The Sage Group plc
Results for the year ended 30 September 2022 (audited)
16 November 2022

Strong execution accelerates growth

- Significant strategic progress with accelerating revenue growth and organic margin expansion
- Organic recurring revenue growth of 9%, underpinned by Sage Business Cloud growth of 24%
- ARR growth of 12%, with increased momentum in all regions driven by new and existing customers
- Organic operating margin increased to 19.9%, as we focus on efficiently scaling the business
- Underlying basic EPS growth of 8%
- Continued strong cash performance, with cash conversion of 107%

Alternative Performance Measures (APMs)[1]	FY22	FY21[2]	Change
Organic Financial APMs			
Organic Total Revenue	£1,924m	£1,809m	+6%
Organic Recurring Revenue	£1,824m	£1,667m	+9%
Organic Operating Profit	£383m	£353m	+8%
% Organic Operating Profit Margin	*19.9%*	*19.5%*	*+0.4 ppts*
Underlying Financial APMs			
EBITDA	£468m	£454m	+3%
% EBITDA Margin	*24.0%*	*24.2%*	*-0.2 ppts*
Underlying Operating Profit	£377m	£368m	+2%
% Underlying Operating Profit Margin	*19.4%*	*19.6%*	*-0.2 ppts*
Underlying Basic EPS	25.74p	23.79p	+8%
Underlying Cash Conversion	107%	126%	-19 ppts
KPIs			
Annualised Recurring Revenue (ARR)	£2,027m	£1,816m	+12%
Renewal Rate by Value	101%	99%	+2 ppts
% Subscription Penetration	75%	70%	+5 ppts
% Sage Business Cloud Penetration	75%	67%	+8 ppts
Statutory Measures	**FY22**	**FY21**	**Change**
Revenue	£1,947m	£1,846m	+5%
Operating Profit	£367m	£373m	-2%
% Operating Profit Margin	*18.9%*	*20.2%*	*-1.3 ppts*
Basic EPS (p)	25.47p	26.33p	-3%
Dividend Per Share (p)	18.40p	17.68p	+4%

Please note that tables may not cast and change percentages may not calculate precisely due to rounding.

Commenting on the results, CEO Steve Hare said:

"Sage has had a strong year, making good progress as we deliver on our strategic priorities. We significantly accelerated revenue across all key products and regions, expanded our organic operating margin and delivered strong cash flow. ARR growth of 12%, underpinned by increasing levels of new customer acquisition, is particularly encouraging and positions us well for the year ahead.

“Sage’s purpose of knocking down barriers so everyone can thrive is more important now than ever. Sage Business Cloud solutions enable small and mid-sized businesses to streamline their processes and unlock productivity, helping them to achieve more with less. While we are mindful of macroeconomic uncertainties, I am confident that our resilient business model together with our strategy for delivering efficient growth, centred on our expanding digital network, will enable us to create further long-term value for all our stakeholders.”

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

[2] Organic revenue and operating profit for FY21 have been restated to aid comparability with FY22. The definition of organic measures can be found in Appendix 1 with a full reconciliation of organic, underlying and statutory measures on page 7. Unless otherwise specified, all references to revenue, profit and margins are on an organic basis.

Financial highlights

- Organic recurring revenue increased by 9% to £1,824m, underpinned by Sage Business Cloud growth of 24% to £1,261m. Organic total revenue grew by 6% to £1,924m.
- Organic operating profit grew by 8% to £383m, with margin increasing to 19.9% (FY21: 19.5%) driven by operating efficiencies as we scale the Group.
- EBITDA increased by 3% to £468m, with margin decreasing slightly to 24.0% (FY21: 24.2%) mainly due to the impact of disposals.
- Statutory operating profit decreased by 2% to £367m due to the change in recurring and non-recurring items[1], including higher net gains in the prior year from disposals.
- Underlying basic EPS up by 8% reflecting higher underlying profit and the recent £600m share buyback.
- Continued strong cash performance, with cash conversion of 107% reflecting ongoing growth in subscription revenue.
- Robust balance sheet, with c. £1.3bn of cash and available liquidity, and net debt to EBITDA of 1.6x.
- Final dividend up 4% to 12.1p, in line with our dividend policy, taking the full year dividend to 18.4p.

Strategic and operational highlights

- Annualised recurring revenue (ARR) up 12% to £2,027m (FY21: £1,816m), reflecting a strong performance across all regions, with growth accelerating from both new and existing customers.
- £180m of ARR added through new customer acquisition, up from £140m in FY21.
- Cloud native ARR up 38% to £530m (FY21: £384m) driven by new customers and supported by migrations, with a particularly strong performance from Sage Intacct.
- Renewal rate by value of 101%, ahead of last year (FY21: 99%), reflecting good retention rates and strong sales to existing customers.
- Sage Business Cloud penetration of 75% (FY21: 67%), enabling more customers to connect to Sage's cloud services and ecosystem via the Sage digital network.
- Strong progress in strategic execution including several new product launches across the Group; continued focus on innovation driving new AI-based services including Accounts Payable automation.
- Refreshed brand landing well with stakeholders and helping to build stronger customer connections.
- Accelerated growth strategy with key acquisitions including Brightpearl, Futrli and Lockstep; disposal programme now complete following the sale of Sage Switzerland and South African payroll outsourcing.

Outlook

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

About Sage

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

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A presentation for investors and analysts will be held at 8.30am UK time. The live webcast can be accessed via sage.com/investors or directly via the following link: https://edge.media-server.com/mmc/p/umpbfg5k. To join the conference call, please register via https://register.vevent.com/register/BI0b234f8d6411450caeaea347d4931188.

Business Review

Sage made significant progress in FY22, achieving a strong financial performance and increasing momentum throughout the Group. We significantly accelerated our revenue growth while expanding our organic operating margin through efficiencies. Our progress reflects strong execution against our strategic priorities, supported by continuing investment in sales, marketing and innovation.

Sage serves a diverse customer base of small and mid-sized businesses around the world. SMBs are rapidly adopting new cloud solutions in order to automate workflows, gain better business insights and comply with regulatory obligations. Our trusted portfolio of finance, HR and payroll solutions positions us well to support them. Sage's purpose is to knock down barriers so everyone can thrive, recognising that as we remove friction and make life easier for SMBs, they in turn have a positive effect on the economies and communities in which they operate.

Overview of results

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

Our focus on growing cloud revenues has increased Sage Business Cloud penetration to 75%, up 8 percentage points compared to FY21. We have also continued to grow software subscription revenues, leading to a rise in subscription penetration of 5 percentage points to 75%. As a result of the evolving business mix, 95% of the Group's organic total revenue is now recurring, up from 92% in FY21.

Portfolio View of Revenue

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

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

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

[4] Revenue from subscription customers using products that are part of Sage's strategic future product portfolio, where that product runs in a cloud-based environment enabling customers to access full, updated functionality at any time, from any location, over the Internet.

[5] Revenue from subscription customers using products that are part of Sage's strategic future product portfolio, where that product is normally deployed on-premise, and for which a substantial part of the value proposition is linked to functionality delivered in or through the cloud.

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

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

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

Recurring revenue from cloud connected solutions increased by 17% to £842m, reflecting continuing growth in the Sage 50 and Sage 200 franchises driven by existing and new customers, together with faster migration of products to Sage Business Cloud through the integration of cloud functionality. Overall, the Future Sage Business Cloud Opportunity, which represents products in or with a clear pathway to Sage Business Cloud, has performed strongly with recurring revenue growth of 11%.

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

ARR growth

Sage's ARR accelerated across all regions, increasing by 12% to £2,027m (FY21: £1,816m) and reflecting strong growth balanced between new and existing customers. This was underpinned by cloud native ARR growth of 38% to £530m (FY21: £384m), reflecting a strong performance particularly from Sage Intacct, Sage People, Sage Accounting and Sage HR. In absolute terms cloud native ARR grew by £146m, up from £107m[8] in the prior year.

Renewal rate by value of 101% (FY21: 99%) is ahead of last year reflecting good retention rates, a strong performance in customer add-ons and targeted price rises.

In total, Sage added £180m of ARR through new customer acquisition during the year (FY21: £140m[8]).

Progress towards our strategic priorities

Sage focuses on five strategic priorities that help us create long-term value for our stakeholders, as part of our strategic framework for growth. Our progress towards these priorities is outlined below.

- **Scale Sage Intacct**: We have accelerated growth in Sage Intacct by investing in sales and distribution while further enriching the solution with new functionality and services. Sage Intacct's vertical reach was enhanced through the acquisition of Brightpearl in retail, new features in construction and real estate, and the release of Sage Intacct Manufacturing in France, the UK, and now also the US. As a result, Sage Intacct's ARR grew by a third in the US and by 150% outside the US in FY22, driven by a record number of new customer wins, a higher renewal rate and expanded average contract value.
- **Expand medium beyond financials**: We are developing solutions for mid-sized businesses that deliver benefits beyond core accounting. During the year we launched an AI-driven service to automate manual accounts payable processes for Sage Intacct customers in the US, significantly reducing invoice processing costs and data entry error. We also launched Sage People Payroll, bringing integrated payroll functionality to Sage People in the US and the UK. Sage Intacct Planning has continued to grow rapidly, surpassing 1,000 customers in the US and Canada.
- **Build the small business engine**: Sage continues to achieve strong growth from UK small business solutions (including Sage Accounting and Sage HR), through both direct sales and accountants. Sage for Accountants, complemented by the recent acquisitions of GoProposal (client management) and Futrli (cashflow forecasting), is performing well, attracting over 2,000 accountancy practices since launch last November. In August Sage was recognised on HMRC's official list of software compatible with Making Tax Digital for Income Tax Self-Assessment (MTD for ITSA). Further progress was made in internationalising the UK small business approach, including in South Africa and Canada.
- **Scale the network:** Scaling Sage's digital network creates a virtuous circle, with more data enabling better services to deliver richer experiences. We are expanding Sage Business Cloud availability, particularly in International, with recent product launches including Sage Active in France, Sage Accounting in Spain, and Sage HR in Germany. We will soon launch Sage Intacct in France, bringing the solution to non-English speaking markets for the first time. During the year we created a new Digital Network business unit, led by Aaron Harris, Chief Technology Officer, to implement our network strategy. This strategy has been accelerated by the recent acquisition of Lockstep, bringing accounts receivable automation capabilities and other innovative features to the Sage digital network.

[8] As reported

- **Learn and disrupt**: We continue to invest in innovation, driving disruptive new technologies and accelerating AI and machine learning. Our outlier detection engine has so far attracted over 1,000 customers, helping to increase the accuracy of general ledger transactions. During the year we entered into an expanded partnership with Microsoft, integrating Teams with Sage Intacct and Sage People to simplify approval and collaboration workflows, and making Sage Intacct and Sage Active available on Microsoft Azure as part of our multi-cloud access strategy. We have also entered into partnerships with Experian and Tide to deliver innovative services to small businesses and consumers.

Refreshed brand

During the year we refreshed our brand proposition to emphasise the simplicity and confidence we deliver to customers, with our easy-to-use solutions backed by expert human advice helping them to make better and faster decisions. To support the roll-out and drive brand awareness we have partnered with major sporting competitions including The Hundred cricket, Major League Baseball and the Six Nations Rugby to deliver data-led insights to viewers and fans. Recognising the success of the brand refresh, Sage was shortlisted for the Marketing Week Awards Brand of the Year 2022.

Colleagues

Sage is committed to creating an innovative, equitable and inclusive culture, knocking down barriers so colleagues feel valued and empowered to thrive. We continue to invest in training, running development programmes for colleagues and providing senior sponsorship and mentoring schemes.

Putting colleague wellbeing first helps us attract talent and drives sustainable high performance. Our comprehensive approach to wellbeing covers four key pillars including healthy mind, healthy body, healthy finances and healthy communities. Resources available include a global wellbeing hub, healthy mind coaches, free access to the Headspace app, colleague support networks and assistance programmes. Our Flexible Human Work initiative, co-designed with colleagues, gives teams a clear framework for flexible working and encourages an experimental, collaborative mindset.

Participation in Sage's diversity, equity, and inclusion (DEI) initiatives increased significantly during the year, as we seek to embed DEI through our everyday business processes. During the year Sage has continued to be recognised as a great place to work based on colleague feedback, receiving awards from organisations including Comparably in the US, Glassdoor in the UK and Kununu in Germany. Our Glassdoor score of 4.2 has improved over the year and is in line with target.

Society

Sage supports SMBs which form the foundation of economic prosperity around the world, and through our Sustainability and Society strategy, Sage aims to support sustainable and inclusive economic growth so everyone can thrive. The Sage Foundation plays an important role in this strategy, mobilising Sage colleagues, their families and partners to donate 150,000 volunteer hours and raise almost £1 million in FY22 to support charitable and environmental causes.

To help tackle the climate crisis, Sage is targeting net zero carbon emissions by 2040, with a 50% reduction by 2030. During the year, the Group submitted its science-based target for validation, made progress towards its Scope 1 and 2 emissions reduction, and engaged with suppliers to reduce Scope 3 emissions. We also recently acquired Spherics, an innovative carbon accounting solution, enabling us to support our customers in their net zero journeys.

To help tackle economic inequality, during FY22 we have supported over 13,000 entrepreneurs in underserved communities with loan funds and grants through our partnerships with Kiva and The Boss Network. In addition, to address digital inequality, we have helped develop STEM skills in almost 5,000 young people in deprived communities across northeast England, through our partnership with the Institute of Engineering and Technology.

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

Financial Review

The financial review provides a summary of Sage's results on a statutory and underlying basis, as well as considering the organic performance of the business. Underlying measures allow management and investors to understand the financial performance of the Group adjusted for the impact of foreign exchange movements and recurring and non-recurring items, while organic measures also adjust for the impact of acquisitions and disposals[9].

Future reporting changes

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

Sage also intends to change the presentation of its regional reporting, to reflect recent changes to the way in which the Group manages its operations. From FY23, we will report performance across the following regions: North America, comprising the US, Sage Intacct and Canada; UKIA[10], comprising Northern Europe and Africa & APAC; and Europe, comprising France, Central Europe and Iberia.

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

Organic Financial Results

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

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

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

Statutory and Underlying Financial Results

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

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

Statutory operating profit decreased by 2% to £367m, driven mainly by the change in recurring and non-recurring items (see page 7). Underlying operating profit, which excludes recurring and non-recurring items, increased by 2% to £377m.

[9] Underlying and organic revenue and profit measures are defined in Appendix 1.
[10] United Kingdom, Ireland, Africa and APAC

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

Underlying & Organic Reconciliations to Statutory

	FY22			FY21		
	Revenue	**Operating Profit**	**Operating Margin**	**Revenue**	**Operating Profit**	**Operating Margin**
Statutory	**£1,947m**	**£367m**	**18.9%**	**£1,846m**	**£373m**	**20.2%**
Recurring items[11]	£2m	£83m	–	–	£40m	–
Non-recurring items:						
• *Gain on disposal of subsidiaries*	–	(£53m)	–	–	(£126m)	–
• *(Reversal of)/ restructuring costs*	–	(£20m)	–	–	£62m	–
• *Office relocation*	–	–	–	–	£9m	–
Impact of FX[12]	–	–	–	£32m	£10m	–
Underlying	**£1,949m**	**£377m**	**19.4%**	**£1,878m**	**£368m**	**19.6%**
Disposals	(£7m)	(£1m)	–	(£69m)	(£15m)	–
Acquisitions	(£18m)	£7m	–	–	–	–
Organic	**£1,924m**	**£383m**	**19.9%**	**£1,809m**	**£353m**	**19.5%**

Revenue

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

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

Operating profit

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

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

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

[11] Recurring and non-recurring items are defined in Appendix 1 and detailed in note 3 of the financial statements.
[12] Impact of retranslating FY21 results at FY22 average rates

Organic Revenue Overview

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

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

North America

Organic Revenue by Category	FY22	FY21	Change
Organic Total Revenue	£810m	£734m	+10%
Organic Recurring Revenue	£779m	£685m	+14%
% Sage Business Cloud Penetration	79%	73%	+6 ppts
% Subscription Penetration	73%	66%	+7 ppts
Organic Recurring Revenue	**FY22**	**FY21**	**Change**
US	£666m	£581m	+15%
Of which Sage Intacct	*£231m*	*£176m*	*+31%*
Canada	£113m	£104m	+9%

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

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

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

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

Northern Europe

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

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

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

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

International

Organic Revenue by Category	**FY22**	**FY21**	**Change**
Organic Total Revenue	£689m	£674m	+2%
Organic Recurring Revenue	£626m	£592m	+6%
% Sage Business Cloud Penetration	59%	47%	+12 ppts
% Subscription Penetration	67%	62%	+5 ppts
Organic Recurring Revenue	**FY22**	**FY21**	**Change**
Central and Southern Europe	£486m	£466m	+4%
France	£258m	£249m	+4%
Central Europe	£108m	£99m	+9%
Iberia	£120m	£118m	+3%
Africa & APAC	£140m	£126m	+10%

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

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

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

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

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

Operating Profit

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

Underlying operating profit was £377m (FY21: £368m), representing a margin of 19.4% (FY21: 19.6%). The difference between organic and underlying operating profit reflects the operating profit or loss from acquisitions and disposals (as described on page 7).

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

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

Net Finance Cost

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

Taxation

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

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

Earnings per Share

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

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

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

Cash Flow

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

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

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

Net debt and liquidity

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

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

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

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

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

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

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

Capital allocation

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

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

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

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

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

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

Going concern

The Directors have robustly tested the going concern assumption in preparing these financial statements, taking into account the Group's strong liquidity position at 30 September 2022 and a number of downside sensitivities, and remain satisfied that the going concern basis of preparation is appropriate. Further information is provided in note 1 of the financial statements on page 22.

Foreign exchange

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

AVERAGE EXCHANGE RATES (EQUAL TO GBP)	**FY22**	**FY21**	**Change**
Euro (€)	1.18	1.15	3%
US Dollar ($)	1.28	1.37	-7%
Canadian Dollar (C$)	1.63	1.73	-6%
South African Rand (ZAR)	20.21	20.28	-
Australian Dollar (A$)	1.80	1.82	-1%

Appendix 1 – Alternative Performance Measures

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

MEASURE	DESCRIPTION	RATIONALE
Underlying (revenue and profit) measures	Underlying measures are adjusted to exclude items which in management's judgement need to be disclosed separately by virtue of their size, nature or frequency to aid understanding of the performance for the year or comparability between periods: • Recurring items include purchase price adjustments including amortisation of acquired intangible assets and adjustments made to reduce deferred income arising on acquisitions, acquisition-related items, unhedged FX on intercompany balances and fair value adjustments; and • Non-recurring items that management judge to be one-off or non-operational such as gains and losses on the disposal of assets, impairment charges and reversals, and restructuring related costs. Recurring items are adjusted each period irrespective of materiality to ensure consistent treatment. Underlying basic EPS is also adjusted for the tax impact of recurring and non-recurring items. All prior period underlying measures (revenue and profit) are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations.	Underlying measures allow management and investors to compare performance without the effects of foreign exchange movements, one-off or non-operational items. By including part-period contributions from acquisitions, discontinued operations, disposals and assets held for sale of standalone businesses in the current and/or prior periods, the impact of M&A decisions on earnings per share growth can be evaluated.
Organic (revenue and profit) measures	In addition to the adjustments made for Underlying measures, Organic measures: • Exclude the contribution from discontinued operations, disposals and assets held for sale of standalone businesses in the current and prior period; and • Exclude the contribution from acquired businesses until the year following the year of acquisition; and • Adjust the comparative period to present prior period acquired businesses as if they had been part of the Group throughout the prior period. Acquisitions and disposals where the revenue and contribution impact would be immaterial are not adjusted.	Organic measures allow management and investors to understand the like-for-like revenue and current period margin performance of the continuing business.
Underlying Cash Flow from Operations	Underlying Cash Flow from Operations is Underlying Operating Profit adjusted for non-cash items, net capex (excluding business combinations and similar items) and changes in working capital.	To show the cash flow generated by the operations and calculate underlying cash conversion.
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

MEASURE	DESCRIPTION	RATIONALE
		efficiently operating profit is converted into cash.
EBITDA	EBITDA is Underlying Operating Profit excluding depreciation, amortisation and share based payments.	To calculate the Net Debt to EBITDA leverage ratio and to show profitability before the impact of major non-cash charges.
Annualised recurring revenue	Annualised recurring revenue (“ARR”) is the normalised organic recurring revenue in the last month of the reporting period, adjusted consistently period to period, multiplied by twelve. Adjustments to normalise reported recurring revenue include those components that management has assessed should be excluded in order to ensure the measure reflects that part of the contracted revenue base which (subject to ongoing use and renewal) can reasonably be expected to repeat in future periods (such as non-refundable contract sign-up fees).	ARR represents the annualised value of the recurring revenue base that is expected to be carried into future periods, and its growth is a forward-looking indicator of reporting recurring revenue growth.
Renewal Rate by Value	The ARR from renewals, migrations, upsell and cross-sell of active customers at the start of the year, divided by the opening ARR for the year.	As an indicator of our ability to retain and generate additional revenue from our existing customer base through up and cross sell.
Free Cash Flow	Free Cash Flow is Underlying Cash Flow from Operations minus net interest paid and income tax paid and adjusted for non-recurring cash items (which excludes net proceeds on disposals of subsidiaries) and profit and loss foreign exchange movements.	To measure the cash generated by the operating activities during the period that is available to repay debt, undertake acquisitions or distribute to shareholders.
% Subscription Penetration	Organic software subscription revenue as a percentage of organic total revenue.	To measure the progress of migrating our customer base from licence and maintenance to a subscription relationship.
% Sage Business Cloud Penetration	Organic recurring revenue from the Sage Business Cloud (native and connected cloud) as a percentage of the organic recurring revenue of the Future Sage Business Cloud Opportunity.	To measure the progress in the migration of our revenue base to the Sage Business Cloud by connecting our solutions to the cloud and/or migrating our customers to cloud connected and cloud native solutions.
Return on Capital Employed (ROCE)	ROCE is calculated as: - Underlying Operating Profit; minus - Amortisation of acquired intangibles; the result being divided by The average (of the opening and closing balance for the period) total net assets excluding net debt, provisions for non-recurring costs, financial liability for purchase of own shares and tax assets or liabilities (i.e. capital employed).	As an indicator of the current period financial return on the capital invested in the Company. ROCE is used as an underpin in the FY20, FY21 and FY22 PSP awards.
Net debt	Net debt is cash and cash equivalents less current and non-current borrowings.	To calculate the Net Debt to EBITDA leverage ratio and an indicator of our indebtedness.

Consolidated income statement
For the year ended 30 September 2022

	Note	**Underlying 2022 £m**	**Adjustments (note 3) 2022 £m**	**Statutory 2022 £m**	Underlying as reported* 2021 £m	Adjustments (note 3) 2021 £m	Statutory 2021 £m
Revenue	2	**1,949**	**(2)**	**1,947**	1,846	–	1,846
Cost of sales		**(138)**	**–**	**(138)**	(131)	–	(131)
Gross profit		**1,811**	**(2)**	**1,809**	1,715	–	1,715
Selling and administrative expenses		**(1,434)**	**(8)**	**(1,442)**	(1,357)	15	(1,342)
Operating profit	2	**377**	**(10)**	**367**	358	15	373
Finance income		**1**	**–**	**1**	1	–	1
Finance costs		**(32)**	**1**	**(31)**	(26)	(1)	(27)
Profit before income tax		**346**	**(9)**	**337**	333	14	347
Income tax expense	4	**(83)**	**6**	**(77)**	(83)	21	(62)
Profit for the year		**263**	**(3)**	**260**	250	35	285
Earnings per share attributable to the owners of the parent (pence)							
Basic	6	**25.74p**		**25.47p**	23.09p		26.33p
Diluted	6	**25.44p**		**25.17p**	22.87p		26.08p

All operations in the year relate to continuing operations.

Note:

* Underlying as reported is at 2021 reported exchange rates.

Consolidated statement of comprehensive income

For the year ended 30 September 2022

	2022 **£m**	2021 £m
Profit for the year	**260**	285
Other comprehensive income/(expense):		
Items that will not be reclassified to profit or loss		
Fair value gain on reassessment of equity investment (see note 11)	**30**	–
Actuarial gain on post-employment benefit obligations	**3**	2
	33	2
Items that may be reclassified to profit or loss		
Exchange differences on translating foreign operations and net investment hedges	**177**	(60)
Exchange differences recycled through income statement on sale of foreign operations	**(13)**	(21)
	164	(81)
Other comprehensive income/(expense) for the year, net of tax	**197**	(79)
Total comprehensive income for the year	**457**	206

The notes on pages 21 to 41 form an integral part of this condensed consolidated yearly report.

Consolidated balance sheet
As at 30 September 2022

	Note	2022 £m	2021 £m
Non-current assets			
Goodwill	7	**2,416**	1,877
Other intangible assets	7	**294**	190
Property, plant and equipment	7	**152**	164
Equity investments		**4**	21
Trade and other receivables		**128**	113
Deferred income tax assets		**19**	40
		3,013	2,405
Current assets			
Trade and other receivables		**355**	295
Current income tax asset		**39**	37
Cash and cash equivalents (excluding bank overdrafts)	10	**489**	553
Assets classified as held for sale	11	**–**	39
		883	924
Total assets		**3,896**	3,329
Current liabilities			
Trade and other payables		**(368)**	(592)
Current income tax liabilities		**(13)**	(31)
Borrowings	10	**(178)**	(65)
Provisions		**(33)**	(68)
Deferred income		**(734)**	(611)
Liabilities classified as held for sale	11	**–**	(13)
		(1,326)	(1,380)
Non-current liabilities			
Borrowings	10	**(1,044)**	(749)
Post-employment benefits		**(19)**	(22)
Deferred income tax liabilities		**(16)**	(5)
Provisions		**(20)**	(49)
Trade and other payables		**(6)**	(3)
Deferred income		**(8)**	(10)
Derivative financial instruments		**(60)**	–
		(1,173)	(838)
Total liabilities		**(2,499)**	(2,218)
Net assets		**1,397**	1,111
Equity attributable to owners of the parent			
Ordinary shares	9	**12**	12
Share premium	9	**548**	548
Translation reserve		**206**	42
Merger reserve		**61**	61
Retained earnings		**570**	448
Total equity		**1,397**	1,111

Consolidated statement of changes in equity

For the year ended 30 September 2022

	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 2021	12	548	42	61	448	1,111
Profit for the year	–	–	–	–	260	260
Other comprehensive income/(expense)						
Exchange differences on translating foreign operations and net investment hedges	–	–	177	–	–	177
Exchange differences recycled through income statement on sale of foreign operations	–	–	(13)	–	–	(13)
Fair value gain on reassessment of equity investment					30	30
Actuarial gain on post-employment benefit obligations	–	–	–	–	3	3
Total comprehensive income for the year ended 30 September 2022	–	–	164	–	293	457
Transactions with owners						
Employee share option scheme—value of employee services including deferred tax	–	–	–	–	37	37
Proceeds from issuance of treasury shares	–	–	–	–	7	7
Purchase of shares by Employee Benefit Trust	–	–	–	–	(32)	(32)
Dividends paid to owners of the parent	–	–	–	–	(183)	(183)
Total transactions with owners for the year ended 30 September 2022	–	–	–	–	(171)	(171)
At 30 September 2022	12	548	206	61	570	1,397

Consolidated statement of changes in equity
For the year ended 30 September 2021

	Attributable to owners of the parent					
	Ordinary shares £m	Share premium £m	Translation reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 1 October 2020	12	548	123	61	908	1,652
Profit for the year	–	–	–	–	285	285
Other comprehensive (expense)/income						
Exchange differences on translating foreign operations and net investment hedges	–	–	(60)	–	–	(60)
Exchange differences recycled through income statement on sale of foreign operations	–	–	(21)	–	–	(21)
Actuarial gain on post-employment benefit obligations	–	–	–	–	2	2
Total comprehensive (expense)/income for the year ended 30 September 2021	–	–	(81)	–	287	206
Transactions with owners						
Employee share option scheme—value of employee services including deferred tax	–	–	–	–	36	36
Proceeds from issuance of treasury shares	–	–	–	–	8	8
Share buyback programme	–	–	–	–	(602)	(602)
Dividends paid to owners of the parent	–	–	–	–	(189)	(189)
Total transactions with owners for the year ended 30 September 2021	–	–	–	–	(747)	(747)
At 30 September 2021	12	548	42	61	448	1,111

Consolidated statement of cash flows
For the year ended 30 September 2022

	Note	**2022 £m**	2021 £m
Cash flows from operating activities			
Cash generated from continuing operations		**368**	476
Interest paid		**(21)**	(19)
Income tax paid		**(62)**	(81)
Net cash generated from operating activities		**285**	376
Cash flows from investing activities			
Proceeds on settlement of non-current asset		**–**	3
Disposal of subsidiaries, net of cash disposed	11	**42**	135
Acquisition of subsidiaries, net of cash acquired	11	**(285)**	–
Purchases of equity investments		**–**	(21)
Purchases of intangible assets	7	**(40)**	(17)
Purchases of property, plant and equipment	7	**(12)**	(39)
Proceeds from disposals of property, plant and equipment		**10**	–
Interest received		**1**	1
Net cash (used in)/generated from investing activities		**(284)**	62
Cash flows from financing activities			
Proceeds from borrowings	10	**516**	344
Repayments of borrowings	10	**(166)**	(481)
Capital element of lease payments	10	**(19)**	(22)
Borrowing costs		**(1)**	(1)
Proceeds from issuance of treasury shares		**7**	8
Share buyback programmes	9	**(249)**	(353)
Purchase of shares by Employee Benefit Trust	9	**(32)**	–
Dividends paid to owners of the parent	5	**(183)**	(189)
Net cash used in financing activities		**(127)**	(694)
Net decrease in cash, cash equivalents and bank overdrafts (before exchange rate movement)		**(126)**	(256)
Effects of exchange rate movement	10	**48**	(25)
Net decrease in cash, cash equivalents and bank overdrafts		**(78)**	(281)
Cash, cash equivalents and bank overdrafts at 1 October	10	**567**	848
Cash, cash equivalents and bank overdrafts at 30 September	10	**489**	567

Notes to the financial information
For the year ended 30 September 2022

1. Group accounting policies

General information

The Sage Group plc (the "Company") and its subsidiaries (together the "Group") is a leading global supplier of finance, HR and payroll software to small and mid-sized businesses.

The financial information set out above does not constitute the Company's Statutory Accounts for the year ended 30 September 2022 or 2021 but is derived from those accounts. Statutory Accounts for the year ended 30 September 2021 have been delivered to the Registrar of Companies and those for 2022 will be delivered in December 2022. 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 UK-adopted International Accounting Standards (UK-IFRS) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), this announcement does not in itself contain sufficient information to comply with IFRS or UK-IFRS. 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 2022.

The Company is a limited liability company incorporated and domiciled in the UK. The address of its registered office is C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ. The Company is listed on the London Stock Exchange.

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

Basis of preparation

On 31 December 2020, as a result of the UK's withdrawal from the European Union, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards (UK-IFRS), with future changes being subject to endorsement by the UK Endorsement board. With effect from 1 October 2021 the Group's statutory consolidated financial statements were transitioned to UK-IFRS. There was no impact or change in accounting policies from the transition. This change constitutes a change in accounting framework.

The consolidated financial statements of The Sage Group plc. have been prepared in accordance with UK-IFRS in conformity with the requirements of the Companies Act 2006 and also prepared in accordance with IFRS as issued by the IASB.

UK-IFRS can differ in certain respects from IFRS as issued by the IASB. The differences have no impact on the Group's consolidated financial statements for the years presented.

The consolidated financial statements have been prepared under the historical cost convention, except where adopted IFRS require an alternative treatment. The principal variations from the historical cost convention relate to derivative financial instruments and equity investments which are measured at fair value. The financial statements of the Group comprise the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared at the end of the reporting period. The accounting policies have been consistently applied across the Group. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity, which is usually from date of acquisition.

Going Concern

The impact of the economic environment on the Group and its key stakeholders has been considered in the preparation of the financial statements and has informed the level of stress testing performed. Specifically, consideration has been given to the risks and uncertainties linked to the changing macro-economic environment, and the possible impact on the Group's customer base. In light of this, we note that the Group's operational and financially robust position is supported by:

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

The Directors have reviewed the liquidity and covenant forecasts for the Group for the period to 31 March 2024 ("the going concern assessment period"), which reflect the expected impact of economic conditions on trading. In doing so, the Directors have also reviewed the extent to which the macro-economic environment has been considered in building assumptions to support the forecasts.

Scenario-specific stress testing has been performed, with the level of churn assumptions increased by 75%, and a significant reduction in the level of new customer acquisition and sales to existing customers. In these severe stress scenarios, the Group continues to have sufficient resources to continue in operational existence. If more severe impacts occur, controllable mitigating actions to protect liquidity, including the reduction of discretionary spend, are available to the Group should they be required. Additional stress testing has been performed as part of the severe but plausible scenarios (as described within the Viability Statement of the Annual Report & Accounts for 2022).

The Directors also reviewed the results of reverse stress testing performed to provide an illustration of the level of churn and deterioration in new customer acquisition which would be required to trigger a breach in the Group's covenants or exhaust cash down to minimum working capital requirements. The result of the reverse stress testing has highlighted that such a scenario would only arise following a catastrophic deterioration in performance, well in excess of the assumptions considered in the stress testing scenarios. The probability of these factors occurring is deemed to be remote given the resilient nature of the subscription business model, robust balance sheet, and continued strong cash conversion.

After making enquiries, the Directors have a reasonable expectation that Sage has adequate resources to continue in operational existence throughout the going concern assessment period. Accordingly, the consolidated financial information has been prepared on a going concern basis.

Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 September 2022.

Adoption of new and revised IFRSs

There are no accounting standards, amendments or interpretations effective for the first time this financial year that have had a material impact on the Group. No standards have been early adopted during the year.

Climate change

In preparing the consolidated financial statements management has considered the impact of climate change, specifically with reference to the disclosures included in the Strategic Report and the Group's stated net zero ambitions. There were no factors identified that would have a material impact on the Group's critical accounting estimates and judgements in the current year. The considerations in relation to goodwill impairment testing are set out in Note 6.1 of the annual financial statements for the year ended 30 September 2022.

The assessment with respect to the impact of climate change will be kept under review by management, as the future impacts depend on factors outside of the Group's control, which are not all currently known.

Critical accounting estimates and judgements

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

Revenue recognition

Over a third of the Company's revenue is generated from sales to partners rather than end users. The key judgement is determining whether the business partner is a customer of the Group. The key criteria in this determination is whether the business partner has taken control of the product. Considering the nature of Sage's subscription products and support services, this is usually assessed based on whether the business partner has responsibility for payment, has discretion to set prices, and takes on the risks and rewards of the product from Sage.

Where the business partner is a customer of Sage, discounts are recognised as a deduction from revenue.

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

Goodwill impairment

A key judgement is the ongoing appropriateness of the cash-generating units (CGUs) for the purpose of impairment testing. CGUs are assessed in the context of the Group's evolving business model, the Sage strategy, and the shift to global product development. Management continues to assess performance and allocate resources at a regional level, and so it is appropriate to monitor goodwill at a regional level and CGUs to be based on geographical area of operation.

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

These key assumptions used in performing the annual impairment assessment, and further information on the level at which goodwill is monitored are disclosed in the annual financial statements for the year ended 30 September 2022.

Business Combinations

When the Group completes a business combination, the consideration transferred for the acquisition and the identifiable assets and liabilities are recognised at their fair values. The amounts by which the consideration exceeds the net assets acquired is recognised as goodwill. The application of accounting policies to business combinations involves judgement and the use of estimates.

On 17 January 2022, the Group acquired the remaining 83% of shares in Brightpearl which constituted a significant business combination. The key areas of judgment and estimate include the identification and subsequent measurement of acquired intangible assets. The total fair value of intangible assets (excluding goodwill) acquired was £110m.

The Group engaged an external expert to support the identification and measurement exercise. The intangible assets acquired that qualified for recognition separately from goodwill were technology and customer relationships. The fair value of the acquired technology was determined using the relief from royalty method and the customer relationship was determined using a discounted cashflow approach. These valuation techniques incorporate several key assumptions including revenue forecasts and the application of an appropriate discount rate to state future cash flows at their present value. The relief from royalty method also requires the use of an appropriate royalty rate which was determined with reference to licensing arrangements for similar technologies. Full analysis of the consideration transferred, assets and liabilities acquired, and goodwill recognised in business combinations are set out in note 11.

Judgement was also required in allocating the acquired goodwill to CGUs. Based on the strategic intent and rationale for the acquisition, and the way in which management intend to monitor the performance of the business going forward, goodwill has been allocated to the Group's UK & Ireland and North America CGUs.

On 30 August 2022, the Group acquired 100% equity capital and voting rights of Lockstep Network Holdings Inc (Lockstep) which constituted a significant business combination. The key areas of judgement include the identification and subsequent measurement of acquired intangible assets.

In line with IFRS 3, the initial accounting for the acquisition of Lockstep is provisional. The residual excess of consideration over the net assets acquired has been provisionally recognised entirely as goodwill. Adjustments to provisional amounts will be made within the permitted measurement period where they reflect new information obtained about facts and circumstances that were in existence at the acquisition date. The acquisition accounting will be finalised within 12 months of the acquisition date.

Website

This annual consolidated financial report for the year ended 30 September 2022 will be available on our website from 1 December 2022: www.sage.com/investors

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 Leadership Team (previously known as the Executive Committee) has been identified as the chief operating decision maker, in accordance with its designated responsibility for the allocation of resources to operating segments and assessing their performance, through the Management Performance Reviews. The Executive Leadership Team uses organic and underlying data to monitor business performance. Operating segments are reported in a manner which is consistent with the operating segments produced for internal management reporting.

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

- North America
- Northern Europe
- International—Central and Southern Europe (Central Europe, France and Iberia)

The reportable segment International—Central and Southern Europe reflects the aggregation of the operating segments for Central Europe, France and Iberia. The aggregated operating segments are considered to share similar economic characteristics because they have similar long-term gross margins and operate in similar markets. Central Europe, France and Iberia operate principally within the EU and the majority of their businesses are in countries within the Euro area.

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

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. 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

Revenue by segment

	Year ended 30 September 2022					Change		
	Statutory £m	**Underlying adjustments* £m**	**Underlying £m**	**Organic adjustments** £m**	**Organic £m**	Statutory	Underlying	Organic
Recurring revenue by segment								
North America	**786**	**1**	**787**	**(8)**	**779**	23%	15%	14%
Northern Europe	**427**	**1**	**428**	**(9)**	**419**	9%	10%	7%
International—Central and Southern Europe	**490**	**–**	**490**	**(4)**	**486**	(4%)	(1%)	4%
International—Africa & APAC	**140**	**–**	**140**	**–**	**140**	(8%)	(9%)	10%
Recurring revenue	**1,843**	**2**	**1,845**	**(21)**	**1,824**	9%	7%	9%
Other revenue by segment								
North America	**32**	**–**	**32**	**(1)**	**31**	(30%)	(35%)	(37%)
Northern Europe	**6**	**–**	**6**	**–**	**6**	(42%)	(42%)	(52%)
International—Central and Southern Europe	**53**	**–**	**53**	**(1)**	**52**	(28%)	(26%)	(23%)
International—Africa & APAC	**13**	**–**	**13**	**(2)**	**11**	(41%)	(42%)	(16%)
Other revenue	**104**	**–**	**104**	**(4)**	**100**	(32%)	(32%)	(30%)
Total revenue by segment								
North America	**818**	**1**	**819**	**(9)**	**810**	19%	12%	10%
Northern Europe	**433**	**1**	**434**	**(9)**	**425**	8%	8%	6%
International—Central and Southern Europe	**543**	**–**	**543**	**(5)**	**538**	(7%)	(4%)	1%
International—Africa & APAC	**153**	**–**	**153**	**(2)**	**151**	(12%)	(13%)	8%
Total revenue	**1,947**	**2**	**1,949**	**(25)**	**1,924**	5%	4%	6%

* Adjustments between statutory and underlying numbers are detailed in note 3.
**Adjustments relate to the disposal of the Group's Swiss business and its payroll outsourcing business in South Africa and the acquisitions of Brightpearl and Lockstep (note 11)

Revenue by segment (continued)

	Year ended 30 September 2021				
	Statutory and Underlying as reported £m	Impact on foreign exchange £m	Underlying £m	Organic adjustments* £m	Organic £m
Recurring revenue by segment					
North America	641	44	685	–	685
Northern Europe	391	(1)	390	–	390
International—Central and Southern Europe	509	(13)	496	(30)	466
International—Africa & APAC	152	1	153	(27)	126
Recurring revenue	1,693	31	1,724	(57)	1,667
Other revenue by segment					
North America	46	3	49	–	49
Northern Europe	11	–	11	–	11
International—Central and Southern Europe	74	(2)	72	(4)	68
International—Africa & APAC	22	–	22	(8)	14
Other revenue	153	1	154	(12)	142
Total revenue by segment					
North America	687	47	734	–	734
Northern Europe	402	(1)	401	–	401
International—Central and Southern Europe	583	(15)	568	(34)	534
International—Africa & APAC	174	1	175	(35)	140
Total revenue	1,846	32	1,878	(69)	1,809

* Adjustments relate to the disposal of the Group's Swiss business and its payroll outsourcing business in South Africa in the current year, as well as the disposal of the Group's Polish business and Australia and Asia Pacific business (excluding global products) (Asia Pacific) in the prior year.

Operating profit by segment

	Year ended 30 September 2022							
	Statutory £m	**Underlying adjustments £m**	**Underlying £m**	**Organic adjustments £m**	**Organic £m**	Change Statutory %	Change Underlying %	Change Organic %
Operating profit by segment								
North America	**116**	**30**	**146**	**–**	**146**	7%	(1%)	(2%)
Northern Europe	**58**	**47**	**105**	**7**	**112**	(18%)	5%	12%
International—Central and Southern Europe	**152**	**(61)**	**91**	**–**	**91**	86%	1%	13%
International—Africa & APAC	**41**	**(6)**	**35**	**(1)**	**34**	(63%)	15%	37%
Total operating profit	**367**	**10**	**377**	**6**	**383**	(2%)	2%	8%

	Year ended 30 September 2021						
	Statutory £m	Underlying adjustments £m	Underlying as reported £m	Impact of foreign exchange £m	Underlying £m	Organic adjustments £m	Organic £m
Operating profit by segment							
North America	109	28	137	11	148	–	148
Northern Europe	71	28	99	–	99	–	99
International—Central and Southern Europe	82	10	92	(2)	90	(9)	81
International—Africa & APAC	111	(81)	30	1	31	(6)	25
Total operating Profit	373	(15)	358	10	368	(15)	353

Reconciliation of underlying operating profit to statutory operating profit

	2022 £m	2021 £m
Underlying operating profit by reportable segment		
North America	**146**	148
Northern Europe	**105**	99
International—Central and Southern Europe	**91**	90
Total reportable segments	**342**	337
International—Africa & APAC	**35**	31
Underlying operating profit	**377**	368
Impact of movement in foreign currency exchange rates	**–**	(10)
Underlying operating profit (as reported)	**377**	358
Amortisation of acquired intangible assets	**(42)**	(31)
Adjustment to acquired deferred income	**(2)**	–
Other M&A activity-related items	**(39)**	(9)
Non-recurring items	**73**	55
Statutory operating profit	**367**	373

3. Adjustments between underlying profit and statutory profit

	2022 Recurring £m	**2022 Non-recurring £m**	**2022 Total £m**	2021 Recurring £m	2021 Non-recurring £m	2021 Total £m
M&A activity-related items						
Amortisation of acquired intangibles	**42**	**–**	**42**	31	–	31
Gain on disposal of subsidiaries	**–**	**(53)**	**(53)**	–	(126)	(126)
Adjustment to acquired deferred income	**2**	**–**	**2**	–	–	–
Other M&A activity-related items	**39**	**–**	**39**	9	–	9
Other items						
(Reversal of)/restructuring costs	**–**	**(20)**	**(20)**	–	62	62
Office relocation	**–**	**–**	**–**	–	9	9
Total adjustments made to operating profit	**83**	**(73)**	**10**	40	(55)	(15)
Fair value adjustments	**–**	**–**	**–**	1	–	1
Foreign currency movements on intercompany balances	**(1)**	**–**	**(1)**	–	–	–
Total adjustments made to profit before income tax	**82**	**(73)**	**9**	41	(55)	(14)

Recurring items

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

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

Other M&A activity-related items relate to advisory, legal, accounting, valuation and other professional or consulting services which are related to M&A activity as well as acquisition-related remuneration, directly attributable integration costs and any required provision for future selling costs for assets held for sale. £14m (2021: £7m) of these costs have been paid in the year while the remainder is expected to be paid in subsequent financial years.

Foreign currency movements on intercompany balances of £1m (2021: £nil) occur due to retranslation of unhedged intercompany balances other than those where settlement is not planned or likely in the foreseeable future and resulted in a gain of £1m (2021: £nil).

In the prior year, fair value adjustments of £1m were in relation to an embedded derivative asset which related to contractual terms agreed as part of the US private placement debt. The related US private placement debt matured during the current year, resulting in the extinguishment of the embedded derivative asset. There were no associated gains or losses.

Non-recurring items

Net credit in respect of non-recurring items amounted to £73m (2021: net credit £55m).

The gain on disposal of subsidiaries of £53m relates to the disposal of the Group's Swiss business (£49m) and the Group's payroll outsourcing business in South Africa (£4m). In the prior year, the gain on disposal of subsidiaries of £126m related to the Group's Polish business (£41m) and the Group's Australia and Asia Pacific business (£85m). Further details can be found in note 11.

Reversal of restructuring costs of £20m primarily relates to unutilised provisions recognised in the prior year, as some colleagues were redeployed or left the business (2021: charge £67m). The provision was recognised in the prior year following the implementation of a business transformation plan to rebalance investment towards the Group's strategic priorities and simplify the business.

In the prior year, the restructuring costs of £62m were comprised of charges of £67m noted above, offset by the reversal of £5m of previous restructuring costs related to unutilised Professional Service provisions created in 2020.

In the prior year, office relocation costs of £9m relate to the incremental depreciation charge resulting from accelerated depreciation in the UK North Park office in advance of the relocation to Cobalt Business Park.

4. Income tax expense

The effective tax rate on statutory profit before tax was 23% (2021: 18%), whilst the effective tax rate on underlying profit before tax on continuing operations was 24% (2021: 25%). The statutory effective tax rate is lower than the underlying effective tax rate mainly due to due to non-taxable accounting net gains on our disposals in the year.

The underlying effective tax rate is higher than the UK corporation tax rate applicable to the Group primarily due to the geographic profile of the Group and the inclusion of local business taxes in the corporate tax expense. This net increase to the rate is offset by innovation tax credits for registered patents and software, and research and development activities which attract government tax incentives in a number of operating territories. The underlying effective tax rate was decreased in the year principally due to a reduction in the French corporation tax rate and certain non-recurring items.

5. Dividends

	2022 £m	2021 £m
Final dividend paid for the year ended 30 September 2021 of 11.63p per share	**119**	–
(2021: final dividend paid for the year ended 30 September 2020 of 11.32p per share)	**–**	124
Interim dividend paid for the year ended 30 September 2022 of 6.30p per share	**64**	–
(2021: interim dividend paid for the year ended 30 September 2021 of 6.05p per share)	**–**	65
	183	189

In addition, the Directors are proposing a final dividend in respect of the financial year ended 30 September 2022 of 12.10p per share which will absorb an estimated £124m of shareholders' funds. The Company's distributable reserves are sufficient to support the payment of this dividend. If approved at the AGM, it will be paid on 10 February 2023 to shareholders who are on the register of members on 13 January 2023. These financial statements do not reflect this proposed dividend payable.

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 2022	Underlying as reported* 2021	Underlying 2021	**Statutory 2022**	Statutory 2021
Earnings attributable to owners of the parent** (£m)					
Profit for the year	**263**	250	257	**260**	285
Number of shares (millions)					
Weighted average number of shares	**1,020**	1,080	1,080	**1,020**	1,080
Dilutive effects of shares	**12**	10	10	**12**	10
	1,032	1,090	1,090	**1,032**	1,090
Earnings per share attributable to owners of the parent** (pence)					
Basic earnings per share	**25.74**	23.09	23.79	**25.47**	26.33
Diluted earnings per share	**25.44**	22.87	23.57	**25.17**	26.08

Note:
* Underlying as reported is at 2021 reported exchange rates.
** All operations in the years relate to continuing operations.

Reconciliation of earnings – continuing operations	**2022 £m**	2021 £m
Underlying earnings attributable to owners of the parent	**263**	257
Impact of movement in foreign currency exchange rates, net of taxation	**–**	(7)
Underlying earnings attributable to owners of the parent (as reported)	**263**	250
Amortisation of acquired intangible assets	**(42)**	(31)
Gain on disposal of subsidiaries	**53**	126
Adjustment to acquired deferred income	**(2)**	–
Other M&A activity-related items	**(39)**	(9)
(Reversal of)/restructuring costs	**20**	(62)
Office relocation	**–**	(9)
Foreign currency movements on intercompany balances	**1**	–
Fair value adjustments	**–**	(1)
Taxation on adjustments between underlying and statutory profit before tax	**6**	21
Net adjustments	**(3)**	35
Earnings: statutory profit for the year attributable to owners of the parent	**260**	285

7. Non-current assets

	Goodwill £m	Other intangible assets £m	Property, plant and equipment £m	Total £m
Opening net book amount at 1 October 2021	**1,877**	**190**	**164**	**2,231**
Additions	**–**	**29**	**18**	**47**
Acquisition of subsidiaries	**255**	**110**	**2**	**367**
Depreciation, amortisation and other movements	**–**	**(56)**	**(41)**	**(97)**
Exchange movement	**284**	**21**	**9**	**314**
Closing net book amount at 30 September 2022	**2,416**	**294**	**152**	**2,862**

	Goodwill £m	Other intangible assets £m	Property, plant and equipment £m	Total £m
Opening net book amount at 1 October 2020	1,962	212	173	2,347
Additions	–	30	49	79
Disposals	–	–	(1)	(1)
Disposals of subsidiaries	(11)	–	–	(11)
Transfer to held for sale	(2)	–	(10)	(12)
Depreciation, amortisation and other movements	–	(44)	(43)	(87)
Exchange movement	(72)	(8)	(4)	(84)
Closing net book amount at 30 September 2021	1,877	190	164	2,231

Goodwill is not subject to amortisation but is tested for impairment annually or upon any indication of impairment. At 30 September 2022, there were no indicators of impairment to goodwill. Full details of the outcome of the 2022 goodwill impairment review are provided in the 2022 financial statements.

8. Financial instruments

The carrying amounts of the following financial assets and liabilities approximate to their fair values: trade and other payables excluding tax and social security, trade and other receivables excluding prepayments and accrued income, lease liabilities, and short-term bank deposits, and cash at bank and in hand.

The fair value of the sterling denominated bond notes is determined by reference to quoted market prices and therefore can be considered as a level 1 fair value as defined within IFRS 13.

The fair value of US loan notes is determined by reference to interest rate movements on the USD private placement market and therefore can be considered as a level 2 fair value as defined within IFRS 13.

The fair value of bank loans is determined using a discounted cash flow valuation technique calculated at prevailing interest rates, and therefore can be considered as a level 3 fair value as defined within IFRS 13.

The respective book and fair values of bank loans, bond notes and loan notes are included in the table below.

	At 30 September 2022		At 30 September 2021	
	Book Value £m	**Fair Value £m**	Book Value £m	Fair Value £m
Long-term borrowings (excluding lease liabilities)	**(966)**	**(753)**	(667)	(682)
Short-term borrowing (excluding lease liabilities)	**(161)**	**(158)**	(47)	(48)

The fair value of the unlisted equity investments held by the Group is determined using a market-based valuation approach. The significant unobservable inputs used in level 3 fair value measurement are transaction prices paid for identical or similar instruments of the investee and revenue growth factors.

During the year, the Group has designated USD cross-currency interest rate swap contracts totalling £350m (USD 400m) (2021: £nil, USD nil) as hedging instruments in relation to the £350m sterling denominated bond notes.

The fair value of the cross-currency interest rate swaps held by the Group is determined using a discounted cash flow valuation technique at market rates and therefore can be considered as a level 2 fair value as defined within IFRS 13. The fair value as at the 30 September 2022 was a £60m liability.

9. Ordinary shares and share premium

	Number of shares	Ordinary Shares £m	Share premium £m	Total £m
At 1 October 2021	**1,120,789,295**	**12**	**548**	**560**
Cancellation of treasury shares	**(20,000,000)**	**–**	**–**	**–**
At 30 September 2022	**1,100,789,295**	**12**	**548**	**560**
At 1 October 2020 and 30 September 2021	1,120,789,295	12	548	560

During the year, the Group purchased a total of 27,979,129 Ordinary shares, held as treasury shares, as part of a non-discretionary share buyback programme entered into on 6 September 2021 and completed on 24 January 2022. In September 2021, 11,868,392 Ordinary shares were purchased under this share buyback programme. Total consideration for this share buyback programme was £300m, of which £249m was paid during the current year.

In the prior year, the Group entered into another non-discretionary share buyback programme under which 45,418,600 shares were bought back for a total consideration of £302m, inclusive of stamp duty and related fees. This programme was completed during the prior year.

In addition, during the year:

- The Group cancelled 20,000,000 treasury shares which reduced the number of Ordinary shares to 1,100,789,295 at 30 September 2022.
- The Group agreed to satisfy the vesting of certain share awards, utilising a total of 6,396,278 (2021: 5,544,880) treasury shares.
- The Employee Benefit Trust purchased £32m (2021: nil) of shares from the market, funded by the Company. The Employee Benefit Trust did not receive additional funds for future purchase of shares in the market (2021: nil).

At 30 September 2022 the Group held 81,168,903 (2021: 79,586,223) treasury shares.

10. Cash flow and net debt

	2022 £m	2021 £m
Statutory operating profit	**367**	373
Recurring and non-recurring items	**10**	(15)
Underlying operating profit (as reported)	**377**	358
Depreciation/amortisation/impairment/profit on disposal of non-current assets/non-cash items	**51**	47
Share-based payments	**36**	36
Net changes in working capital	**(40)**	65
Net capital expenditure	**(22)**	(55)
Underlying cash flow from operating activities	**402**	451
Non-recurring items	**(23)**	(9)
Net interest paid	**(21)**	(19)
Income tax paid	**(62)**	(81)
Exchange movement	**(1)**	(3)
Free cash flow	**295**	339
Net debt at 1 October	**(247)**	(151)
Disposals of businesses	**43**	142
Acquisition of businesses	**(315)**	–
Acquisition and disposals related items	**(22)**	(21)
Purchases of equity investments	**–**	(21)
Proceeds on settlement of non-current assets	**–**	3
Proceeds from issuance of treasury shares	**7**	8
Dividends paid to owners of the parent	**(183)**	(189)
Share buyback programmes	**(249)**	(353)
Purchase of shares by Employee Benefit Trust	**(32)**	–
New leases	**(6)**	(8)
Exchange movement	**(23)**	7
Other	**(1)**	(3)
Net debt at 30 September	**(733)**	(247)

	2022 £m	2021 £m
Underlying cash flow from operations	**402**	451
Net capital expenditure	**22**	55
Recurring and non-recurring cash items	**(55)**	(30)
Other adjustments including foreign exchange translations	**(1)**	–
Statutory cash flow from operations	**368**	476

Analysis of change in net debt (inclusive of leases)	At 1 October 2020 £m	At 1 October 2021 £m	Cash flow £m	Acquisition of subsidiaries £m	Disposal of subsidiaries £m	Non-cash movements £m	Exchange movement £m	At 30 September 2022 £m
Cash and cash equivalents	831	553	**(124)**	**12**	**–**	**–**	**48**	**489**
Cash amounts included in held for sale	17	14	**–**	**–**	**(14)**	**–**	**–**	**–**
Cash, cash equivalents and bank overdrafts including cash as held for sale	848	567	**(124)**	**12**	**(14)**	**–**	**48**	**489**
Liabilities arising from financing activities								
Loans due within one year	–	(47)	**46**	**–**	**–**	**(144)**	**(16)**	**(161)**
Loans due after more than one year	(877)	(667)	**(396)**	**–**	**–**	**143**	**(46)**	**(966)**
Lease liabilities due within one year	(20)	(18)	**19**	**–**	**–**	**(17)**	**(1)**	**(17)**
Lease liabilities after more than one year	(93)	(82)	**–**	**–**	**–**	**11**	**(7)**	**(78)**
Lease liabilities included in held for sale	(9)	–	**–**	**–**	**1**	**–**	**(1)**	**–**
	(999)	(814)	**(331)**	**–**	**1**	**(7)**	**(71)**	**(1,222)**
Total	(151)	(247)	**(455)**	**12**	**(13)**	**(7)**	**(23)**	**(733)**

11. Acquisitions and disposals

Acquisitions made during the current year

Lockstep

On 30 August 2022, the Group acquired 100% equity capital and voting rights of Lockstep Network Holdings Inc (Lockstep). Lockstep provides cloud native technology that automates accounting workflows between companies. The acquisition of Lockstep accelerates Sage's strategy for growth by broadening its value prioritisation for SMBs and expanding Sage's digital network.

Summary of acquisition	Total £m
Cash consideration	76
Deferred consideration	3
Holdback consideration	1
Acquisition-date fair value of consideration	**80**
Provisional fair value of identifiable net assets	(1)
Provisional goodwill	**79**

In line with IFRS 3, the initial accounting for the acquisition of Lockstep is provisional. The residual excess of consideration over the net assets acquired has been provisionally recognised as unallocated goodwill. No goodwill is expected to be deductible for tax purposes. Adjustments to provisional amounts will be made within the permitted measurement period where they reflect new information obtained about facts and circumstances that were in existence at the acquisition date. It is expected that the acquisition accounting will be finalised within 12 months. The results of the business are allocated to the North America operating segment in line with the underlying operations.

The outflow of cash and cash equivalents on the acquisition is as follows:

	Total £m
Cash consideration	(76)
Cash and cash equivalents acquired	1
Net cash outflow	**(75)**

Transaction costs of £5m relating to the acquisition have been included in selling and administrative expenses, classified as other M&A activity-related items within recurring adjustments between underlying and statutory results. These costs relate to advisory, legal and other professional services. See note 3.

Arrangements have been put in place for retention bonus shares to remunerate employees of Lockstep for future services. The amount recognised to date of £1m is included in selling and administrative expenses, classified as other M&A activity-related items. The total cost of these arrangements will be recognised in future periods over the retention period, contingent on employment.

The consolidated income statement includes revenue and loss after tax relating to Lockstep for the period since the acquisition date, of which both are immaterial. On an underlying basis, revenue would have increased by £3m and profit after tax would have decreased by £7m, if Lockstep had been acquired at the start of the financial year and included in the Group's results for the year ended 30 September 2022. On a statutory basis, revenue would have increased by £3m and profit after tax would have decreased by £21m, which includes £14m of other M&A activity related items.

Brightpearl

On 17 January 2022, the Group obtained control of Brightpearl Limited (Brightpearl) by acquiring the remaining share capital for cash consideration of £221m, bringing the Group's ownership interest to 100%. In January 2021, the Group had acquired a 17% minority interest in Brightpearl for £17m.

Brightpearl was acquired to deliver retail operations management capabilities and provides a cloud native multi-channel retail management system for the retail and ecommerce vertical, helping to accelerate the Group's strategy for growth.

Summary of acquisition	Total £m
Cash consideration	221
Fair value of previously held minority interest	47
Acquisition-date fair value of consideration	**268**
Fair value of identifiable net assets	(92)
Goodwill	**176**

The fair value of the previously held minority interest has been included in the determination of goodwill, with the gain on revaluation of £30m recognised in other comprehensive income in line with Sage's accounting policy.

Fair value of identifiable net assets acquired	Total £m
Intangible assets	110
Deferred income	(4)
Deferred tax liability	(20)
Other net assets	6
Fair value of identifiable net assets acquired	**92**
Goodwill	176
Total consideration	**268**

A summary of the acquired intangible assets is set out below:

Acquired intangible assets	**Valuation £m**	Useful economic life (years)
Customer relationships	35	9 to 15
Technology	75	8
Acquired intangible assets	**110**	

Acquired goodwill of £176m comprises the fair value of the acquired control premium, workforce in place and the expected synergies. The goodwill has been allocated to the Group's geographic CGUs where the underlying benefit arising from the acquisition is expected to be realised. This is predominantly within the UK & Ireland and North America regions. No goodwill is expected to be deductible for tax purposes. The results of the business are allocated to the North America and Northern Europe operating segments in line with the underlying operations.

The outflow of cash and cash equivalents on the acquisition is as follows:

	Total £m
Cash consideration	(221)
Cash and cash equivalents acquired	11
Net cash outflow	**(210)**

Transaction costs of £7m relating to the acquisition have been included in selling and administrative expenses classified as other M&A activity-related items within recurring adjustments between underlying and statutory results. These costs relate to advisory, legal and other professional services.

Arrangements have been put in place for retention payments to remunerate employees of Brightpearl for future services. The amount recognised to date of £10m is included in selling and administrative expenses, in the consolidated income statement, as other M&A activity-related items. The total cost of these arrangements will be recognised in future periods over the retention period, contingent on employment.

The consolidated income statement includes revenue of £17m and loss after tax of £26m reported by Brightpearl for the period since the acquisition date. The loss after tax includes £22m of other M&A activity-related items.

On an underlying basis, revenue would have increase by £8m and profit after tax would have decreased by £6m, if Brightpearl had been acquired at the start of the finance year and included in the Group's results for the year ended 30 September 2022. On a statutory basis, revenue would have increased by £8m and profit after tax would have decreased by £16m, which includes £10m of other M&A activity-related items.

Futrli

On 12 May 2022, the Group acquired 100% equity capital and voting rights of Futrli Limited (Futrli), a company based in the UK, for total consideration of £17m comprising £15m payable in cash on completion and £2m deferred consideration.

The Futrli acquisition is accounted for as an asset acquisition which is an acquisition of a legal entity that does not qualify as a business combination under IFRS 3 "Business Combinations". This treatment has been adopted as the value of the Futrli business largely comprises the rights to the acquired technology, the Futrli software. As a result, no goodwill has been recognised as part of the acquisition accounting.

The net assets recognised in the financial statements, including the technology intangible, are based on a valuation of the acquired identifiable net assets as at the acquisition date. The technology intangible has a fair value of £17m and is recognised as an intangible asset (see note 7) which will be amortised over a useful life of 8 years. Other net assets acquired are negligible.

GoProposal

In the prior year, the Group acquired 100% controlling equity capital and voting rights of GoProposal Limited (GoProposal) for total consideration of £13m, which was accrued at 30 September 2021 and paid in cash during the current year.

The GoProposal acquisition was accounted for as an asset acquisition which is an acquisition of a legal entity that does not qualify as a business combination under IFRS 3 "Business Combinations". As a result no goodwill was recognised as part of the acquisition accounting, and a technology intangible of fair value £13m was recognised as an intangible asset with a useful life of 8 years (see note 7).

Disposals made during the current year

On 30 November 2021, the Group completed the sale of its Swiss business for gross consideration of £54m. Subsequently, on 4 April 2022 the Group completed the sale of its payroll outsourcing business in South Africa for gross consideration of £5m. Both businesses were held for sale at 30 September 2021. The gains on disposal are calculated as follows:

Gains on disposal	Switzerland £m	Payroll outsourcing business (South Africa) £m	**Total £m**
Cash consideration	54	5	59
Gross consideration	**54**	**5**	**59**
Transaction costs	(3)	–	(3)
Net consideration	**51**	**5**	**56**
Net assets disposed	(15)	(1)	(16)
Cumulative foreign exchange differences reclassified from other comprehensive income to the income statement	13	–	13
Gains on disposal	**49**	**4**	**53**

Net assets disposed comprise:

	Switzerland £m	Payroll outsourcing business (South Africa) £m	**Total £m**
Goodwill	10	1	11
Property, plant and equipment	2	–	2
Customer acquisition costs	1	–	1
Trade and other receivables	1	–	1
Cash and cash equivalents	14	–	14
Total assets	**28**	**1**	29
Trade and other payables	(3)	–	(3)
Borrowings	(1)	–	(1)
Current income tax liabilities	(1)	–	(1)
Post-employment benefits	(2)	–	(2)
Deferred income	(6)	–	(6)
Total liabilities	**(13)**	**–**	**(13)**
Net assets	**15**	**1**	**16**

The gains are reported within continuing operations, as a non-recurring adjustment between underlying and statutory results.

The net inflow of cash and cash equivalents on the disposals is calculated as follows:

Inflow of cash and cash equivalents on disposal	Switzerland £m	Payroll outsourcing business (South Africa) £m	Total £m
Cash consideration	54	5	59
Transaction costs	(3)	–	(3)
Net consideration received	**51**	**5**	**56**
Cash disposed	(14)	–	(14)
Net inflow of cash and cash equivalents on disposal	**37**	**5**	**42**

Prior to the disposal, the Swiss business formed part of the Group's International – Central and Southern Europe reporting segment and the payroll outsourcing business in South Africa formed part of the International – Africa & APAC reporting segment.

Discontinued operations and assets and liabilities held for sale

There are no assets or liabilities held for sale at 30 September 2022.

Assets and liabilities held for sale at 30 September 2021 included two disposal groups which comprised the Group's business in Switzerland and the payroll outsourcing business in South Africa as well as the Group's North Park property site assets in the UK.

The two disposal groups were disposed in the year as discussed above. The sale of the Group's North Park property completed in October 2021. No gain was recognised on disposal as the assets were sold for their residual value.

The Group had no discontinued operations during the year (30 September 2021: none).

12. Related party transactions

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

Key management compensation	**2022 £m**	2021 £m
Salaries and short-term employee benefits	**10**	8
Share-based payments	**5**	4
	15	12

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

13. Events after the balance sheet date

On 11 October 2022, the Group acquired 100% equity capital and voting rights of Spherics Technology Limited (Spherics) for total cash consideration of £11 million. Spherics provides a carbon accounting solution to help businesses easily understand and reduce their environmental impact. Due to the timing of the acquisition, being after 30 September 2022, the results of Spherics are not included in our financial statements for the year ended 30 September 2022 and the acquisition accounting has not yet been completed. In line with IFRS 3, the purchase price accounting for the acquisition will be finalised within 12 months of the acquisition date.

Managing Risk through our Risk Management Framework

Through our risk process, 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 alignment to our strategy and consideration of where Sage is currently on its journey to transforming into a digital 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 five strategic priorities. The management and mitigation actions described below reflect the principal risks and build on those actions previously reported in our FY22 Annual Report.

PRINCIPAL RISK	RISK CONTEXT	MANAGEMENT AND MITIGATION
Understanding Customer Needs	**Risk Trend: 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:**	As Sage continues to communicate its new brand and purpose, understanding of how to attract new customers whilst retaining its existing customers is essential. This requires a deep and continuous flow of insights supported by processes and systems. By understanding the needs of our customers, Sage will differentiate itself from competitors, build compelling value propositions and offers, leverage key drivers to identify opportunities, influence product and process roadmaps, decrease churn and drive more effective revenue generation.	• A new brand launched to communicate the new vision of how Sage will support businesses. • Brand health surveys to provide an understanding of customer perception of the Sage brand and its products, used to inform and enhance our market offerings • A Market and Competitive Intelligence team to provide insights that Sage uses to win in the market • Proactive analysis of customer activity and churn data, to improve customer experience • Customer Segmentation Framework and the customer market analysis by region to help inform product roadmaps • Customer Advisory Boards, Customer Design Sessions and NPS detractor call-back channels to constantly gather information on customer needs.
Execution of Product Strategy	**Risk Trend: Improving Risk Environment**	
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:**	We need to execute at pace, a prioritised product strategy that continues to simplify our product portfolio and focuses on our drive to create a digital network that will benefit our customers.	• A product strategy in line with FY23 strategic objectives and priorities, based on our market understanding and customer expectations • A robust product organisation supported by a governance model to enable the way we build products • Migration framework in key countries to support our customers in their journey to the cloud • Continued expansion of Sage Intacct outside of North America and for additional product verticals (i.e. retail with the acquisition of Brightpearl) • Digitalisation of Sage products to support strategic objections through the integration of Lockstep (recent acquisition) • Product design governance to ensure product development is always driven by our understanding of our ability to penetrate key markets.

PRINCIPAL RISK	RISK CONTEXT	MANAGEMENT AND MITIGATION
Developing and Exploiting New Business Models	**Risk Trend: Stable Risk Environment**	
If we are unable to develop, commercialise and scale new business models to diversify from traditional SaaS, especially consumption-based services and those which leverage data, we will not meet the needs of our customers or our commercial goals. **Strategic alignment:**	We must be able to rapidly deploy new innovations to our customers and partners by introducing technologies, services, or new ways of working. Innovation requires us to address how we drive change and transformation across our people, processes, and technology, and how we differentiate our products and drive customer efficiencies.	• Creation of a new Business Unit solely focused on creating the Sage Digital Network • Continued focus on AI/ML development coupled with a drive to improve how to exploit data to provide better management insight to our customers • Enhanced, consistent digital experience for all Sage Business Cloud users through the Sage Design System • Strategic acquisition (e.g. Lockstep) and collaboration with partners to complement and enable accelerated innovation • Focused colleague engagement to accelerate innovation across the organisation through a Continuous Innovation Community.
Route to Market	**Risk Trend: Improving Risk Environment**	
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. **Strategic alignment:**	We have a blend of channels to communicate with our current and potential customers and ensure our customers receive the right information on the right products and services at the right time. Our sales channels include selling directly to customers through digital and telephony channels, via our accountant network and through partners, valued added resellers (VARs) and Independent Software Vendors (ISVs). We use these channels to maximise our marketing and customer engagement activities. This can shorten our sales cycle and ensure that customer retention is improved.	• Market data and intelligence is used to support decision making regarding the best routes to market • Dedicated colleagues are in place to support partners, and to help manage the growth of targeted channels • Sale processes are targeted and configured by region for key customer segments and verticals • A dedicated On-Boarding Squad to enhance user journeys to enable customer conversion • Acceleration of new partnerships to support the Digital Network • Centre of Excellence to support our Indirect Sales and Third-Party approach.
Customer Experience	**Risk Trend: Stable Risk Environment**	
If we fail to effectively identify and deliver ongoing value to our customers by focusing on their needs over the lifetime of their customer journey, we will not be able to achieve sustainable growth through renewal. **Strategic alignment:**	We must maintain a sharp focus on the relationships we have with our customers, constantly focusing on We must maintain a sharp focus on the relationship we have with our customers, constantly focusing on delivering the products, services and experiences our customers need to be successful. If we do not do this, they will likely find another provider who does give them these things. Conversely, if we do these things well these customers will stay with Sage, increasing their lifetime value, becoming our greatest marketing advocates. Whilst Sage is known for its quality customer support, this area requires constant, proactive focus. By helping customers to recognise and fully realise the value of Sage's products we can help increase the value of these relationships over time and reduce the likelihood of customer loss. By aligning our people, processes, and technology with this focus in mind, all Sage colleagues can help support our customers to be successful and in turn drive increased financial performance.	• Battlecards are in place for key products in all countries, setting out the strengths and weaknesses of competitors and their products • A data-driven Customer Success Framework to enhance the customer experience and ensure that Sage is better positioned to meet the current and future needs of the customer • Customer Journey mapping and mapping of the five core customer processes to ensure appropriate strategy alignment and alignment to Target Operating Model • 'Customer for life' roadmaps, detailing how products fit together, any interdependencies, and migration pathways for current and potential customers • Continuous Net Promoter Score (NPS) surveying allows Sage to identify customer challenges rapidly, and respond in a timely manner to emerging trends • Launch of member service to provide business tools and advise to support businesses

PRINCIPAL RISK	RISK CONTEXT	MANAGEMENT AND MITIGATION
Third Party Reliance	**Risk Trend: Stable Risk Environment**	
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:**	Sage places reliance on third-party providers to support the delivery of our products to our customers through the provision of cloud native products. Sage also has an extensive network of sales partners critical to our success in the market, and suppliers upon whom it places reliance. Any interruption in these services or relationships could have a profound impact on Sage's reputation in the market and could result in significant financial liabilities and losses.	• Centre of Excellence for our Indirect Sales and Third- Party partners • Dedicated colleagues in place to support partners, and to help manage the growth of targeted channels • Standardised implementation plans for Sage products that facilitate efficient partner implementation • Managed growth of the API estate, including enhanced product development that enables access by third-party API developers • Enhanced third-party management framework, to support closer alignment and oversight of third-party activities. • A specialized Procurement function supporting the business with the selection of strategic third-party suppliers and negotiation of contracts. • Investing in new types of partnerships to explore and grow business in new markets.
People and Performance	**Risk Trend: Stable Risk Environment**	
If we fail to ensure we have engaged colleagues with the critical skills, capabilities, and capacity we need to deliver on our strategy, we will not be successful. **Strategic alignment:**	As we evolve our priorities, the capacity, knowledge, and leadership skills we need will continue to change. Sage will not only need to attract the talent and experience we will need to help navigate this change. We will also need to provide an environment where colleagues can develop to meet these new expectations, an environment where everyone can perform at their very best. By empowering colleagues and leaders to make decisions, be innovative, and be bold in delivering on our commitments, Sage will be able to create an attractive working environment. By addressing drivers of colleague voluntary attrition, and embracing the values of successful technology companies, Sage can increase colleague engagement and create an aligned high-performing team.	• Extensive focus on hiring channels to ensure 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 • Hiring practices focused on the skills we need in balance with organisational costs supported by a methodology for upskilling and building capability in the long term from within the organisation • Reward mechanisms designed to incentivize and drive the right behaviour with a focus on ensuring fair and equitable pay in all markets • Focused development of our leaders (e.g. a 7-month Senior Leadership Programme) to ensure they create the environment which enables colleagues to thrive and perform at their very best • Implementing an effective hybrid working model across the organization
Culture	**Risk Trend: 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 maintain a culture, that meets Sage's business ambitions. **Strategic alignment:**	The development of a shared behavioural competency that encourages colleagues to always do the right thing, put customers at the heart of business and drive innovation is critical in Sage's success. Devolution of decision making, and the acceptance of accountability for these decisions, will need to go hand in hand as the organisation develops and sustains its shared Values and Behaviours, and fosters a culture that provides customers a rich digital environment. Sage will also need to create a culture of empowered leaders that supports the development of ideas, and that provides colleagues with a safe environment allowing for honest disclosures and discussions. Such a trusting and empowered environment can help sustain innovation, enhance customer success,	• New values launched to align with our new Sage brand • Integration of Values and Behaviours into all colleague priorities including talent attraction, selection, onboarding as well as performance management • All colleagues are actively encouraged to take up to five paid Sage Foundation days each year, to support charities and provide philanthropic support to the community • Commitments to diversity, equity and inclusion (DEI) including zero tolerance to discrimination, equal chance to everyone, inclusive culture, removing barriers, DEI education, and development of a new DEI strategy to ensure we deliver on our commitments • A DEI strategy focused on building diverse teams, an equitable culture, and fostering inclusive leadership. This strategy is supported by measurable plans and metrics to track progress • A new transparency and accountability development framework

Sage

PRINCIPAL RISK	RISK CONTEXT	MANAGEMENT AND MITIGATION
	and drive the engagement that results in increased market share.	• Code of Conduct communicated to all colleagues, and subject to certification every two years • Core eLearning modules rolled out across Sage, with regular refresher training • Whistleblowing and incident reporting mechanisms in place to allow issues to be formally reported and investigated.
Cyber Security and Data Privacy	**Risk Trend: Improving Risk Environment**	
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. **Strategic alignment:**	Information is the life blood of a digital company – protecting the confidentiality, integrity and accessibility of this data is critical for a data-driven business, and failure to do so can have significant financial and regulatory consequences in the General Data Protection Regulation (GDPR) era. In addition, we also need to use our data efficiently and effectively to drive improved business performance.	• Multi-year cyber security programmes in IT and products to ensure Sage is driving continuous improvement and cyber risk reduction across technology, business processes and culture • Accountability within both IT and Product for all internal and external data being processed by Sage. The Chief Information Security Officer oversees information security, with a network of Information Security Officers that directly support the business • The Chief Data Protection Officer oversees information protection • Formal certification schemes maintained across the business, and include internal and external validation of compliance • All colleagues are required to undertake awareness training for cyber security, information management and data protection, with a focus on the GDPR requirements • A Cyber Security Risk Management Methodology is deployed to provide objective risk information on our assets and systems.
Data Strategy	**Risk Trend: Improving Risk Environment**	
If we fail to recognise the value of our data assets, deliver effective data foundations, and capitalise on their use, we will not be able to realise their full potential to secure strategically aligned outcomes. **Strategic alignment:**	Data is central to the Sage strategy to deliver our ambition of a digital network. The strategy is underpinned by our ability to innovate and develop solutions to enhance customer propositions, improve insight and decision making and create new business models and ecosystems. Successful ability to use data will accelerate our growth and will be a key driver in helping customers transform how they run and build their businesses.	• Data strategy across customer, product, and enterprise data to support the delivery of customer value and solve customer problems, including the use of enhanced Artificial Intelligence /Machine Learning capabilities • A global data function that drives focus and alignment across the organization. In FY22, Sage appointed its first Chief Data Officer. • A defined set of Data ethics and principles to ensure we use customer data responsibly to achieve our strategy • Plan to increase digital network participation, which will contribute to more data to support the delivery of real customer value and solve real customer problems • Governance policies, processes, and tooling to enhance and manage the quality and consistency of our data • A data asset catalogue to enable creation of use cases
Readiness to Scale	**Risk Trend: Improving Risk Environment**	
If we fail to maintain a reliable, scalable, and secure live services environment, we will be unable to deliver the consistent cloud experience expected by our customers. **Strategic alignment:**	As Sage transitions to a digital company, we continue to focus on scaling our current and future platform services environment in a robust, agile, and speedy manner to ensure the delivery of a consistent and robust cloud platform and associated digital network. Sage must provide the right infrastructure and operations for all our customer products, a hosting platform together with the governance to ensure optimal service availability, performance, security protection and	• Migrating of products to public cloud offerings to improve scalability, resilience, and security. • Accountability across product owners, underpinned by ongoing risk assessments and continuous improvement projects • Formal onboarding process including ongoing management in Portfolio Management processes • Incident and problem management change processes adhered to for all products and services • Service-level objectives including uptime, responsiveness, and mean time to repair objectives • Defined Real-Time Demand Management processes and controls and also Disaster Recovery

PRINCIPAL RISK	RISK CONTEXT	MANAGEMENT AND MITIGATION
	restoration (if required).	Capability and operational resilience models • Improved focus and monitoring of product availability. • A governance framework to optimise operational cost base in line with key metrics. • All new acquisitions are required to adopt Sage cloud operation standards.
Environmental, Social and Governance	**Risk Trend: Improving Risk Environment**	
If we fail to fully, and continually, respond to the range of environmental (especially climate), social, and governance-related opportunities and risks we may fail to deliver positive change to social and environmental issues and damage the confidence of our stakeholders. **Strategic alignment:**	We are committed to investing in education, technology, and the environment to give individuals, small and medium businesses (SMBs), and our planet the opportunity to thrive. Our goal is to use our technology, time, and experience to back a generation of diverse, sustainable businesses. The potential benefits of investing in our ESG strategy include: • Increased customer engagement • Better use of resources, for example lower energy and water consumption and associated costs • Enhanced stakeholder trust • Improved ability to attract and retain talent, enabling colleagues to perform at their best • Stronger community relations	• A robust Sustainability and Society strategy which was launched in 2021, focusing on three pillars: Tech for Good, Fuel for Business, Protect the Planet • Underpinning the strategy is a robust cross-functional governance framework • Tracking tools in place to enable horizon scanning and to track the Sustainability and Society strategy's impact • As part of our broader Sustainability function, the Sage Foundation, established in 2015, remains focused on the areas of education, employment, and entrepreneurship via the contribution of time, investment, and capability on managing climate risks • An integrated framework for the management of ESG related risk, including physical and transitional climate risks as recommended by the Taskforce for Climate Related Financial Disclosures (TCFD)

Statement of Directors' Responsibilities

Responsibility statement of the Directors on the Annual Report & Accounts

The Annual Report & Accounts for the year ended 30 September 2022 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 UK-adopted International Accounting Standards (UK-IFRS), give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group;
- To the best of their knowledge, the Company's financial statements, which have been prepared in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- To the best of their knowledge, the Directors' report and the Strategic report include a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that it faces.

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 2022 which may be found at www.sage.com/investors and will be published on 1 December 2022. 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

S Hare
Chief Executive Officer
15 November 2022