched Sage Intacct in the UK and South Africa, taking its footprint to five countries. We also integrated AI capabilities including innovations in timesheet management and error detection.
- We continue to reshape the portfolio and increase focus on Sage Business Cloud, completing the disposals of Sage Pay and the Brazilian business in March, with further divestitures planned (including certain businesses within Central & Southern Europe and International, held for sale at the year-end[3]).

Continued focus on strategic execution has resulted in:

- Recurring revenue increasing to 90% of total revenue (FY19: 86%) with software subscription penetration now at 65% (FY19: 56%).
- Future Sage Business Cloud Opportunity (Sage Business Cloud and products with potential to migrate) recurring revenue growth of 10%. Sage Business Cloud penetration[4] increased to 61% (FY19: 51%), reflecting continuing progress in the shift towards cloud connected and cloud native solutions.
- Renewal by value[5] reduced slightly to 99% (FY19: 101%), reflecting lower levels of upsell to existing customers during the second half.
- Annualised recurring revenue[6] (ARR) increased by 5% to £1,611m, reflecting continued revenue growth despite COVID-19, which particularly impacted the third quarter.

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

[5] Defined as the closing ARR from customers active at the start of the year, divided by the opening ARR for the year.

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

Strategic priorities for FY21 and beyond

Sage has made considerable progress in its transition to a SaaS business model over the last two years, significantly increasing the proportion of revenue from subscription and Sage Business Cloud, and delivering on the priorities we set out in 2018.

Sage Business Cloud adoption and growth will remain our key objective in FY21 and beyond. However, with the pace of digital transformation among small and medium businesses now growing, we intend to increase our focus on accelerating cloud native solutions across the Group, initially in our largest markets of Northern Europe and North America. At the same time, cloud connected will remain an important driver of growth, particularly in Continental Europe. We will also focus on further embedding SaaS capability and culture throughout Sage.

To support these strategic priorities, Sage intends to allocate further resource to Sage Business Cloud, in particular to cloud native solutions, and to increase its investment in sales and marketing and product development (R&D). This will be part-funded by cost savings from the restructuring of our professional services business, and other efficiencies across the Group. Given the uncertain economic environment due to COVID-19, we may flex the level of sales and marketing investment dynamically during the year, in response to market conditions.

The increased investment is expected to result in a planned reduction in organic operating margin of up to three percentage points. Delivery of these strategic priorities is expected to drive recurring revenue growth and new customer acquisition, generate efficiencies and, over time, lead to significant value creation through sustainable profit and cash generation.

Outlook

Against the uncertain economic backdrop, we currently expect organic recurring revenue growth for FY21 to be in the region of 3% to 5%, weighted towards the second half of the year. We also expect other revenue (SSRS and processing) to continue to decline, in line with our strategy. Organic operating margin is expected to be up to three percentage points below FY20, depending on the level of additional investment we make during the year.

Looking beyond FY21, we expect margins to trend upwards over time, as the investment drives recurring revenue growth and operating efficiencies.

Steve Hare, CEO, said:

"We've delivered a strong performance in FY20, achieving recurring revenue growth in line with the guidance we gave at the beginning of the year, despite the COVID-19 pandemic. I would like to thank all of our colleagues and partners for their continuing commitment to our customers, communities and each other during this period. We've also made good strategic progress, delivering against our customer, colleague and innovation commitments. While the near term remains uncertain, these foundations position us well to support customers as they adopt digital business models, and I am confident that our additional investment in Sage Business Cloud, and in particular cloud native solutions, will deliver stronger growth and drive the future success of the Group."

About Sage

Sage is the global market leader for technology that provides small and medium businesses with the visibility, flexibility and efficiency to manage finances, operations and people. With our partners, Sage is trusted by millions of customers worldwide to deliver the best cloud technology and support. Our years of experience mean that our colleagues and partners understand how to support our customers and communities through the good, and more challenging times. We are here to help, with practical advice, solutions, expertise and insight.

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A presentation for investors and analysts will webcast at 8.30am UK time. The webcast can be accessed via www.sage.com/investors. Participants may also dial in by calling +44 (0) 20 7192 8338, using pin code 9039088. A replay of the call will also be available for one week after the event on +44 (0) 333 300 9785 using pin code 9039088.

CEO Review

Sage has achieved a strong performance in FY20, delivering significant, high quality recurring revenue growth, while continuing to focus on attracting new customers and migrating existing customers to Sage Business Cloud. At the same time, we have executed at pace on our strategic priorities, guided by our purpose of transforming the way people think and work, so their organisations can thrive.

Early in the COVID-19 crisis, we moved decisively to protect the health and wellbeing of our colleagues, and to provide continued support to our customers and partners. While the pandemic continues to create uncertainty for small and medium businesses, moderating Sage's growth in the short-term, our consistent focus on customer success has supported our performance to date.

At the same time, the pace of digital transformation among small and medium businesses is increasing, and delivering Sage Business Cloud innovations as scheduled throughout the year has positioned us well to support customers as they adopt new digital solutions. In FY21, our planned investment in Sage Business Cloud and particularly in cloud native solutions, together with continued focus on embedding SaaS capability and culture, are expected to drive further progress on our journey to becoming a great SaaS company.

FY20 Results

In FY20 the Group delivered organic recurring revenue growth of 8.5% to £1,592m, and organic total revenue growth of 4% to £1,768m. The increase in recurring revenue, underpinned by a 21% rise in software subscription revenue to £1,141m, was driven by growth from existing and new customers, principally in North America and Northern Europe.

In North America, recurring revenue grew by 11% to £634m, driven by strong cloud native growth from Sage Intacct together with cloud connected solutions. Northern Europe continued to grow strongly with recurring revenue growth of 9% to £377m, reflecting good momentum carried into the period, further cloud connected contracts, and growth in cloud native solutions. After a stronger first half, the impact of COVID-19 caused growth to ease back in the second half.

Other revenue (SSRS and processing) decreased by 26%, in line with our strategy to transition to subscription revenue and away from licence sales and professional services implementations. As expected, this decline accelerated in the second half due to COVID-19.

Portfolio View of Revenue

Revenue by Portfolio[7]	**Recurring**			**Total**		
	FY20	**FY19**	***Growth***	**FY20**	**FY19**	***Growth***
	£m	**£m**	***%***	**£m**	**£m**	***%***
Cloud native[8]	£222m	£172m	*+29%*	£234m	£184m	*+27%*
Cloud connected[9]	£636m	£480m	*+33%*	£650m	£497m	*+31%*
Sage Business Cloud	**£858m**	**£652m**	***+32%***	**£884m**	**£681m**	***+30%***
Products with potential to migrate	£557m	£634m	*-12%*	£666m	£792m	*-16%*
Future Sage Business Cloud Opportunity[10]	**£1,415m**	**£1,286m**	***+10%***	**£1,550m**	**£1,473m**	***+5%***
Non-Sage Business Cloud[11]	£177m	£182m	*-2%*	£218m	£232m	*-6%*
Organic Total Revenue	**£1,592m**	**£1,468m**	***+8%***	**£1,768m**	**£1,705m**	***+4%***
Sage Business Cloud Penetration	***61%***	***51%***				

7 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.

8 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.

9 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.

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

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

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

The Future Sage Business Cloud Opportunity continues to perform well, with recurring revenue growth of 10% and total revenue growth of 5%. Cloud native solutions have delivered recurring revenue growth of 29%, with Sage Intacct delivering recurring revenue growth of 26%.

The strong growth in cloud connected recurring revenue of 33% to £636m reflects momentum from the migration of existing customers predominantly in North America and Northern Europe, as well as further growth from new customers acquired in the year. The focus on driving revenue to cloud solutions has resulted in Sage Business Cloud penetration of 61%, up from 51% in the prior year.

The Non-Sage Business Cloud portfolio comprises products for which management does not envisage a path to Sage Business Cloud, predominantly because the products address segments outside Sage's core focus. The 2% recurring revenue decline and 6% total revenue decline in the Non-Sage Business Cloud portfolio is in line with expectations and reflects the strategy to focus on solutions with a direct pathway to Sage Business Cloud.

Review of strategic progress

At our FY18 results announcement, we set out our initial priorities to drive the transition to a SaaS business. Our focus on the strategic lenses of customer success, colleague success and innovation, as well as on simplifying our product portfolio, has ensured that we have delivered against the commitments we made.

Customer success

Our objective in customer success has been to drive a more customer-centric approach, improving the customer experience and resulting in deeper and longer-lasting customer relationships.

To support this objective, we reshaped our organisation and reporting lines around the small and medium business segments, enabling a deeper focus on the specific needs of customers in each segment. We've invested in new systems to improve the level of customer insight and service efficiency, and we've continued to digitise customer service, reducing call waiting times and accelerating the resolution of customer problems.

These improvements have enabled Sage to provide extensive support and advice to small and medium businesses in the light of COVID-19. In our major markets, we've established online COVID-19 advice hubs, provided webinars and other interactive sessions, and developed special-purpose software to support customers when applying for government funds, reinforcing our reputation for strong customer support.

Colleague success

In colleague success, we aim to build a culture that fosters collaboration and open and honest dialogue, where colleagues feel connected to Sage's vision and put customers at the heart of everything we do.

We've invested in the training of colleagues, running development programmes both for our leaders and for emerging talent, and establishing senior sponsorship and mentoring schemes. We've also launched refreshed values and behaviours, and embedded them within the business through our performance review approach and culture workshops.

Colleague experience and engagement has been a key focus, especially during the COVID-19 pandemic. Close teamwork and a strong sense of cohesion has been maintained through a range of focused initiatives including daily and weekly leadership communications, networking groups, e-learning and support for mental wellbeing. From March to May, we ran weekly "Always Listening" surveys to support our COVID-19 response, which indicated almost universal appreciation among colleagues for Sage's response to the pandemic, and showed us where colleagues needed more support, inspiring initiatives such as a Headspace subscription for every colleague.

The result of investing in colleague experience is more invigorated, engaged colleagues who are better able to support the success of Sage's customers. Our most recent colleague NPS scores show an increase of 60 points over the last two years, while Sage's Glass Door rating has increased to 4.4, up from 2.9 in FY18.

Innovation

Innovation at Sage means developing solutions to customer problems by integrating emerging technology and accelerating the availability and adoption of Sage Business Cloud.

Sage has increased investment in R&D by around £60m since FY18, and expanded the Group's total engineering headcount by around 20%, with a focus on Sage Business Cloud. As a result, in FY20 Sage spent around 15% of recurring revenue on R&D, up from 13% in FY18. This has supported strong innovation progress particularly in our cloud native portfolio.

For smaller customers, we've developed and acquired products and functionality to create a differentiated proposition across accounting, automation, payroll and HR, that enhances customers' control over their most important business processes.

- We launched Sage Accounting Plus in the UK in May. Since the launch, the pace of growth in Sage Accounting has accelerated, attracting new customers directly and through accountant referrals.
- AutoEntry, our data automation solution which we acquired at the end of FY19, has been integrated with key products including Sage Accounting and Sage 50.
- We acquired CakeHR, an HR management solution which enables small businesses to manage workforces with tools such as reporting, organisational charts, payslips, absence requests and schedules.

For medium sized customers, we've focused on giving more geographies access to cloud native solutions, as well as enhancing overall functionality.

- We launched Sage Intacct in South Africa in August, and have made strong progress in the UK and Australia following its launch in those countries last year, achieving nearly £2m of ARR so far from new customers outside North America. Sage Intacct is now available in five countries.
- We launched Sage Intacct Construction, designed to meet the unique needs of construction and real estate companies, with strong early demand following its launch in the US in March.
- We've developed technology platforms that enable existing Sage desktop or cloud connected customers to migrate to a cloud native solution, such as SEOS, our managed cloud solution.

Sage also continued to invest in building out the Sage Business Cloud environment, and in developing AI capabilities through Sage AI Labs. Key projects include Sage Intelligent Time, a time tracking tool that uses AI to learn from an employee's calendar and working patterns, and an outlier detection tool designed to spot accounting mistakes and irregularities.

Simplifying the product portfolio and driving the migration strategy

Increasing the Group's focus on Sage Business Cloud is a key priority for Sage. Since FY18, we have driven the rapid migration of desktop customers to cloud connected solutions across the Group, with particular success in the UK and North America, and accelerating progress in Continental Europe. This has resulted in cloud connected revenues almost tripling from 13% of Group total revenue in FY18 to 37% in FY20. We have also grown cloud native revenues, mainly through new customer acquisition, from 8% of total revenue in FY18 to 13% in FY20.

At the same time, we have pursued divestment or other value creation paths for non-core products which have no route to Sage Business Cloud, resulting in the reduction of revenue from non-Sage Business Cloud products so far by more than a third since FY18. This portfolio simplification has resulted in a more focused business with a greater mix of higher quality, recurring revenue.

Accelerating strategic execution – our priorities for FY21 and beyond

Sage has made considerable progress in its transition to a SaaS business model over the last two years, significantly increasing the proportion of revenue from subscription and Sage Business Cloud, and delivering on the priorities we set out in 2018.

Sage Business Cloud adoption and growth will remain our key objective in FY21 and beyond. However, with the pace of digital transformation among small and medium businesses now growing, we intend to increase our focus on accelerating fully hosted, cloud native solutions across the Group, initially in our largest markets of Northern Europe and North America. At the same time, cloud connected will remain an important driver of growth, particularly in Continental Europe. We will also focus on further embedding SaaS capability and culture throughout Sage.

To support these strategic priorities, Sage intends to allocate further resource to Sage Business Cloud, in particular to cloud native solutions, and to increase its investment in sales and marketing and product development (R&D). The sales and marketing investment will drive sales growth directly through digital marketing, as well as helping to promote and build the Sage brand. The product development investment will accelerate innovation, developing the digital environment including new collaboration and workflow tools, increasing our focus on AI, and further driving the availability and adoption of Sage Business Cloud.

The increased investment will be part-funded by cost savings from the restructuring of our professional services business, and other efficiencies across the Group. Given the uncertain economic environment due to COVID-19, we may flex the level of sales and marketing investment dynamically during the year, in response to market conditions.

This investment is expected to result in a planned reduction in organic operating margin of up to three percentage points. Delivery of these strategic priorities is expected to drive recurring revenue growth and new customer acquisition, generate efficiencies and, over time, lead to significant value creation through sustainable profit and cash generation.

Sage Business Cloud powered by cloud native

Cloud native represents a rapidly growing opportunity for Sage, as customers increasingly look to digitise their businesses and benefit from the operational advantages of a fully hosted solution, including anytime anywhere access and automatic upgrades. To address this opportunity, we have developed an integrated suite of cloud native solutions, focused on meeting the needs of small and medium sized customers:

- For smaller customers, we've created a differentiated end-to-end proposition for businesses that spans accounting, automation, payroll and HR. Based around Sage Accounting, our solutions allow customers to scale from an entry-level accounting package to a full suite of integrated back-office software that enables them to manage their finances, operations and people.
- For medium sized customers, we've created solutions which provide deeper business insight and richer functionality to support more complex customer needs, integrating capabilities across financials, reporting and analytics, budgeting and planning and people management, based around our award-winning Sage Intacct and Sage People solutions.

This portfolio provides a strong platform from which to accelerate cloud native growth.

Winning in our target markets

While we aim to accelerate cloud native solutions across the Group, our initial focus will be in our largest markets of Northern Europe and North America, which together account for almost two thirds of Sage's recurring revenue.

In Northern Europe, our priority is to increase new customer acquisition through our integrated cloud native portfolio, leveraging our brand and customer success expertise in order to defend and grow Sage's market leading position among small businesses in this region. This will be further driven by transforming relationships with accountants and resellers in order to broaden our reach through the ecosystem.

In North America, our priority is to attract new and existing customers to our medium cloud native solutions, including Sage Intacct and Sage People. We recently created a single organisation in the US, combining the cloud native expertise of Sage Intacct with the breadth of our installed base of Sage 200 and X3 customers, in order to drive a co-ordinated, vertical-focused market approach.

Embedding SaaS capability and culture

Management is committed to further developing Sage's SaaS capabilities, based on a customer-centric, fast-paced and inclusive culture that enables colleagues to perform at their best in a sustainable way. This is supported by a talent strategy that focuses on colleague success through the development of internal talent, selective acquisition of external talent, sharpening our understanding of future needs, and promoting diversity and inclusion.

Sage's role in society and our community

As part of its broader corporate responsibility, Sage has a significant role to play in addressing the societal, economic and environmental challenges facing our business, our colleagues, our customers and our communities, now and in the future.

Sage Foundation represents a core part of our values, supporting the communities we operate in, and serving to attract and retain talent. All colleagues are encouraged to take up to five days each year, on a fully paid basis, to support charitable initiatives under Sage Foundation. As a result, colleagues contributed more than 24,300 volunteering days in FY20, including under "virtual volunteering" initiatives.

Our approach to Diversity and Inclusion (D&I), known as Sage Belong, focuses on promoting an inclusive environment for all colleagues, where we reflect, understand, visibly respect and encourage the diversity of our colleagues, customers and the communities we serve. This year we have seen colleagues actively engage with listening forums focused on the racial justice protests. Several new colleague success networks have been established to continue the discussion and inform our strategy. These informal, colleague-led groups are reinforced by our D&I Council, chaired by the CEO and Chief People Officer, ensuring alignment of D&I priorities with our overall business strategy.

We are committed to responsibly managing our use of resources and the environmental impact of the solutions we provide to our customers and partners. Following a detailed review of our environmental approach, Sage will adopt a new environmental strategy in FY21. This includes an ambitious plan to set clear, science-based targets with a full roadmap as part of the implementation of a Net Zero strategy.

Further simplifying the business

Creating a simpler and more focused business remains a key priority of Sage. In March 2020 we completed the disposals of Sage Pay and the Brazilian business, reducing Sage's exposure to non-core business lines and geographies.

We have continued to make progress against this objective, with assets held for sale as at the year-end including:

- within the Central and Southern Europe segment, Sage's businesses in Poland and Switzerland; and
- within the International segment, Sage's businesses in Asia and Australia (excluding global products that are core to our strategy such as Sage Intacct, Sage People and Sage X3), and Sage's South African payroll outsourcing business.

The assets held for sale comprise mainly local products which are not part of Sage Business Cloud. In FY20, the assets held for sale delivered total revenue of £98m (FY19: £100m) and operating profit of £15m (FY19: £18m).

Financial Review

This financial review provides a summary of Sage's financial results on an organic basis, as well as considering the underlying and statutory performance of the business. Organic measures allow management and investors to understand the like-for-like revenue and margin performance of the continuing business.

Organic Financial Results

In FY20 Sage delivered organic recurring revenue growth of 8% to £1,592m and organic total revenue growth of 4% to £1,768m. The increase in recurring revenue, underpinned by a 21% rise in software subscription revenue to £1,141m, was driven by growth from existing and new customers, principally in North America and Northern Europe.

Other revenue (SSRS and processing) declined by 26% to £176m, in line with our strategy to transition to subscription revenue and away from licence sales and professional services implementations. As expected, this reduction accelerated in the second half due to the impact of COVID-19.

The Group's organic operating profit decreased by 4% to £391m, representing an organic operating margin of 22.1% (FY19: 23.8%). This margin reflects continued investment to drive strategic execution, and includes a £17m charge to provide for potential bad debts in connection with COVID-19.

The Group also achieved underlying basic EPS of 27.43p, strong underlying cash conversion of 123% and free cash flow of £382m.

Statutory and Underlying Financial Results

Financial Results	**Statutory**			**Underlying**[12]		
	FY20	**FY19**	**Change**	**FY20**	**FY19**	**Change**
North America	£692m	£657m	+5%	£692m	£657m	+5%
Northern Europe	£412m	£406m	+1%	£412m	£406m	+1%
Central & Southern Europe	£590m	£608m	-3%	£590m	£604m	-2%
International	£209m	£265m	-21%	£209m	£237m	-12%
Group Total Revenue	**£1,903m**	**£1,936m**	**-2%**	**£1,903m**	**£1,904m**	**0%**
Operating Profit	£404m	£382m	+6%	£411m	£441m	-7%
% Operating Profit Margin	*21.3%*	*19.7%*	*+1.6 ppts*	*21.6%*	*23.2%*	*-1.6 ppts*
Profit Before Tax	£373m	£361m	+3%	£386m	£417m	-7%
Net Profit	£310m	£266m	+16%	£299m	£309m	-3%
Basic EPS	28.38p	24.49p	+16%	27.43p	27.88p	-2%

The Group achieved statutory total revenue of £1,903m, a 2% decrease on the prior year. Underlying growth in North America and Northern Europe was offset by the disposal of Sage Pay and the Brazilian business, together with foreign exchange headwinds, principally in International. Underlying total revenue, which normalises the comparative period for foreign currency movements, was almost unchanged.

Statutory operating profit increased by 6% to £404m, reflecting the non-recurring net gain on the disposal of Sage Pay and the Brazilian business, together with the underlying performance of the Group and other recurring and non-recurring items. Underlying operating profit, which excludes recurring and non-recurring items, decreased by 7% to £411m.

Statutory basic EPS increased by 16% to 28.38p, principally reflecting the non-recurring gain and a lower statutory tax charge compared to FY19. Underlying basic EPS declined by 2% to 27.43p, reflecting the underlying performance of the Group together with a lower underlying tax charge.

[12] Revenue and profit measures are defined in Appendix 1.

Underlying & Organic Reconciliations to Statutory

	FY20			FY19		
	Revenue	**Operating Profit**	**Operating Margin %**	**Revenue**	**Operating Profit**	**Operating Margin %**
Statutory	**£1,903m**	**£404m**	**21.3%**	**£1,936m**	**£382m**	**19.7%**
Recurring items[13]	-	£53m	-	-	£52m	-
Non-recurring items:						
- *Net gain on disposal of subsidiaries*	-	(£141m)	-	-	(£28m)	-
- *Impairment of assets held for sale*	-	-	-	-	£14m	-
- *Asia goodwill impairment*	-	£19m	-	-	-	-
- *Property restructuring costs*	-	£21m	-	-	£16m	-
- *Professional Services restructuring*	-	£22m	-	-	-	-
- *Office relocation*	-	£33m	-	-	£12m	-
Impact of FX[14]	-	-	-	(£32m)	(£7m)	-
Underlying	**£1,903m**	**£411m**	**21.6%**	**£1,904m**	**£441m**	**23.2%**
Disposals	(£37m)	(£5m)	-	(£103m)	(£16m)	-
Held for sale	(£98m)	(£15m)	-	(£100m)	(£18m)	-
Acquisitions	-	-	-	£4m	(£1m)	-
Organic	**£1,768m**	**£391m**	**22.1%**	**£1,705m**	**£406m**	**23.8%**

Revenue

The Group achieved statutory and underlying revenue of £1,903m in FY20. Underlying revenue in FY19 of £1,904m reflects statutory revenue of £1,936m retranslated at current year exchange rates, resulting in an FX adjustment of £32m.

Organic revenue of £1,768m (FY19: £1,705m) reflects underlying revenue adjusted for £37m of revenue from assets sold during the period (FY19: £103m), including £17m of revenue from Sage Pay (FY19: £39m) and £20m from the Brazilian business (FY19: £43m). There is a further adjustment for assets held for sale of £98m (FY19: £100m), comprising £52m of revenue in relation to the International segment (FY19: £52m), and £46m in relation to the Central and Southern Europe segment (FY19: £48m). FY19 organic revenue also includes a £21m adjustment for the disposals of the US payroll processing business and the South African payments business, and a £4m adjustment relating to the acquisition of AutoEntry.

Operating profit

The Group achieved a statutory operating profit of £404m in FY20 (FY19: £382m). Underlying operating profit of £411m (FY19: £441m) reflects statutory operating profit adjusted for recurring and non-recurring items. Recurring items of £53m (FY19: £52m) comprise £33m amortisation of acquisition-related intangibles (FY19: £31m) and £20m of M&A related charges (FY19: £21m).

Non-recurring items include a £141m net gain on disposal of subsidiaries (FY19: £28m gain), comprising a £193m gain on the disposal of Sage Pay and a £52m loss on disposal of the Brazilian business (of which £44m reflects the non-cash reclassification of foreign exchange losses from other comprehensive income to the income statement). This is offset by a £19m non-cash charge relating to goodwill impairment in respect of our Asia business, costs relating to our property restructuring programme of £21m (FY19: £16m), and non-cash accelerated depreciation related to the relocation of our North Park office in Newcastle of £33m (FY19: £12m).

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

[14] Impact of retranslating FY19 results at FY20 average rates.

In addition, restructuring charges of £22m were incurred in FY20, reflecting the continued de-prioritisation of low margin professional services.

Organic operating profit of £391m (FY19: £406m) reflects underlying operating profit adjusted for operating profit attributable to businesses sold during the period, including £4m from Sage Pay (FY19: £14m), and £1m from the Brazilian business (FY19: £2m). There were no material adjustments in respect of the other disposals, which were approximately breakeven at an operating profit level. There is a further adjustment of £15m relating to assets held for sale, which reflects £7m of profit in relation to the International segment (FY19: £6m) and £8m of profit in relation to the Central and Southern Europe segment (FY19: £12m).

Organic Revenue Overview

Organic Revenue Mix	**FY20**		**FY19**		**% Change**
	£m	**% of Total**	**£m**	**% of Total**	
Software Subscription Revenue	£1,141m	65%	£947m	56%	+21%
Other Recurring Revenue	£451m	25%	£521m	32%	-13%
Organic Recurring Revenue	**£1,592m**	**90%**	**£1,468m**	**86%**	**+8%**
Other Revenue	£176m	10%	£237m	14%	-26%
Organic Total Revenue	**£1,768m**	**100%**	**£1,705m**	**100%**	**+4%**

Organic total revenue increased by 4% in FY20 to £1,768m. Organic recurring revenue grew by 8% to £1,592m, underpinned by a 21% increase in software subscription revenue to £1,141m, 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 13% to £451m reflects the substitution effect as customers migrate to subscription contracts. Other revenue (SSRS and processing) declined by 26% to £176m, in line with our strategy to transition to subscription revenue and away from licence sales and professional services implementations. As expected, this reduction accelerated in the second half due to the impact of COVID-19.

In the portfolio view of revenue, the Future Sage Business Cloud Opportunity delivered recurring revenue growth of 10% to £1,415m and total revenue growth of 5% to £1,550m, driven by transitioning existing customers and attracting new customers to Sage Business Cloud. In the Non-Sage Business Cloud portfolio, recurring revenue decreased by 2% to £177m, and total revenue decreased by 6% to £218m.

North America

Organic Revenue by Category	**FY20**	**FY19**	**% Change**
Organic Total Revenue	£692m	£641m	+8%
Organic Recurring Revenue	£634m	£572m	+11%
% Subscription Penetration	61%	56%	+5 ppts
% Sage Business Cloud Penetration	71%	66%	+5 ppts
Organic Recurring Revenue	**FY20**	**FY19**	**% Change**
US (excluding Sage Intacct)	£397m	£372m	+7%
Canada	£93m	£86m	+8%
Sage Intacct	£144m	£114m	+26%

North America delivered recurring revenue growth of 11% to £634m and total revenue growth of 8% to £692m. Subscription penetration is now 61%, up from 56% in the prior year, and Sage Business Cloud penetration is now 71%, up from 66% in the prior year, driven by growth in cloud native and cloud connected solutions.

Strong cloud native growth was driven through Sage Intacct, which delivered recurring revenue growth of 26% to £144m reflecting continued strong progress in North America through both new customer acquisition and existing customers.

The US (excluding Sage Intacct) increased recurring revenue by 7% to £397m and total revenue by 4% to £443m, supported by continued momentum in small and medium Sage Business Cloud products together with continued new customer acquisition during the year.

In Canada, recurring revenue increased by 8% to £93m and total revenue by 4% to £99m, driven by growth in Sage 50 cloud, as Sage Business Cloud penetration continues to build.

Northern Europe

Organic Revenue by Category	**FY20**	**FY19**	**% Change**
Organic Total Revenue	£395m	£371m	+6%
Organic Recurring Revenue	£377m	£345m	+9%
% Subscription Penetration	85%	70%	+15 ppts
% Sage Business Cloud Penetration	82%	67%	+15 ppts

Northern Europe (UK & Ireland) delivered recurring revenue growth of 9% to £377m and total revenue growth of 6% to £395m. Subscription penetration is 85%, up from 70% in the prior year, and Sage Business Cloud penetration is now 82%, up from 67% in the prior year.

Recurring revenue growth largely reflects continued success in cloud connected accounting and payroll solutions, driven by new customer acquisition together with momentum carried into the year.

Cloud native revenue growth in Northern Europe was driven by Sage Accounting and Sage People and supported by the recent acquisitions of Auto Entry and CakeHR. Sage Intacct has grown rapidly in the UK since it was launched in November 2019, and is building a good momentum in new contract wins. The pace of Sage Accounting growth has also accelerated following the launch of Sage Accounting Plus in May.

Central & Southern Europe

Organic Revenue by Category	**FY20**	**FY19**	**% Change**
Organic Total Revenue	£544m	£556m	-2%
Organic Recurring Revenue	£467m	£448m	+4%
% Subscription Penetration	55%	46%	+9 ppts
% Sage Business Cloud Penetration	40%	27%	+13 ppts
Organic Recurring Revenue	**FY20**	**FY19**	**% Change**
France	£246m	£237m	+4%
Central Europe	£97m	£91m	+6%
Iberia	£124m	£120m	+3%

Central and Southern Europe delivered recurring revenue growth of 4% to £467m while total revenue decreased by 2% to £544m. Subscription penetration is now 55%, up from 46% in the prior year and Sage Business Cloud penetration is 40%, up from 27% in the prior year, largely driven by growth in cloud connected solutions. This excludes revenues from assets held for sale as at the year-end, which include our businesses in Poland and Switzerland.

France delivered recurring revenue growth of 4% to £246m, driven by a strong performance in Sage Business Cloud, with particular strength in cloud connected products and accelerated growth in cloud native solutions including X3 cloud. Total revenue in France decreased by 1% to £273m.

Central Europe delivered recurring revenue growth of 6% to £97m while total revenue decreased by 2% to £127m. Growth in the region is driven by a combination of cloud connected solutions and local products.

Iberia delivered recurring revenue growth of 3% to £124m, while total revenue decreased by 5% to £144m. Growth in recurring revenue has been driven mainly by Sage 50 and Sage 200 cloud connected solutions.

International

Organic Revenue by Category	FY20	FY19	% Change
Organic Total Revenue	£137m	£137m	0%
Organic Recurring Revenue	£114m	£103m	+11%
% Subscription Penetration	62%	53%	+9 ppts
% Sage Business Cloud Penetration	14%	11%	+3 ppts
Organic Recurring Revenue	**FY20**	**FY19**	**% Change**
Africa & Middle East	£101m	£90m	+12%
Australia & Asia	£13m	£13m	+3%

International delivered recurring revenue growth of 11% to £114m and total revenue in line with last year at £137m. Subscription penetration is now 62%, up from 53% in the prior year and Sage Business Cloud penetration in the region is 14%, up from 11% in the prior year. This excludes revenues from assets held for sale as at the year-end, including Sage's businesses in Asia and Australia (excluding global products that are core to Sage's strategy such as Sage Intacct, Sage People and Sage X3), and Sage's South African payroll outsourcing business.

Africa & Middle East, representing almost 90% of the International region's revenue, delivered strong recurring revenue growth of 12% to £101m, driven by local products and cloud native solutions, with particularly strong growth in Sage Accounting. Total revenue in Africa & Middle East was in line with last year at £118m.

The remainder of the International region comprises the remaining assets in Asia and Australia, where growth was driven by cloud native solutions in Australia, principally Sage Intacct and Sage People.

Operating Profit

The Group achieved organic operating profit of £391m (FY19: £406m), representing a margin of 22.1% (FY19: 23.8%). This margin reflects continued investment to drive strategic execution, particularly in technology and innovation, and includes a £17m charge to provide for potential bad debts in connection with COVID-19.

Underlying operating profit was £411m (FY19: £441m), representing a margin of 21.6% (FY19: 23.2%). The difference between organic and underlying operating profit reflects the operating profits of the assets held for sale at the end of the year and the assets sold during the year (Sage Pay and the Brazilian business).

EBITDA was £498m (FY19: £502m) representing an EBITDA margin of 26.2%. This reflects a £25m increase in depreciation due to the adoption of IFRS 16 from 1 October 2019.

	FY20	FY19	FY20 Margin %
Organic Operating Profit	**£391m**	**£406m**	**22.1%**
Impact of disposals	£5m	£16m	
Impact of held for sale	£15m	£18m	
Impact of acquisitions	-	£1m	
Underlying Operating Profit	**£411m**	**£441m**	**21.6%**
Depreciation & amortisation	£58m	£35m	
Share based payments	£29m	£26m	
EBITDA	**£498m**	**£502m**	**26.2%**

Net Finance Cost

The statutory net finance cost for the period increased to £31m (FY19: £21m), reflecting interest charges on lease liabilities in connection with IFRS 16 and FX movements. The underlying net finance cost was £25m (FY19: £23m).

Taxation

The underlying tax expense for FY20 was £87m (FY19: £114m), resulting in an underlying tax rate of 23% (FY19: 27%). The statutory income tax expense for FY20 was £63m (FY19: £95m), resulting in a statutory tax rate of 17% (FY19: 26%).

The difference between the underlying and statutory rate in FY20 primarily reflects a non-taxable accounting net gain on the disposal of subsidiaries (Sage Pay and the Brazilian business), offset by non-tax-deductible charges relating to the impairment of goodwill in respect of the Asia business and accelerated depreciation relating to the relocation of our North Park office in Newcastle.

The FY20 underlying tax rate has reduced primarily as a result of the new French patent box regime, and certain other adjustments in France and Germany.

Earnings per Share

	FY20	**FY19**	**% Change**
Statutory Basic EPS	28.38p	24.49p	+15.9%
Recurring items	4.57p	3.55p	
Non-recurring items	(5.52p)	0.37p	
Impact of foreign exchange	-	(0.53p)	
Underlying Basic EPS	**27.43p**	**27.88p**	**-1.6%**

Underlying basic earnings per share of 27.43p was 2% lower than the prior period (FY19: 27.88p), reflecting the decrease in underlying operating profit, partly offset by the reduction in underlying tax rate.

Statutory basic earnings per share increased by 16%, primarily due to the increase in non-recurring profit related to the net gain on disposal of subsidiaries.

Cash Flow

The Group remains highly cash generative with underlying cash flow from operations of £505m (FY19: £577m), representing an underlying cash conversion of 123% (FY19: 129%). Importantly, the Group has now delivered cash conversion in excess of 100% for two years, demonstrating the robustness of the business model.

Cash Flow APMs	**FY20**	**FY19 (as reported)**
Underlying operating profit	£411m	£448m
Depreciation, amortisation and non-cash items in profit	£56m	£33m
Share based payments	£29m	£26m
Net changes in working capital	£45m	£108m
Net capital expenditure	(£36m)	(£38m)
Underlying Cash Flow from Operations	**£505m**	**£577m**
Underlying cash conversion %	*123%*	*129%*
Non-recurring cash items	(£4m)	(£24m)
Net interest paid	(£26m)	(£21m)
Income tax paid	(£93m)	(£88m)
Profit and loss foreign exchange movements	-	(£1m)
Free Cash Flow	**£382m**	**£443m**

Statutory Reconciliation of Cash Flow from Operations	**FY20**	**FY19 (as reported)**
Statutory Cash Flow from Operations	£527m	£586m
Recurring and non-recurring items	£14m	£29m
Net capital expenditure	(£36m)	(£38m)
Underlying Cash Flow from Operations	**£505m**	**£577m**

The Group generated £505m of underlying cash from operations in FY20, representing cash conversion of 123%, the second consecutive year that the Group delivered cash conversion in excess of 100%. The strong performance in FY20 reflects the continued growth in software subscription and sustained improvements in working capital, with particular success in the collection of receivables during the year. Underlying cash conversion is expected to trend down in FY21.

Free cash flow was £382m (FY19: £443m), largely reflecting continued strong underlying cash conversion, together with a reduction in non-recurring cash items.

Group net debt was £151m at 30 September 2020 (30 September 2019: £393m), comprising cash and cash equivalents of £848m (30 September 2019: £372m) and total debt of £999m (30 September 2019: £765m). The decrease in net debt in the period is mostly attributable to strong free cash flow of £382m and net proceeds from disposals of £202m, offset by £186m paid in dividends during the year, and the recognition of £136m of lease liabilities on the balance sheet on adoption of IFRS 16 at 1 October 2019, as well as a further £30m of lease liabilities recognised in the year.

Debt facilities

The Group's debt is sourced from a syndicated multi-currency Revolving Credit Facility ("RCF"), a syndicated Term Loan and US private placements ("USPP"). The Term Loan of £200m was put in place in September 2019 and expires in September 2022, having been extended by a year in September 2020. The Group's RCF expires in February 2025 (having been extended by one year in February 2020) with facility levels of £692m (split between US$719m and £135m tranches). At 30 September 2020, £294m (FY19: £45m) of the multi-currency revolving debt facility was drawn and the Term Loan was fully drawn (FY19: fully drawn).

The Group's total USPP loan notes at 30 September 2020 were £387m (US$400m and EUR85m) (FY19: US$550m and EUR85m). The remaining USPP loan notes have a range of maturities between January 2022 and May 2025. In May 2020, US$150m of USPP loan notes matured and were repaid using cash on hand.

Maturities within the next 18 months comprise EUR 55 million (£50 million) of the Group's US private placement loan notes in January 2022.

Capital allocation

Sage's disciplined approach to capital allocation remains unchanged as a result of COVID-19. The Group's primary focus remains on organic investment in order to accelerate the execution of the strategy as outlined above.

Sage continues to consider bolt-on acquisitions of complementary technology and partnerships that will further accelerate the strategy and enhance Sage Business Cloud, and has made several small but strategically significant acquisitions in the recent past. In line with management's focus on core competencies within the business, the disposal of Sage Pay and the Brazilian business were completed during the year and additional non-core assets were classified as held for sale at the year end.

Our policy is to maintain the dividend in real terms. In line with our policy, and reflecting the Group's strong business performance and cash generation during the year, and continued strong liquidity position, we have increased the full year dividend by 2% to 17.25p, including a final dividend of 11.32p.

The Group will also consider making additional capital returns to shareholders if appropriate. During the year, Sage announced on 6 April 2020 the cancellation of the previously announced £250m share buy-back programme, after £7m of shares had been purchased. This decision was taken to support the Group's financial strength in light of the COVID-19 pandemic.

	FY20	**FY19 (as reported)**
Net debt	£151m	£393m
EBITDA (Last Twelve Months)	£498m	£509m
Net debt/EBITDA Ratio	**0.3x**	**0.8x**

Group net debt as at 30 September 2020 was £151m and reported EBITDA over the last 12 months was £498m, resulting in a net debt to EBITDA ratio of 0.3x. Group return on capital employed (ROCE) for FY20 was 20% (FY19 as reported: 21%).

The Group adopted IFRS 16 with effect from 1 October 2019. This resulted in the recognition on the balance sheet of additional financial liabilities of £122m as at the year end, which has increased net debt to EBITDA in FY20 by 0.2x, partially offsetting the year-on-year decrease. The financial results from the prior year have not been restated. The adoption of IFRS 16 has had no material impact on our overall financial result.

Sage plans 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 the business needs require. Accordingly, given the current environment, we are comfortable with our current net debt to EBITDA ratio of 0.3x.

Going concern

The Directors have robustly tested the going concern assumption in preparing the financial statements, taking into account the Group's strong liquidity position at 30 September 2020 and a number of downside sensitivities, and remain satisfied that the going concern basis of preparation is appropriate. Further information is provided in note 1 of the financial statements on page 25.

Foreign exchange

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

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

AVERAGE EXCHANGE RATES (EQUAL TO GBP)	FY20	FY19	Change
Euro (€)	1.14	1.13	1%
US Dollar ($)	1.28	1.28	-
South African Rand (ZAR)	20.67	18.30	13%
Australian Dollar (A$)	1.88	1.81	4%
Brazilian Real (R$)	6.15	4.93	25%

Appendix 1 – Alternative Performance Measures

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

MEASURE	DESCRIPTION	RATIONALE
Underlying (revenue and profit) measures	Underlying measures are adjusted to exclude items which would distort the understanding of the performance for the year or comparability between periods: - Recurring items include purchase price adjustments including amortisation of acquired intangible assets and adjustments made to reduce deferred income arising on acquisitions, acquisition-related items, FX on intercompany balances and fair value adjustments; and - Non-recurring items that management judge to be one-off or non-operational such as gains and losses on the disposal of assets, impairment charges and reversals, and restructuring related costs. All prior period underlying measures (revenue and profit) are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations.	Underlying measures allow management and investors to compare performance without the potentially distorting effects of foreign exchange movements, one-off or non-operational items. By including part-period contributions from acquisitions, discontinued operations, disposals and assets held for sale of standalone businesses in the current and/or prior periods, the impact of M&A decisions on earnings per share growth can be evaluated.
Organic (revenue and profit) measures	In addition to the adjustments made for Underlying measures, Organic measures: - Exclude the contribution from discontinued operations, disposals and assets held for sale of standalone businesses in the current and prior period; and - Exclude the contribution from acquired businesses until the year following the year of acquisition; 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 cashflow generated by the operations and calculate underlying cash conversion.
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 Cash Flow from Operations minus non-recurring cash items, interest paid, tax paid and adjusted for profit and loss foreign exchange movements.	To measure the cash generated by the operating activities during the period that is available to repay debt, undertake acquisitions or distribute to shareholders.
% Subscription Penetration	Organic software subscription revenue as a percentage of organic total revenue.	To measure the progress of migrating our customer base from licence and maintenance to a subscription relationship.
% Sage Business Cloud Penetration	Organic recurring revenue from the Sage Business Cloud (native and connected cloud) as a percentage of the organic recurring revenue of the Future Sage Business Cloud 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 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 and FY20 PSP awards.

Consolidated income statement
For the year ended 30 September 2020

	Note	Underlying 2020 £m	Adjustments (note 3) 2020 £m	Statutory 2020 £m	Underlying as reported* 2019 £m	Adjustments (note 3) 2019 £m	Statutory 2019 £m
Revenue	2	**1,903**	**–**	**1,903**	1,936	–	1,936
Cost of sales		**(126)**	**–**	**(126)**	(138)	–	(138)
Gross profit		**1,777**	**–**	**1,777**	1,798	–	1,798
Selling and administrative expenses		**(1,366)**	**(7)**	**(1,373)**	(1,350)	(66)	(1,416)
Operating profit	2	**411**	**(7)**	**404**	448	(66)	382
Finance income		**3**	**–**	**3**	6	2	8
Finance costs		**(28)**	**(6)**	**(34)**	(29)	–	(29)
Profit before income tax		**386**	**(13)**	**373**	425	(64)	361
Income tax expense	4	**(87)**	**24**	**(63)**	(116)	21	(95)
Profit for the year		**299**	**11**	**310**	309	(43)	266

Earnings per share attributable to the owners of the parent (pence)							
Basic	6	**27.43p**		**28.38p**	28.40p		24.49p
Diluted	6	**27.21p**		**28.15p**	28.17p		24.29p

All operations in the year relate to continuing operations.

Note:

* Underlying as reported is at 2019 reported exchange rates.

Consolidated statement of comprehensive income
For the year ended 30 September 2020

	2020 £m	2019 £m
Profit for the year	**310**	266
Other comprehensive (expense)/income:		
Items that will not be reclassified to profit or loss		
Actuarial loss on post-employment benefit obligations	**–**	(1)
	–	(1)
Items that may be reclassified to profit or loss		
Exchange differences on translating foreign operations	**(43)**	42
Exchange differences recycled through income statement on sale of foreign operations	**43**	(4)
	–	38
Other comprehensive income for the year, net of tax	**–**	37
Total comprehensive income for the year	**310**	303

The notes on pages 24 to 45 form an integral part of this condensed consolidated yearly report.

Consolidated balance sheet
As at 30 September 2020

	Note	**2020 £m**	2019 Restated* £m
Non-current assets			
Goodwill	7	**1,962**	2,083
Other intangible assets	7	**212**	245
Property, plant and equipment	7	**173**	117
Other financial assets		**1**	4
Trade and other receivables		**86**	73
Deferred income tax assets		**35**	31
		2,469	2,553
Current assets			
Trade and other receivables		**302**	364
Current income tax asset		**5**	3
Cash and cash equivalents (excluding bank overdrafts)	10	**831**	371
Assets classified as held for sale	11	**108**	63
		1,246	801
Total assets		**3,715**	3,354
Current liabilities			
Trade and other payables		**(297)**	(291)
Current income tax liabilities		**(13)**	(32)
Borrowings		**(20)**	(122)
Provisions		**(19)**	(11)
Deferred income		**(593)**	(637)
Liabilities classified as held for sale	11	**(73)**	(33)
		(1,015)	(1,126)
Non-current liabilities			
Borrowings		**(970)**	(643)
Post-employment benefits		**(23)**	(25)
Deferred income tax liabilities		**(14)**	(26)
Provisions		**(31)**	(15)
Trade and other payables		**(3)**	(7)
Deferred income		**(7)**	(8)
		(1,048)	(724)
Total liabilities		**(2,063)**	(1,850)
Net assets		**1,652**	1,504
Equity attributable to owners of the parent			
Ordinary shares	9	**12**	12
Share premium	9	**548**	548
Translation reserve		**123**	123
Merger reserve		**61**	61
Retained earnings		**908**	760
Total equity		**1,652**	1,504

* 2019 restated for finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Ocrex Limited, completed in 2019 (see notes 1 and 11)

Consolidated statement of changes in equity
For the year ended 30 September 2020

	Attributable to owners of the parent					
	Ordinary shares £m	**Share premium £m**	**Translation reserve £m**	**Merger reserves £m**	**Retained earnings £m**	**Total equity £m**
At 1 October 2019 as originally presented	**12**	**548**	**123**	**61**	**760**	**1,504**
Adjustment on initial application of IFRS 16 net of tax	**–**	**–**	**–**	**–**	**(7)**	**(7)**
At 1 October 2019 as adjusted	**12**	**548**	**123**	**61**	**753**	**1,497**
Profit for the year	**–**	**–**	**–**	**–**	**310**	**310**
Other comprehensive income/(expense)						
Exchange differences on translating foreign operations	**–**	**–**	**(43)**	**–**	**–**	**(43)**
Exchange differences recycled through income statement on sale of foreign operations	**–**	**–**	**43**	**–**	**–**	**43**
Total comprehensive income for the year ended 30 September 2020	**–**	**–**	**–**	**–**	**–**	**–**
Transactions with owners						
Employee share option scheme:						
- Value of employee services including deferred tax	**–**	**–**	**–**	**–**	**29**	**29**
Proceeds from issuance of treasury shares	**–**	**–**	**–**	**–**	**9**	**9**
Share buyback programme	**–**	**–**	**–**	**–**	**(7)**	**(7)**
Dividends paid to owners of the parent	**–**	**–**	**–**	**–**	**(186)**	**(186)**
Total transactions with owners for the year ended 30 September 2020	**–**	**–**	**–**	**–**	**(155)**	**(155)**
At 30 September 2020	**12**	**548**	**123**	**61**	**908**	**1,652**

	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 2018 as originally presented	12	548	85	61	621	1,327
Adjustment on initial application of IFRS 15 net of tax	–	–	–	–	24	24
Adjustment on initial application of IFRS 9 net of tax	–	–	–	–	(5)	(5)
At 1 October 2018 as adjusted	12	548	85	61	640	1,346
Profit for the year	–	–	–	–	266	266
Other comprehensive income/(expense)						
Exchange differences on translating foreign operations	–	–	42	–	–	42
Exchange differences recycled through income statement on sale of foreign operations	–	–	(4)	–	–	(4)
Actuarial loss on post-employment benefit obligations	–	–	–	–	(1)	(1)
Total comprehensive income for the year ended 30 September 2019	–	–	38	–	(1)	37
Transactions with owners						
Employee share option scheme:						
- Value of employee services including deferred tax	–	–	–	–	33	33
Proceeds from issuance of treasury shares	–	–	–	–	3	3
Dividends paid to owners of the parent	–	–	–	–	(181)	(181)
Total transactions with owners for the year ended 30 September 2019	–	–	–	–	(145)	(145)
At 30 September 2019	12	548	123	61	760	1,504

Consolidated statement of cash flows
For the year ended 30 September 2020

	Note	**2020 £m**	2019 £m
Cash flows from operating activities			
Cash generated from continuing operations		**527**	586
Interest paid		**(28)**	(26)
Income tax paid		**(93)**	(88)
Net cash generated from operating activities		**406**	472
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash acquired	11	**–**	(41)
Investment in non-current asset		**–**	(3)
Disposal of subsidiaries, net of cash disposed	11	**216**	70
Proceeds on settlement of equity investment		**–**	17
Purchases of intangible assets	7	**(16)**	(15)
Purchases of property, plant and equipment	7	**(24)**	(27)
Interest received		**3**	6
Net cash generated from investing activities		**179**	7
Cash flows from financing activities			
Proceeds from issuance of treasury shares	9	**9**	3
Proceeds from borrowings		**302**	414
Repayments of borrowings		**(167)**	(594)
Capital element of lease payments		**(38)**	–
Movements in cash held on behalf of customers		**–**	(78)
Borrowing costs		**(1)**	**(1)**
Share buyback programme	9	**(7)**	–
Dividends paid to owners of the parent	5	**(186)**	(181)
Net cash used in financing activities		**(88)**	(437)
Net increase in cash, cash equivalents and bank overdrafts (before exchange rate movement)		**497**	42
Effects of exchange rate movement	10	**(21)**	8
Net increase in cash, cash equivalents and bank overdrafts		**476**	50
Cash, cash equivalents and bank overdrafts at 1 October	10	**372**	322
Cash, cash equivalents and bank overdrafts at 30 September	10	**848**	372

Notes to the financial information
For the year ended 30 September 2020

1 Group accounting policies

General information

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

The financial information set out above does not constitute the Company's Statutory Accounts for the year ended 30 September 2020 or 2019, but is derived from those accounts. Statutory Accounts for the year ended 30 September 2019 have been delivered to the Registrar of Companies and those for 2020 will be delivered in December 2020. The auditors have reported on both sets of accounts; their reports were unqualified and did not contain statements under section 498 (2), (3) or (4) of the Companies Act 2006.

Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and IFRS as issued by the International Accounting Standards Board ("IASB"), this announcement does not in itself contain sufficient information to comply with IFRSs. The financial information has been prepared on the basis of the accounting policies and critical accounting estimates and judgements as set out in the Annual Report & Accounts for 2020.

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

Basis of preparation

The consolidated financial statements of The Sage Group plc have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and IFRS as issued by the International Accounting Standards Board ("IASB"). IFRS as adopted by the EU differ in certain respects from IFRS as issued by the IASB. The differences have no impact on the Group's consolidated financial statements for the years presented.

The consolidated financial statements have been prepared under the historical cost convention, except where adopted IFRS require an alternative treatment. The principal variations from the historical cost convention relate to derivative financial instruments which are measured at fair value through profit or loss. The financial statements of the Group comprise the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared at the end of the reporting period. The accounting policies have been consistently applied across the Group. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity, which is usually from date of acquisition. The prior year consolidated balance sheet and related notes have been restated for the finalisation of provisional amounts recognised in respect of the fair value of assets acquired and liabilities assumed related to the acquisition of Ocrex Limited that completed on 27 September 2019. Details are set out in note 11.

The possible continuing and future impact of COVID-19 on the Group has been considered in the preparation of the financial statements including within our evaluation of critical accounting estimates and judgements which are detailed further below.

The Directors have reviewed liquidity and covenant forecasts for the Group for the period to 31 March 2022, which reflect the expected impact of COVID-19 on trading. In addition to the Global Economic Shock severe but plausible scenario (part of the Group's Viability Statement assessment), further stress testing has been performed with the impact of more severe increases in churn and significantly reduced levels of new customer acquisition being considered. In these severe stress scenarios, the Group continues to have sufficient resources to continue in operational existence. In the event that more severe impacts occur, controllable mitigating actions are available to the Group should they be required.

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 probability of these factors occurring is deemed to be remote given the resilient nature of the subscription-based business model, robust balance sheet and continued strong cash conversion of the Group.

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, the consolidated financial information has been prepared on a going concern basis.

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

Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 September 2020. During the year changes in policies relate to the adoption of IFRS 16 "Leases" and Amendments to IFRS 3 "Business Combinations: Definition of a Business". The impact of these is explained below.

IFRS 16

As disclosed in our Annual Report 2019, the Group has adopted IFRS 16 using the modified retrospective approach to transition permitted by the standard. Under this approach, the cumulative impact of the change in accounting policy is recognised in equity on 1 October 2019 and the financial statements for the prior year are not restated. IFRS 16 replaces the previous standard on lease accounting, IAS 17.

Accounting policy under IFRS 16

The adoption of IFRS 16 has changed the accounting policy applied to most of the Group's significant arrangements in which it is a lessee. These relate mainly to property leases for office buildings. The Group also has some leases for vehicles and other equipment. Prior to 1 October 2019, the Group accounted for all such leases as operating leases under IAS 17, with rentals payable charged to the income statement on a straight-line basis as an operating expense presented within selling and administrative expenses. Where rent payments were prepaid or accrued, their balances were reported under prepayments and accruals respectively.

Under IFRS 16, 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. When IFRS 16 is applied for the first time, the standard permits certain departures from these policies as practical expedients. The practical expedients used by the Group on transition to IFRS 16 are explained below.

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. The leases to which these exemptions apply are accounted for in the same way as operating leases under IAS 17, as explained above, with no lease assets or liabilities recognised. The low value exemption has been applied to most of the Group's leases of IT and other office equipment.

Accounting for the transition to IFRS 16

On transition to IFRS 16, the Group has measured its lease liabilities at the present value of the remaining lease payments, discounted using the incremental borrowing rate (IBR) applicable to each lease at 1 October 2019. The standard permits a choice on initial adoption of measuring lease assets either as if IFRS 16 had been applied since lease commencement but discounted using the IBR at 1 October 2019, or at an amount equal to the lease liability adjusted for accrued or prepaid lease payments. The assets for the Group's property leases have been measured as if IFRS 16 had always been in place. Assets for other leases, mainly vehicles, have been measured at an amount equal to the lease liability.

The Group has made use of the following practical expedients available when the modified retrospective approach is applied to accounting for the transition to IFRS 16:

- For vehicle leases, the Group has applied a single discount rate to a portfolio of those leases with reasonably similar characteristics;
- For all leases, the Group has excluded from the measurement of the right-of-use asset initial direct costs incurred when obtaining the lease; and
- The Group has relied on its existing onerous lease assessments under IAS 37 to impair right-of-use assets instead of performing a new impairment assessment for those assets.

The Group reassessed its lease portfolio against the new IFRS 16 definition of a lease. This resulted in a small number of contracts for property-related arrangements such as car parking not qualifying as leases because the landlord has the ability to substitute the available assets for others throughout the terms of the leases, and would benefit economically from doing so (substantive substitution rights).

Key judgements made in calculating the transition impact include determining the lease term for property leases with extension or termination options. An extension period or a period beyond a termination option are included in the lease term only if the lease is reasonably certain to be extended or not terminated. This is assessed taking account mainly of the time remaining before the option is exercisable; any economic disadvantages or benefits to exercise such as penalties or low rent payments; and operational plans for the location. In most cases, this results in lease terms being assumed to end at the next break date until an operational decision to extend or terminate, unless termination would incur penalties.

The main estimate made on transition is in determining the incremental borrowing rates used as discount rates for property leases. The incremental borrowing rate is the rate of interest that the local Sage business holding the lease would have to pay in order to borrow funds to obtain an asset of a similar value to the right-of-use asset in a similar economic environment, over a similar term and with a similar security. The incremental borrowing rate applied to each lease was determined based on the risk-free rate for the country in which the local business is located adjusted to reflect the credit risk associated with that business and the lease term remaining at 1 October 2019.

Quantification of the impact of transition

Quantification of the impact of transition to IFRS 16 and explanations of the adjustments are set out in note 12.

Amendments to IFRS 3

The Group has early adopted these amendments for business combinations and asset acquisitions occurring on or after 1 October 2019, as permitted by the transitional provisions for the amendments. The amendments would otherwise have become mandatory for the Group's business combinations and asset acquisitions occurring on or after 1 October 2020. The amendments clarify the definition of a business under IFRS 3 to help companies to determine whether an acquisition is of a business or a group of assets. The acquisition of a business is accounted for as a business combination whereas the acquisition of a group of assets is accounted for by allocating the cost of the transaction to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Goodwill is recognised only when acquiring a business.

The amendments also introduce an optional "concentration test" that permits a simplified assessment of whether an acquired set of activities and assets is not a business. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, the concentration test is met, and the acquisition is not of a business.

The Group has applied the concentration test to the acquisition of HR Bakery Limited on 28 November 2019. The transaction met the test and as a result has been accounted for as an acquisition of a group of assets and primarily of an intangible technology asset. This treatment has not resulted in any material difference to the Group's financial statements compared to accounting for the transaction as a business combination.

Adoption of new and revised IFRSs

The impacts of IFRS 16 "Leases" and Amendments to IFRS 3 "Business Combinations: Definition of a Business" which became effective for the first time this financial year are detailed above. There are no other IFRS, IAS amendments or IFRIC interpretations effective for the first time this financial year that have had a material impact on the Group.

Critical accounting estimates and judgements

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

Revenue recognition

Approximately 35% of the Company's revenue is generated from sales to partners rather than end users. The key judgement is determining whether the business partner is a customer of the Group. The key criteria in this determination is whether the business partner has taken control of the product. 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.

An additional area of judgement is the recognition and deferral of revenue on on-premise subscription offerings, for example the sale of a term licence with an annual maintenance and support contract as part of a subscription contract. In such instances, the transaction price is allocated between the constituent performance obligations on the basis of standalone selling prices (SSPs). Judgement is required when estimating SSPs. The Group has established a hierarchy to identify the SSPs that are used to allocate the transaction price of a customer contract to the performance obligations in the contract. Where SSPs for on-premise offerings are observable and consistent across the customer base, SSP estimates are derived from pricing history. Where there are no directly observable estimates available, comparable products are utilised as a basis of assessment or 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. The Group uses this technique in particular for estimating the term licence SSP sold as part of its on-premise subscription offerings as Sage has previously not sold term licences on a stand-alone basis (i.e., the selling price is uncertain).

Goodwill impairment

A key judgement is the ongoing appropriateness of the cash-generating units ("CGUs") for the purpose of impairment testing.

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

Following challenging current trading and economic conditions in Asia, management has reassessed the expected future business performance relating to the Asia group of CGUs. The revised projected cash flows are lower and this has led to an impairment charge of £19m, which is the total value of goodwill in Asia.

Trade receivables

Due to COVID-19 the timing and level of impact of business failures is uncertain. Therefore, the expected credit loss allowance against trade receivables is a source of estimation uncertainty. Current and expected collection of trade receivables since the start of the COVID-19 pandemic has been modelled on a region-specific basis, taking into account macroeconomic factors, such as revised GDP outlooks and government support available and other regional specific microeconomic factors. Management have provided an additional £17m expected credit loss provision representing an additional 6% loss rate above historical rates.

Leases

Key judgements made in calculating the transition impact on the initial application of IFRS 16 include determining the lease term for property leases with extension or termination options and determining the incremental borrowing rates used as discount rates for property leases. For further information on the judgements made on the initial application of IFRS 16 to the Group's accounting for leases, see note 12.

Classification and measurement of businesses held for sale

As detailed in note 11, certain of the Group's businesses have been classified as businesses held for sale. Classification as held for sale requires judgements to be made on whether the qualifying criteria have been met. The Group considers these businesses to meet the criteria to be classified as held for sale for the following reasons:

- Management has approved the plans to sell these businesses;
- The businesses are available for immediate sale;
- The sales are expected to be completed within one year from the date of initial classification; and
- Active programmes to locate a buyer have been initiated and the businesses are being marketed for sale at a sales price reasonable in relation to its fair value.

Website

This annual consolidated financial report for the year ended 30 September 2020 will be available on our website from 2 December 2020: www.sage.com/investors/investor-downloads

2 Segment information

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

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

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

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

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

The revenue analysis in the table below is based on the location of the customer, which is not materially different from the location where the order is received and where the assets are located. With effect from 1 October 2019, the Group reports revenue under two revenue categories as noted below:

Category	Examples
Recurring revenue	Subscription contracts Maintenance and support contracts
Other revenue	Perpetual software licences Upgrades to perpetual licences Professional services Training Hardware and stationery Payment processing services Payroll processing services

Prior to this the Group reported three revenue categories: Recurring revenue, Software and software-related services and Processing revenue. The aggregation of Software and software-related services and Processing revenue into the Other revenue category reflects the focus on recurring revenue and the divestment of certain processing businesses. There is no change to the revenue recognition policy in the period as disclosed in the annual financial statements for the year ended 30 September 2019.

Revenue by segment

	Year ended 30 September 2020					
	Statutory and Underlying £m	**Organic adjustments* £m**	**Organic £m**	Change Statutory %	Change Underlying %	Change Organic %
Recurring revenue by segment						
North America	**634**	**–**	**634**	10.4%	10.5%	10.9%
Northern Europe	**377**	**–**	**377**	10.6%	10.7%	9.4%
Central and Southern Europe	**508**	**(41)**	**467**	3.7%	4.2%	4.2%
International	**175**	**(61)**	**114**	(15.5%)	(4.9%)	10.7%
Recurring revenue	**1,694**	**(102)**	**1,592**	5.1%	6.8%	8.5%
Other revenue by segment						
North America	**58**	**–**	**58**	(30.0%)	(30.0%)	(15.6%)
Northern Europe	**35**	**(17)**	**18**	(46.6%)	(46.6%)	(32.8%)
Central and Southern Europe	**82**	**(5)**	**77**	(30.3%)	(30.1%)	(28.9%)
International	**34**	**(11)**	**23**	(40.2%)	(34.4%)	(33.2%)
Other revenue	**209**	**(33)**	**176**	(35.3%)	(34.2%)	(26.1%)
Total revenue by segment						
North America	**692**	**–**	**692**	5.3%	5.4%	8.1%
Northern Europe	**412**	**(17)**	**395**	1.4%	1.4%	6.3%
Central and Southern Europe	**590**	**(46)**	**544**	(2.9%)	(2.4%)	(2.2%)
International	**209**	**(72)**	**137**	(20.9%)	(11.5%)	(0.2%)
Total revenue	**1,903**	**(135)**	**1,768**	(1.7%)	0.0%	3.7%

Revenue by segment (continued)

	Year ended 30 September 2019				
	Statutory and Underlying as reported £m	Impact on foreign exchange £m	Underlying £m	Organic adjustments* £m	Organic £m
Recurring revenue by segment					
North America	574	–	574	(2)	572
Northern Europe	341	–	341	4	345
Central and Southern Europe	490	(3)	487	(39)	448
International	207	(23)	184	(81)	103
Recurring revenue	1,612	(26)	1,586	(118)	1,468
Other revenue by segment					
North America	83	–	83	(14)	69
Northern Europe	65	–	65	(39)	26
Central and Southern Europe	118	(1)	117	(9)	108
International	58	(5)	53	(19)	34
Other revenue	324	(6)	318	(81)	237
Total revenue by segment					
North America	657	–	657	(16)	641
Northern Europe	406	–	406	(35)	371
Central and Southern Europe	608	(4)	604	(48)	556
International	265	(28)	237	(100)	137
Total revenue	1,936	(32)	1,904	(199)	1,705

* Adjustments relate to the disposal of Sage Pay and the Group’s Brazilian business and assets held for sale in the current year (note 11) and the acquisition of Ocrex Limited and disposal of Sage Payroll Solutions in the prior year.

Operating profit by segment

	Statutory £m	Underlying adjustments £m	Underlying £m	Organic adjustments £m	Organic £m	Change Statutory %	Change Underlying %	Change Organic %
								Year ended 30 September 2020
Operating profit by segment								
North America	**127**	**28**	**155**	**–**	**155**	(0.4%)	17.1%	16.8%
Northern Europe	**266**	**(138)**	**128**	**(4)**	**124**	98.5%	(18.1%)	(12.6%)
Central and Southern Europe	**65**	**34**	**99**	**(8)**	**91**	(46.1%)	(22.2%)	(21.3%)
International	**(54)**	**83**	**29**	**(8)**	**21**	n/a	18.4%	35.5%
Total operating profit	**404**	**7**	**411**	**(20)**	**391**	5.8%	(6.7%)	(3.7%)

	Statutory £m	Underlying adjustments £m	Underlying as reported £m	Impact of foreign exchange £m	Underlying £m	Organic adjustments £m	Organic £m
							Year ended 30 September 2019
Operating profit by segment							
North America	128	5	133	(1)	132	–	132
Northern Europe	134	23	157	–	157	(15)	142
Central and Southern Europe	120	9	129	(1)	128	(12)	116
International	–	29	29	(5)	24	(8)	16
Total operating Profit	382	66	448	(7)	441	(35)	406

Reconciliation of underlying operating profit to statutory operating profit

	2020 £m	2019 £m
North America	**155**	132
Northern Europe	**128**	157
Central and Southern Europe	**99**	128
Total reportable segments	**382**	417
International	**29**	24
Underlying operating profit	**411**	441
Impact of movement in foreign currency exchange rates	**–**	7
Underlying operating profit (as reported)	**411**	448
Amortisation of acquired intangible assets	**(33)**	(31)
Other M&A activity-related items	**(20)**	(21)
Non-recurring items	**46**	(14)
Statutory operating profit	**404**	382

3 Adjustments between underlying profit and statutory profit

	2020 Recurring £m	**2020 Non-recurring £m**	**2020 Total £m**	2019 Recurring £m	2019 Non-recurring £m	2019 Total £m
M&A activity-related items						
Amortisation of acquired intangibles	**33**	**–**	**33**	31	–	31
Net gain on disposal of subsidiaries	**–**	**(141)**	**(141)**	–	(28)	(28)
Impairment of assets held for sale	**–**	**–**	**–**	–	14	14
Other M&A activity-related items	**20**	**–**	**20**	21	–	21
Other items						
Impairment of goodwill	**–**	**19**	**19**	–	–	–
Restructuring costs	**–**	**22**	**22**	–	–	–
Property restructuring costs	**–**	**21**	**21**	–	16	16
Office relocation	**–**	**33**	**33**	–	12	12
Total adjustments made to operating profit	**53**	**(46)**	**7**	52	14	66
Foreign currency movements on intercompany balances	**6**	**–**	**6**	(2)	–	(2)
Total adjustments made to profit before income tax	**59**	**(46)**	**13**	50	14	64

Recurring items

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

Other M&A activity-related items relate to completed transaction costs and include advisory, legal, accounting, valuation and other professional or consulting services as well as acquisition-related remuneration, directly attributable integration costs and any required provision for future selling costs for assets held for sale. £4m (2019: £nil) of these costs have been paid in the year while the remainder is expected to be paid in subsequent financial years. Further details can be found in note 11.

Foreign currency movements on intercompany balances of £6m (2019: credit of £2m) occur due to retranslation of intercompany balances other than those where settlement is not planned or likely in the foreseeable future. The balance arises in the current year due to fluctuation in exchange rates, predominantly the movement in Euro and US Dollar compared to sterling.

Non-recurring items

Net credit in respect of non-recurring items amounted to £46m (2019: charge of £14m).

Following challenging current trading and economic conditions in Asia, an impairment of the goodwill by £19m (2019: £nil) relating to the Asia group of CGUs has been recognised.

Restructuring costs of £22m (2019: £nil) are in relation to the changes in the Professional Services division across a number of geographic regions announced during the year reflecting the continued de-prioritisation of low margin professional services. £1m (2019: £nil) of these costs have been paid in the year while the remainder is expected to be paid in the subsequent financial year.

Property restructuring costs of £21m (2019: £16m) relate to the reorganisation of the Group’s properties and consist of net lease exit costs, £2m of which was paid in cash, following consolidation of office space and £14m impairment of leasehold and other related assets that are no longer in use. This is one programme that has bridged two financial years therefore the Group has continued to present these costs as non-recurring.

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

Details of net gain on disposal of subsidiaries can be found in note 11. In the current year, the net gain on disposal of subsidiaries relates to the disposal of Sage Pay (gain: £193m) and the Brazilian business (loss: £52m).

In the prior year, the £28m net gain on disposal of subsidiaries related to the sale of Sage Payroll Solutions and the Group's South African payments business.

The prior year impairment of assets held for sale related to the Brazilian business which was subsequently disposed of in the current year.

4 Income tax expense

The effective tax rate on statutory profit before tax was 17% (2019: 26%), whilst the effective tax rate on underlying profit before tax on continuing operations was 23% (2019: 27%).

The underlying effective tax rate was reduced in FY20 principally as a result of changes in the French patent box legislation and non-recurring adjustments in some of our operating territories.

The statutory effective tax rate was further reduced due to non-taxable accounting net gains on our FY20 dispositions, offset by non-tax-deductible charges relating to the impairment of goodwill in respect of the Asia business and accelerated depreciation relating to the relocation of our North Park office in Newcastle.

5 Dividends

	2020 £m	2019 £m
Final dividend paid for the year ended 30 September 2019 of 11.12p per share	**121**	–
(2019: final dividend paid for the year ended 30 September 2018 of 10.85p per share)	**–**	118
Interim dividend paid for the year ended 30 September 2020 of 5.93p per share	**65**	–
(2019: interim dividend paid for the year ended 30 September 2019 of 5.79p per share)	**–**	63
	186	181

In addition, the directors are proposing a final dividend in respect of the financial year ended 30 September 2020 of 11.32p 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 by the AGM, it will be paid on 11 February 2021 to shareholders who are on the register of members on 15 January 2021. These financial statements do not reflect this proposed dividend payable.

6 Earnings per share

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

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

	Underlying 2020	Underlying as reported* 2019	Underlying 2019	**Statutory 2020**	Statutory 2019
Earnings attributable to owners of the parent – Continuing operations (£m)					
Profit for the year	**299**	309	303	**310**	266
Number of shares (millions)					
Weighted average number of shares	**1,091**	1,086	1,086	**1,091**	1,086
Dilutive effects of shares	**9**	9	9	**9**	9
	1,100	1,095	1,095	**1,100**	1,095
Earnings per share attributable to owners of the parent – Continuing operations (pence)					
Basic earnings per share	**27.43**	28.40	27.88	**28.38**	24.49
Diluted earnings per share	**27.21**	28.17	27.65	**28.15**	24.29

* Underlying as reported is at 2019 reported exchange rates.

Reconciliation of earnings – Continuing operations	**2020 £m**	2019 £m
Underlying earnings attributable to owners of the parent (after exchange movement)	**299**	303
Impact of movement in foreign currency exchange rates, net of taxation	**–**	6
Underlying earnings attributable to owners of the parent (as reported)	**299**	309
Amortisation of acquired intangible assets	**(33)**	(31)
Net gain on disposal of subsidiaries	**141**	28
Foreign currency movements on intercompany balances	**(6)**	2
Other M&A activity-related items	**(20)**	(21)
Impairment of assets held for sale	**–**	(14)
Impairment of goodwill	**(19)**	–
Restructuring costs	**(22)**	–
Property restructuring costs	**(21)**	(16)
Office relocation	**(33)**	(12)
Taxation on adjustments between underlying and statutory profit before tax	**24**	21
Net adjustments	**11**	(43)
Earnings: statutory profit for the year	**310**	266

7 Non-current assets

	Goodwill £m	Other intangible assets £m	Property, plant and equipment £m	Total £m
Opening net book amount at 1 October 2019	**2,083**	**245**	**117**	**2,445**
Impact of adoption of IFRS 16	**–**	**–**	**113**	**113**
Additions	**–**	**19**	**57**	**76**
Disposals	**–**	**–**	**(2)**	**(2)**
Transfer to held for sale	**(47)**	**–**	**(14)**	**(61)**
Depreciation, amortisation and other movements	**(19)**	**(45)**	**(93)**	**(157)**
Exchange movement	**(55)**	**(7)**	**(5)**	**(67)**
Closing net book amount at 30 September 2020	**1,962**	**212**	**173**	**2,347**

	Goodwill *restated £m	Other intangible assets *restated £m	Property, plant and equipment £m	Total *restated £m
Opening net book amount at 1 October 2018	2,008	260	129	2,397
Additions	26	15	27	68
Acquisition	–	17	–	17
Disposals	3	(5)	–	(2)
Transfer to held for sale	(26)	(6)	(3)	(35)
Depreciation, amortisation and other movements	–	(44)	(37)	(81)
Exchange movement	72	8	1	81
Closing net book amount at 30 September 2019	2,083	245	117	2,445

*2019 restated for finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Ocrex in 2019.

Goodwill is not subject to amortisation, but is tested for impairment annually or upon any indication of impairment. At 30 September 2020, with the exception of the Asia group of CGUs, there were no indicators of impairment to goodwill. Full details of the outcome of the 2020 goodwill impairment review are provided in the 2020 financial statements.

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

8 Financial instruments

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

	At 30 September 2020		At 30 September 2019	
	Book Value £m	**Fair Value £m**	Book Value £m	Fair Value £m
Long-term borrowing	**(877)**	**(902)**	(643)	(660)
Short-term borrowing	**–**	**–**	(122)	(122)

9 Ordinary shares and share premium

	Number of shares	**Ordinary Shares £m**	**Share premium £m**	**Total £m**
At 1 October 2019 and 30 September 2020	**1,120,789,295**	**12**	**548**	**560**
At 1 October 2018 and 30 September 2019	1,120,789,295	12	548	560

During the year the Group agreed to satisfy the vesting of certain share awards, utilising a total of 4,956,977 (2019: 3,781,720) treasury shares.

During the year, the Employee Share Trust agreed to satisfy the vesting of certain share awards, utilising a total of 94,830 (2019: 368,733) shares held in the Trust. The Trust received £nil (2019: £2m) additional funds for future purchase of shares in the market.

10 Cash flow and net debt

	2020 £m	2019 £m
Statutory operating profit – continuing operations	**404**	382
Recurring and non-recurring items	**7**	66
Underlying operating profit – as reported	**411**	448
Depreciation/amortisation/impairment/non-cash items	**56**	33
Share-based payments	**29**	26
Net changes in working capital	**45**	108
Net capital expenditure	**(36)**	(38)
Underlying cash flow from operating activities	**505**	577
Non-recurring cash items	**(4)**	(24)
Net interest paid	**(26)**	(21)
Income tax paid	**(93)**	(88)
Profit and loss foreign exchange movements	**–**	(1)
Free cash flow	**382**	443
Net debt at 1 October*	**(529)**	(668)
Acquisitions and disposals of subsidiaries and similar transactions, net of cash and related items	**202**	35
Dividends paid to owners of the parent	**(186)**	(181)
New leases	**(30)**	–
Share buyback programme	**(7)**	–
Share issue	**9**	3
Exchange movement	**6**	(24)
Other	**2**	(1)
Net debt at 30 September	**(151)**	(393)

*adjusted as at 1 October 2019 on adoption of IFRS16.

	2020 £m	2019 £m
Underlying cash flow from operating activities	**505**	577
Recurring and non-recurring cash items*	**(14)**	(29)
Net capital expenditure**	**36**	38
Statutory cash flow from operating activities	**527**	586

* cash paid from recurring and non-recurring items (note 3) charged in the year or in previous years.
** relates to purchases of property, plant and equipment and purchases of computer software intangible assets.

Analysis of change in net debt	At 1 October 2018 £m	At 1 October 2019 £m	**Impact of adoption of IFRS 16 £m**	**Cash flow £m**	**Reclassif-ication as held for sale £m**	**Disposal of subsidiary £m**	**Non-cash move-ments £m**	**Exchange movement £m**	**At 30 September 2020 £m**
Cash and cash equivalents	272	371	**–**	**510**	**(17)**	**(12)**	**–**	**(21)**	**831**
Bank overdrafts	(8)	–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Cash amounts included in held for sale	58	1	**–**	**–**	**17**	**(1)**	**–**	**–**	**17**
Cash, cash equivalents and bank overdrafts including cash as held for sale	322	372	**–**	**510**	**–**	**(13)**	**–**	**(21)**	**848**
Liabilities arising from financing activities									
Loans due within one year	–	(122)	**–**	**122**	**–**	**–**	**–**	**–**	**–**
Loans due after more than one year	(913)	(643)	**–**	**(256)**	**–**	**–**	**–**	**22**	**(877)**
Cash held on behalf of customers	(19)	–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Cash held on behalf of customers included in held for sale	(58)	–	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Lease liabilities due within one year	–	–	**(29)**	**38**	**2**	**–**	**(31)**	**–**	**(20)**
Lease liabilities after more than one year	–	–	**(106)**	**–**	**7**	**–**	**1**	**5**	**(93)**
Lease liabilities included in held for sale	–	–	**(1)**	**–**	**(9)**	**1**	**–**	**–**	**(9)**
	(990)	(765)	**(136)**	**(96)**	**–**	**1**	**(30)**	**27**	**(999)**
Total	(668)	(393)	**(136)**	**414**	**–**	**(12)**	**(30)**	**6**	**(151)**

11 Acquisitions and disposals

Measurement adjustments to business combinations reported using provisional amounts

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

The net assets recognised in the financial statements at 30 September 2019 were based on a provisional assessment of their fair value while the Group undertook a valuation of the acquired intangible assets. The valuation had not been completed by the date the 2019 financial statements were approved for issue by the Board of Directors.

During the year, the valuation was approved and completed, and the acquisition date fair value of the intangible assets was £17m. The intangible assets identified and subsequently valued as at the date of acquisition include:

Summary of acquisition	Valuation £m	Useful life
Brands	1	8 years
Technology	10	8 years
Customer relationships	6	7 years
Total intangible assets	17	

The 2019 comparative information was restated to reflect the adjustment to the provisional amounts. As a result of the recognition of intangible assets, there was an increase in the deferred tax liability of £2m. There was also a corresponding reduction in goodwill of £15m, resulting in £26m of total goodwill arising on the acquisition which comprises the fair value of the acquired control premium, work force in place and the expected synergies. The goodwill arising from the acquisition has been allocated to the Group's geographic cash-generating units ("CGUs") where the underlying benefit arising from the acquisition is expected to be realised. This is predominantly within the UK&I and North America regions. No goodwill is expected to be deductible for tax purposes.

As set out below, no other adjustments have been made to the provisional fair values of assets and liabilities which were reported at 30 September 2019.

Fair value of identifiable net assets acquired	Previously reported provisional fair values £m	Measurement adjustments £m	Final fair values £m
Intangible assets	–	17	17
Other identifiable net assets	1	–	1
Deferred tax liability	–	(2)	(2)
Fair value of identifiable net assets acquired	**1**	**15**	**16**
Goodwill	41	(15)	26
Total consideration	**42**	**–**	**42**

The increased amortisation charge on the intangible assets from the acquisition date to 30 September 2019 was not material, therefore no adjustment has been made for this.

No changes have been identified to the directly attributable acquisition related costs which were incurred during the financial year ended 30 September 2019 in relation to the acquisition.

Disposals made during the current year

On 11 March 2020, the Group completed the sale of Sage Pay, the group's European payments processing business, for total consideration of £241m. On 31 March 2020, the Group completed the sale of its Brazilian business for total consideration of £1m. The gains and losses on disposal are calculated as follows:

Gain/(loss) on disposal	Sage Pay 2020 £m	Brazil 2020 £m	**Total 2020 £m**
Cash consideration	241	1	242
Gross consideration	241	1	242
Transaction costs	(9)	(2)	(11)
Net consideration	232	(1)	231
Net assets disposed	(40)	(7)	(47)
Cumulative foreign exchange differences reclassified from other comprehensive income to the income statement	1	(44)	(43)
Gain/(loss) on disposal	**193**	**(52)**	**141**

Net assets disposed comprise:

	Sage Pay 2020 £m	Brazil 2020 £m	**Total 2020 £m**
Goodwill	25	–	25
Other intangible assets	1	–	1
Property, plant and equipment	2	–	2
Deferred income tax asset	–	6	6
Inventory	1	–	1
Trade and other receivables	6	11	17
Cash and cash equivalents	9	4	13
Total assets	**44**	**21**	**65**
Trade and other payables	(3)	(4)	(7)
Borrowings	–	(1)	(1)
Current income tax liabilities	–	(1)	(1)
Provisions	–	(1)	(1)
Deferred income	(1)	(7)	(8)
Total liabilities	**(4)**	**(14)**	**(18)**
Net assets	**40**	**7**	**47**

The net gain is reported within continuing operations, as an adjustment between underlying and statutory results.

Prior to the disposals, Sage Pay formed part of the Group's Northern Europe reporting segment and the Brazilian business was part of the International segment. The net inflow of cash and cash equivalents on the disposal is calculated as follows:

	Sage Pay 2020 £m	Brazil 2020 £m	**Total 2020 £m**
Cash consideration	241	1	242
Transaction costs	(9)	(4)	(13)
Net consideration received	232	(3)	229
Cash disposed	(9)	(4)	(13)
Inflow/(outflow) of cash and cash equivalents on disposal	**223**	**(7)**	**216**

Discontinued operations and assets and liabilities held for sale

The Group had no discontinued operations during the years ended 30 September 2020 or 30 September 2019.

Assets and liabilities held for sale at 30 September 2020 reflect four disposal groups which comprise part of the Group's businesses in the Asia Pacific region, Poland, Switzerland, and the payroll processing business in South Africa.

The Group's operations in the Asia Pacific region, which includes its subsidiaries in Australia, Malaysia and Singapore, form part of the International reportable segment. Poland and Switzerland form part of the Central and Southern Europe reportable segment. Where applicable, these disposal groups exclude certain global strategic product lines in these countries, such as Sage Intacct, Sage People and Sage X3. The payroll processing business in South Africa forms part of the International reporting segment.

The sales are expected to be finalised during the year ended 30 September 2021.

On classification of as held for sale, no adjustment was required to reduce the carrying value of the disposal groups down to fair value less costs to sell. Note that the fair value less costs to sell of the disposal groups held for sale was determined using observable inputs and estimates that required some adjustments using unobservable data, leading to level 3 classification when considering the fair value hierarchy under IFRS 13.

Assets and liabilities held for sale at 30 September 2019 relate to the Group's Sage Pay and Brazilian businesses which have been sold during the current year (see note 15.2). Assets and liabilities held for sale at 30 September 2020 comprise:

	Asia Pacific 2020 £m	Poland 2020 £m	Switzerland 2020 £m	Payroll processing business (South Africa) 2020 £m	**Total 2020 £m**	Total 2019 £m
Goodwill	26	12	8	1	**47**	26
Other intangible assets	1	–	–	–	**1**	1
Property, plant and equipment	10	1	3	–	**14**	2
Deferred income tax asset	3	2	–	–	**5**	7
Customer acquisition costs	4	2	1	–	**7**	–
Current income tax asset	1	–	–	–	**1**	–
Inventory	–	–	–	–	**–**	1
Trade and other receivables	10	4	2	–	**16**	22
Cash and cash equivalents	8	2	7	–	**17**	4
Total assets	**63**	**23**	**21**	**1**	**108**	63
Trade and other payables	(8)	(4)	(4)	–	**(16)**	(12)
Borrowings	(7)	(1)	(1)	–	**(9)**	(3)
Current income tax liabilities	–	–	(1)	–	**(1)**	(1)
Post-employment benefits	–	–	(4)	–	**(4)**	–
Provisions	(1)	(1)	–	–	**(2)**	(6)
Deferred income	(25)	(9)	(7)	–	**(41)**	(11)
Total liabilities	**(41)**	**(15)**	**(17)**	**–**	**(73)**	(33)
Net assets	**22**	**8**	**4**	**1**	**35**	30

Specific to the disposal groups held for sale at 30 September 2020, the aggregate income included in other comprehensive income relating to cumulative foreign exchange differences amounted to £38m. Upon disposal, the income will be recycled to the income statement.

12 IFRS 16

The Group recognised the following adjustments to amounts reported in the balance sheet at 1 October 2019.

	IFRS 16 right-of-use assets and lease liabilities £m	Derecognise IAS 17 rent accruals and prepayments £m	Right-of-use asset impairment* £m	Tax impact** £m	Total Impact £m
Non-current Assets					
Property, plant and equipment	**118**	**–**	**(5)**	**–**	**113**
Deferred income tax assets	**–**	**–**	**–**	**2**	**2**
Current assets					
Trade and other receivables	**–**	**(2)**	**–**	**–**	**(2)**
Assets classified as held for sale	**1**	**–**	**–**	**–**	**1**
Current Liabilities					
Borrowing	**(30)**	**–**	**–**	**–**	**(30)**
Trade and other payables	**–**	**10**	**–**	**–**	**10**
Provisions	**–**	**–**	**1**	**–**	**1**
Liabilities classified as held for sale	**(1)**	**–**	**–**	**–**	**(1)**
Non-current Liabilities					
Borrowing	**(105)**	**–**	**–**	**–**	**(105)**
Provisions	**–**	**–**	**4**	**–**	**4**
Net assets	**(17)**	**8**	**–**	**2**	**(7)**
Total equity	**(17)**	**8**	**–**	**2**	**(7)**

* As a practical expedient on transition, the Group has relied on its existing onerous lease assessments under IAS 37 to impair right-of-use assets instead of performing a new impairment assessment for those assets. As a result, onerous provisions relating to lease payments were reclassified to the right-of-use asset.

** Tax impact represents deferred tax on the net transition adjustment.

The standard does not impact net cash flow, but cash flows from the principal portion of lease payments for property and vehicle leases are now presented within cash flows from financing activities as the payments represent the repayment of lease liabilities. The interest element of these lease payments is included in interest paid within cash flows from operating activities. Previously lease payments were reclassified as cash flows from operating activities.

The table below reconciles the operating lease obligations reported under the previous accounting standard, IAS 17 "Leases", at 30 September 2019 to the lease liability recorded under IFRS 16 at the date of transition.

	£m
Operating lease commitments reported at 30 September 2019	**162**
Commitment on a lease not commenced at 1 October 2019*	**(7)**
IAS 17 operating leases not qualifying as leases under IFRS 16**	**(1)**
Effect of discounting of future cash flows under IFRS 16***	**(18)**
Lease liability recognised at 1 October 2019	**136**
Of which:	
- Current lease liabilities	**30**
- Non-current lease liabilities	**105**
- Liabilities classified as held for sale	**1**

* At 30 September 2019, the Group had signed an agreement to lease a property but had not yet been granted access to it. Therefore, at that date the lease qualified for disclosure as a commitment under IAS 17, but not for recognition as a liability under IFRS 16.

** A small number of property arrangements treated as leases under IAS 17 did not meet the IFRS 16 definition of a lease. In most cases this was because the landlord has substantive substitution rights.

*** Lease commitments disclosed under IAS 17 are not discounted to their present value. Under IFRS 16, lease liabilities have been discounted using the incremental borrowing rate for each lease.

The weighted average incremental borrowing rate applied to discount the lease liabilities to their present value at 1 October 2019 was 3.7%. Rates applied to individual leases ranged from 0.25% to 11.6%. Differences in discount rates reflect principally the geographic location of leases and the length of the remaining lease term.

The estimated impact of the application of IFRS 16, as opposed to IAS17, on the Group's income statement for the year ended 30 September 2020 was to increase operating profit by approximately £3m (due to lease costs now recognised as depreciation) while decreasing the profit for the year by approximately £1m due to £4m increase in finance costs from the lease liabilities in the year.

13 Related party transactions

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

Key management compensation	**2020 £m**	2019 £m
Salaries and short-term employee benefits	**8**	9
Share-based payments	**4**	7
	12	16

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

Managing Risk

Through our 'always-on, on-demand' risk reporting, Sage is able to effectively manage our strategic, operational, commercial, compliance, change and emerging risks. This helps us to deliver our strategic objectives and goals through risk informed decisions. The Board's role is to maintain oversight of the key principal and business risks, together with ensuring that the appropriate committees are managing the risks effectively. Additionally, the Board reviews the effectiveness of our risk management approach and challenges our leaders to articulate their risk management strategies.

Sage continually assesses its principal risks to ensure continued and enhanced alignment to our strategy and consideration of where Sage is currently on its journey to becoming a great SaaS business. In FY20 we monitored and reported against 11 principal risks. Since January 2020, the COVID-19 pandemic has brought and will continue to bring significant change to the global economic, social, political and business landscape. In response, we have continually reviewed the actual, emerging and potential impacts of the pandemic on our principal risks to identify any new risks or changes to existing risks and opportunities that may have arisen, with a specific lens on what could change the risk profile materially. Whilst the pandemic has not created any additional principal risks, we have amended, as appropriate, some of our mitigating actions, as set out in the table below.

This has ensured that the business can provide the appropriate response to impacts being felt in the short term, to both the business, our colleagues and customers, and to position ourselves regarding long term sustainability and viability.

As above, the principal risks continue to evolve, reflecting the organisation's strategic focus on becoming a cloud-led SaaS business. By monitoring risk and performance indicators related to this strategy, principal risk owners focus on those metrics that signal current performance, as well as any emerging risks and issues. The principal risks reflect our three strategic lenses of customer success, colleague success and innovation. The management and mitigation actions described below reflect the refreshed principal risks and build on those actions previously reported in our FY19 Annual Report.

Principal risk	Risk context	Management and mitigation
Understanding Customer Needs	**Improving risk environment**	
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. _Strategic alignment:_ ***Customer Success***	Sage is the leader in key global markets, and this assists us in gathering valuable insights into what our current and future customers want and need. It also helps us to better understand the strengths, weaknesses and appetite of our products and services, and better develop and position those products and services to meet the needs of our current and future customers. By understanding the specific needs of these customer groups in each country and region, we will be better positioned to efficiently manage our products, marketing efforts and support services. This in turn will allow us to maximise our return on investment and retain a loyal customer and partner base over the long term.	• Brand health surveys are used to provide us with an understanding of customer perception of the Sage brand and its products, which we use to inform and enhance our market offerings • Detailed customer segment analysis is used to develop segment-specific playbooks that support customer-focused development • A Market and Competitive Intelligence team provides insights that Sage uses to win in the market • Utilisation of customer usage data and churn data, to understand their appetite for products, and features • The interlock between our Customer Success teams, marketing teams, and product teams to ensure that the right solutions and products are provided to our customers • Master repository of customer MI by region and by product which supports the identification of trends such as time in product, seasonal trends and usage • Ongoing refinement and improvement of market data through feedback from the business, partners and customers, including specific focus upon COVID-19 and the impact on SMBs

		• Customer Advisory Boards, Customer Design Sessions and NPS detractor call-back channels are used to constantly gather information on customer needs In progress: • By providing ISVs with access to the Sage Developer Platform, which is focused on the development of bespoke solutions, we gain additional insights into customer needs • The Centre of Excellence is being created to support our Indirect Sales and Third-Party Partner approach
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. *Strategic alignment:* ***Customer Success*** ***Innovation***	**Improving risk environment** A key component of Sage's transition to a Software as a Service (SaaS) company is the delivery of cloud-native products and solutions. To achieve this, we need to execute, in a sound and methodical manner at pace, a prioritised product strategy that moves our product portfolio to cloud-native solutions. This may include a transitional period of cloud-connected products, with a clear path to the cloud-native products for our current and future customers' requirements.	• Following a product rationalisation and prioritisation exercise Sage's product strategy was updated to ensure that native cloud products are delivered in line with customer expectations • A licencing model transition strategy is in place, anchored on the Sage Business Cloud • Sage Business Cloud is available in the United Kingdom and Ireland, North America, France and Spain • Recent cloud-native products (Sage Intacct and Sage People) are available in Sage Business Cloud in North America, with international delivery continuing to be rolled out • A Product Marketing team oversees competitive positioning and product development to align products with the needs of our customers • Prioritisation of core product and service delivery in key territories, including responding to the impact of COVID-19 In progress: • An assessment of the key dependencies within the segment and regional plans, to ensure that plans meet the minimal viability thresholds • The continued enhancement of the Governance, reporting and planning framework, to ensure that strategic bets and plans align, are executable, and for on-demand strategy performance reporting • A review of the Partner Model framework across small and medium segments to ensure strategic objectives are being met
Innovation If we fail to identify and leverage disruptive technologies and invest in modern development practices and tools in a timely manner, we will not meet the needs of our customers or our commercial goals. *Strategic alignment:* ***Customer Success*** ***Innovation***	**Stable risk environment** As Sage transitions into a SaaS business powered by a subscription licence model, we must be able to rapidly deploy new innovations to our customers and partners. This innovation could relate to new technologies, services, or new ways of working. Innovation requires us to address how we encourage innovation across our people, processes and technology, and how we make this innovation sustainable. By building innovation into our collective DNA, we can empower our colleagues to	• Creation and growth of Sage AI Labs to focus and drive AI/ML development including to enhance the capability of our products, starting with Sage Intacct • Focused colleague engagement to accelerate innovation across the organisation through Continuous Innovation Community • Enhanced, consistent digital experience for all Sage Business Cloud users through the Sage Design System • Acquisition of AutoEntry provides automation of data entry through AI and Optical Character Recognition Technology for our accounting products

<table>
<tr><td></td><td>improve the customer experience, and drive efficiencies in how we deliver our products and services. By strategically investing in platforms and relationships, we can also harness the innovation of our partners. By providing opportunities for our partners to interact with our products we can drive scalable growth and improve the customer experience.</td><td>Objectives integrated into the planning of each segment and region to drive AI Transformation, Sage Business Cloud adoption and innovation of product features based on identified needs of customers
Integration of the Pegg chat-bot with Sage Accounting, to enhance the product experience using artificial intelligence
In progress:
Simple, smart and open technology strategy to provide API and microservices through a Sage Developer Platform
Strategic acquisition and collaboration with partners to complement and enable accelerated innovation
Platform Services delivered to Sage Business Cloud to enhance value proposition for cloud adoption
Leveraging Sage ID and the Sage Business Cloud network to deliver a unified and highly personalised experience for each customer across the entirety of Sage Business Cloud
Development of an incubation framework to guide how Sage interacts with its innovation partners
Enhancement of the Pegg AI capability, and increased use of machine learning to support new areas and operations
Continuing development of Sage's service fabric to support the development of cloud solutions</td></tr>
<tr><td>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.

<u>Strategic alignment:</u>

Customer Success</td><td>Improving risk environment
By offering our current and potential customers the right information on the right products and services at the right time, we can maximise the value we can obtain from our marketing and customer engagement activities.
This can shorten our sales cycle and ensure that customer retention is improved. It can also use new products and services, such as payments and banking technologies, to draw new customers into the Sage family.</td><td>Market data and intelligence is disseminated internally to support decision makers in the best routes to market
Dedicated colleagues are in place to support partners, and to help manage the growth of targeted channels
The Sage Partner Programme has been moved into the marketing organisation to drive increased alignment of the indirect channel to market
New routes to market are being opened through our partnerships with payment and banking technology providers
In progress:
Internationalisation of existing cloud-native products (Sage Intacct, Sage People) through a partner-driven sales model
A Centre of Excellence is being created to support our Indirect Sales and Third-Party Partner approach</td></tr>
<tr><td>Customer Success
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</td><td>Stable risk environment
In becoming a true SaaS business, we must maintain a sharp focus on the relationship we have with our customers, constantly focusing on delivering the products, services and experiences our customers need to be successful. If we do not</td><td>A Product Delivery team develops and delivers those products needed by our customers to support their success
Battlecards are in place for key products in all countries, setting out the strengths and weaknesses of competitors and their products</td></tr>
</table>

able to achieve sustainable growth through renewal. _Strategic alignment:_ ***Customer Success*** ***Colleague Success***	do this, they will likely find another provider who does give them these things. Conversely, if we do these things well these customers will stay with Sage, increasing their lifetime value, becoming our greatest marketing advocates. While Sage is renowned for its quality customer support, a focus on customer success requires more proactive engagement as well. By proactively helping customers to recognise and fully realise the value of Sage's products we can help increase the value of these relationships over time and reduce the likelihood of customer loss. By aligning our people, processes and technology with this focus in mind, all Sage colleagues can help support our customers to be successful and in turn drive increased financial performance.	• Defined 'customer for life' roadmaps are in place, detailing how products fit together, any interdependencies, and migration pathways for current and potential customers • A data-driven Customer Success Framework was designed and piloted in UKI and is being rolled out in phases to other major markets to enhance the customer experience and ensure that Sage is better positioned to meet the current and future needs of the customer • Continuous Net Promoter Score (NPS) surveying allows Sage to identify customer challenges rapidly, and respond in a timely manner to emerging trends • Customer Journey mapping and mapping of the five core customer processes to ensure appropriate strategy alignment and alignment to Target Operating Model • All customer success initiatives reassessed from a COVID-19 perspective In progress: • Consolidation of CRM systems continues to provide an efficient single view of the customer across all markets • Delivery of the Customer Core Programme
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. _Strategic alignment:_ ***Customer Success***	**Improving risk environment** Sage places reliance on third-party providers to support the delivery of our products to our customers. Any interruption in these services or relationships could have a profound impact on Sage's reputation in the market and could result in significant financial liabilities and losses. Sage has an extensive network of sales partners critical to our success in the market, and suppliers upon whom it places reliance. Carefully selecting, managing and supporting these partners and suppliers is critical to how we grow our business, as well as ensuring that we only engage with those people and organisations that share Sage's values and aspirations.	• Dedicated colleagues are in place to support partners, and to help manage the growth of targeted channels • Standardised implementation plans for Sage products that facilitate efficient partner implementation • A specialised Procurement function supports the business with the selection of strategic third-party suppliers and negotiation of contracts • Clear roles and responsibilities for colleagues are outlined in the Procurement Lifecycle Policy and Procedures, which includes delegated levels of authority for investment approval • The Sage Partner Programme has been moved into the marketing organisation to drive increased alignment of the indirect channel to market In progress: • Rationalisation of targeted channels is continuing to focus on value-add activities • Managed growth of the API estate, including enhanced product development that enables access by third-party API developers • Enhancement of our third-party management framework, to support closer alignment and oversight of third-party activities • A Centre of Excellence is being created for our Indirect Sales and Third-Party Partner approach
People and Performance If we fail to ensure we have engaged colleagues with the critical skills,	**Improving risk environment** As Sage transitions into a SaaS business, the capacity, knowledge and leadership skills we need will change. Sage will not only need to	• Continued embedding of our operating model to ensure 'decision making is made as close to the customer as possible with the

capabilities and capacity we need to deliver on our strategy, we will not be successful. _Strategic alignment:_ ***Customer Success*** ***Colleague Success***	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 SaaS businesses, Sage can increase colleague engagement and create an aligned high performing team.	appropriate governance and strategic direction in place • Extensive focus on our hiring channels ensuring we are attractive in the market through our enhanced employee value proposition, enhanced presence through social media such as Glassdoor, Comparably, Twitter, LinkedIn, and Facebook • Identifying new hiring channels, for example our pathways programme which enables talented returners who are struggling to find a route back into work • Focusing on entry level hiring through apprentice and graduate programmes • Ensuring our reward mechanisms incentivise and drive the right behaviour with a focus on ensuring fair and equitable pay in all markets • Using a range of mechanisms – including digital platforms to recognise great performance and outstanding achievements • Focusing on the development of our leaders to ensure they create the environment which enables colleagues to thrive and perform at their very best • Through our Sage Belong programme ensuring we are supporting all colleagues to be successful at Sage regardless of age, gender, sexual orientation, ethnic origin or social background • Encouraging collaboration across the organisation through internal media channels, hackathon, collaboration jams and Sage Foundation • Placing colleagues (and customers) at the heart of our response to the COVID-19 pandemic, including the availability of 'Headspace', our 'Always Listening' portal and 'Your Voice' Hub In progress: • Sage-wide reward and capability review ensuring we have in place the SaaS skills and reward mechanisms we need • Design for emerging talent programme (including VP development programmes)
Culture	**Improving risk environment**	
If we do not fully empower our colleagues and enable them to take accountability in line with our shared Values and Behaviours, we will be challenged to create a SaaS culture, that meets Sage's business ambitions. _Strategic alignment:_ ***Customer Success*** ***Colleague Success***	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 will be critical in Sage's successful transition to a SaaS business. Devolution of decision making, and the acceptance of accountability for these decisions, will need to go hand in hand as the organisation develops and sustains its shared Values and Behaviours, and develops a true SaaS culture. Sage will also need to create a culture of empowered leaders that support the development of ideas, and that provides colleagues with a safe environment that allows for honest disclosures and discussions. Such a trusting and empowered	• Integration of Values and Behaviours into all our core colleague priorities including, performance management, talent attraction, selection and development, leadership development and onboarding • Code of Conduct communicated to all colleagues, and subject to annual certification • Alignment of personal objectives across Sage, with direct cascade from the CEO • Formal assessment against personal objectives for each colleague as part of established performance management process, which also considers personal application of Sage's Values and Behaviours • Core eLearning modules rolled out across Sage, with annual refresher training • Whistleblowing and Incident Reporting mechanisms in place to allow issues to be formally reported and investigated

	environment can help sustain innovation, enhance customer success and drive the engagement that results in increased market share.	• 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. Support for Sage Foundation included in bonus goals for our most senior leaders • Placing colleagues (and customers) at the heart of our response to the COVID-19 pandemic, including the availability of 'Headspace', our 'Always Listening' portal and 'Your Voice' Hub • Sage Compliance has been transformed into Sage Business Integrity, with a mandate to guide, support and challenge the business to own and enhance its Values and Behaviours • In-person anti-bribery and corruption training has been delivered to multiple regions, with the remaining regions to be completed based on assessed risk In progress: • Creation of a culture framework and specific metrics to drive Sage's Values and Behaviours into the core of the business • Sales Capability Framework has been built with Values and Behaviours embedded to act as a pilot for our global Capability Framework approach
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. <u>*Strategic alignment:*</u> ***Customer Success*** ***Innovation***	**Improving risk environment** Information is the life blood of a SaaS business – protecting the confidentiality, integrity and accessibility of this data is table stakes for a data-driven business, and failure to do so can have significant financial and regulatory consequences in the General Data Protection Regulation (GDPR) era. In addition, we also need to use our data efficiently and effectively to drive improved business performance.	• Accountability is established 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 supported by a Data Governance forum oversees information protection and development for Sage • A network of country-level data champions supports the business in embedding Sage practices across the organisation, with a particular focus on the requirements of the GDPR • Formal certification schemes are maintained, across appropriate parts of the business, and include internal and external validation of compliance • An incident management framework is in place, which includes rating of incidents and requirements for notification and escalation, and online incident reporting to Sage Risk • All colleagues are required to undertake awareness training for information management and data protection, with a focus on the GDPR requirements. Colleagues who frequently handle personal data also undertake role-based training • The Information Security Risk Management Methodology continues to be deployed to provide objective risk information on our assets and systems • Ongoing assessment of the impact of working from home, and any potential additional risks and required enhancement in controls.

		In progress: • Data governance forum is leading a review of how Sage can provide maximum value to its current and future customers, including the use of enhanced AI/ML capabilities • A dedicated insider threat workstream to continually develop and assess insider risk in Sage and update response plans
Data Strategy If we fail to identify, maximise and utilise the value of our data and customer data in a timely manner in accordance with our data principles, we will not be able to realise the full potential of our assets. _Strategic alignment:_ ***Customer Success*** ***Innovation***	**Stable risk environment** Information is the life blood of a SaaS business – it tells us how we create revenue, how we can improve the customer experience, and how we can meet our obligations and commitments. Analysed using manual and machine learning, it provides us with the intelligence we need to run and build our business.	• IT and Product have been consolidated under a single leader to drive alignment of data management practice across the business • Formation of a data strategy around seven initiatives to support the delivery of real customer value and solve real customer problems • Data principles have been created • New customer consent service initiated to support product telemetry In progress: • Establishment of a global data stack. • Data governance forum sponsoring a review of how Sage can provide maximum value to its current and future customers, including the use of enhanced Artificial Intelligence /Machine Learning capabilities
Live Services Management If we fail to maintain a reliable, scalable and secure live services environments, we will be unable to deliver the consistent cloud experience expected by our customers. _Strategic alignment:_ ***Customer Success*** ***Innovation***	**Stable risk environment** As Sage continues to transition into a great SaaS business, there is a greater focus on ensuring that we are able to continue to scale our services environment in a robust, agile, and speedy manner to ensure the delivery of a consistent and robust cloud experience. This delivery could relate to new technologies, operating practices, and services. Live Services Management must provide the right Infrastructure and Operations for all of our customer products, a platform to host customer products, the governance to insure they are adhering to best practices, and the oversight that ensures optimal service availability, performance, security protection and restoration (if required).	• Formal onboarding process established and executed including ongoing management in Portfolio Management processes • Incident and management change processes adhered to for all products and services. • Report hosting and tool costs per product • Published established tool standards • Attained service level objectives including uptime, responsiveness, and mean time to repair objectives • An established forum for continuous assessment and refinement • Real Time Demand Management processes and controls • Disaster Recovery Capability and operational resilience models In progress: • Continued enhancement and development of our robust security programmes • Continue to reinforce accountability and ownership across Product Owners, underpinned by ongoing risk assessments at segment and category levels • Future state live services environment Transformation Plan developed and being deployed

Statement of Directors' Responsibilities

Responsibility statement of the Directors on the Annual Report & Accounts

The Annual Report & Accounts for the year ended 30 September 2020 includes the following responsibility statement.

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

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

The contents of this announcement, including the responsibility statement above, have been extracted from the annual report and accounts for the year ended 30 September 2020 which may be found at www.sage.com/investors/investor-downloads and will be published on 2 December 2020. Accordingly, this responsibility statement makes reference to the financial statements of the Company and the group and to the relevant narrative appearing in that annual report and accounts rather than the contents of this announcement.

On behalf of the Board

J Howell
Chief Financial Officer
19 November 2020