sage

Annual Report and Accounts 2020

Helping businesses thrive

Contents

Strategic Report

Governance

Financial Statements

Highlights

Financial highlights

Organic recurring revenue growth

8.5%

FY19: 11.2%

Organic operating margin

22.1%

FY19: 23.8%

Strategic KPIs

Renewal by value

99%

FY19: 101%

Subscription penetration

65%

FY19: 56%

Annualised recurring revenue (ARR) growth

4.8%

FY19: 12.8%

Sage Business Cloud penetration

61%

FY19: 51%

Other key highlights

Underlying cash conversion

123%

FY19: 129%

Statutory revenue growth

(1.7%)

FY19: 5.0%

Organic revenue growth

3.7%

FY19: 6.0%

Dividend

17.25p

FY19: 16.91p

About our non-GAAP measures and why we use them

Throughout the Strategic Report we quote two kinds of non-GAAP measure: underlying and organic. Underlying measures allow management and investors to compare performance without the potentially distorting effects of foreign exchange movements, one-off items or non-operational items.

Organic measures allow management and investors to understand the like-for-like performance of the business. Full definitions of underlying and organic can be found within note 2 of the financial statements. Reconciliations of statutory revenue, operating profit and basic earnings per share to their underlying and organic equivalents are in the Financial review starting on page 52.

Helping businesses thrive

At Sage, everything we do starts with the customer and a deep understanding of their needs.

We have a responsibility to our customers that goes beyond the technology we develop, helping them to be more productive, more agile and to thrive.

Visit our website for further information about our business www.sage.com

About Sage

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

Our purpose

is to transform the way people **think and work** so their organisations can thrive.

It's the reason we exist as a business.

Our vision

is to become a great **SaaS company** for **customers** and **colleagues** alike.

We do this by serving our customers on subscription and in the cloud.

Our strategy

is how we will achieve our vision. It is designed around three strategic lenses:

Customer Success

Creating enduring subscription relationships and having a customer-centric approach in everything we do.

See more on pages 22-23

Colleague Success

Building a culture that fosters collaboration, values the individual, and enables colleagues to reach their full potential.

See more on pages 24-25

Innovation

Solving customer problems by integrating emerging technology and accelerating the availability and adoption of Sage Business Cloud solutions.

See more on pages 26-27

Here to help customers navigate what is next

Background to the year

Halfway through 2019-20 life changed in unimaginable ways for all our colleagues and customers as the Covid-19 pandemic affected everyone. Information became key and management communicated quickly and clearly with everyone concerned to ensure that the Group was able to maintain focus and adapt to new ways of working quickly and without an interruption of service to customers. The Board was involved throughout and fully endorsed the approach taken by management. Steve Hare, as CEO, ensured that his messages were not only clear but also authentic, and by putting the welfare of our colleagues first, he knew that if we looked after them, they would look after our customers. It is not a surprise that Glassdoor has named him as the highest rated CEO in the UK during the crisis.

At the heart of the setting of priorities during this year has been the Sage Business Cloud vision which has enabled an alignment of purpose and execution and a prioritisation of investments. As digital working has increased throughout the economies we serve, this clarity of vision has ensured that the Group has responded appropriately. It involves not merely a portfolio of attractive products, but also a set of powerful cloud capabilities, equipping customers to thrive in this era of digital transformation. Innovation is, and will continue to be, a clear driver of success.

I am pleased that the Group did not resort to taking government support through this period and maintained its colleague base, whilst at the same time ensuring it had a strong financial framework.

"The Sage Group has achieved a resilient performance in FY20. The impact of Covid-19 is accelerating the shift to the cloud and Sage is well positioned to capture these future growth opportunities."

Looking back at FY20

The Group entered the pandemic period with the momentum of substantial progress accompanied by focused execution with the consequence that, despite the impact of the pandemic, the Group achieved a resilient operational and financial performance, as the business continued to transition to cloud-based software services through a subscription revenue model.

The Group's purpose and vision are clear, and the new operating model, organised around meeting the needs of small and medium businesses in Sage's key software categories, has been firmly embedded.

As a result, subscription revenues grew by 21% to almost £1.14bn. 65% of Group revenue is now from subscription, up from 56% last year; while Sage Business Cloud penetration is now 61%, up from 51% last year, supported by the continued roll-out of cloud applications and services. While recurring revenue grew significantly during the year, up 8.5%, the economic slowdown caused by Covid-19 resulted in annualised recurring revenue (ARR) growth at the end of the year being 4.8%.

A relentless focus on innovation has enabled the Group to achieve a number of strategic milestones. Sage Intacct is now live in five markets following its launch in the UK and South Africa during FY20, while Sage Accounting Plus was launched as the cloud native solution for small business accounting in the UK. The portfolio has been further enhanced through the integration of AutoEntry and CakeHR, resulting in a strong cloud native platform to drive the future growth of the business.

I strongly believe that Sage's true character has been revealed in dealing with the Covid-19 pandemic, which continues to affect families, businesses, and communities worldwide. Colleagues throughout the Group have risen to the challenge – going above and beyond to support customers and each other through difficult times – and, above all, showing Sage to be a company that cares. I am proud of their professionalism and dedication, and am certain that this customer-centric approach will help the Group continue to flourish in the future.

The Board's commitment to matters pertaining to section 172(1) of the Companies Act 2006 is set out on page 29

Further insight into the activities of the Board for FY20 can be found on pages 101 to 104

The Board in FY20

During the year, three Directors stepped down from the Board: Blair Crump as President and Executive Director, and Soni Jiandani and Cath Keers as Non-executive Directors. I thank them on behalf of the Board for their considerable contributions during their tenure. Cath Keers has been appointed Chief Marketing Officer and a member of the Executive Team and was, of course, able to bring immediate knowledge of the Group to her new role.

We were pleased to welcome two new Non-executive Directors this year, Sangeeta Anand and Irana Wasti, increasing significantly the technology and SaaS skills of the Board. Dr John Bates replaced Soni Jiandani on the Nomination Committee and Cath Keers on the Remuneration Committee.

During the year, the Board maintained its focus on Sage's transition to becoming a great SaaS company, ensuring that the Company's strategic ambitions and competitive edge are underpinned by a customer-centric culture in which colleagues are supported and innovation fostered. The Board also maintained effective engagement with its key stakeholders, through various events and regular updates on customer and colleague success and the work of the Sage Foundation. The pandemic has created new challenges for the Board, restricting our ability to visit teams and offices as before. The Board was quick to replace these visits with virtual meetings and a programme of engagement to ensure it could still monitor and assess the culture of the Group.

The Board has also invested time in ensuring the Group meets the requirements of a changing corporate governance landscape. Our Board Associate role continues to prove valuable in facilitating two-way communication with colleagues, enabling the Board to hear more of colleagues' views whilst generating greater understanding of the role of the Board amongst colleagues. During the year, our second Board Associate reached the end of his term and we appointed our third Board Associate, Pamela Novoa Ralli, VP of Product Management, who is based in Atlanta. The Board has set itself the objective of ensuring that the role assists in improving its decision making further. One gain from our Board Associate concept has been the increased visibility of other candidates who sought the role. As a result, an Associates' Council has been formed, consisting of past and present Board Associates and selected candidates from the Board Associate appointment process. The Board intends to meet with the Council twice a year to hear a wider range of colleague views and sentiment.

There has been much discussion about Environmental, Social and Corporate Governance (ESG) metrics in general in the past few months, with increased emphasis on the "S" part. The role of the Sage Foundation has been important in this respect. The Group has been particularly alert to the wider consequences of the pandemic for colleagues and customers alike.

Looking forward to FY21

Looking ahead, while the near-term economic environment for small and medium businesses is uncertain, the longer-term opportunity for Sage remains undiminished. As I have said, there is a clear acceleration among businesses towards digitisation and migration to cloud-based services. Sage is well positioned to capture this opportunity, with a trusted brand, world-class products, continuous innovation and strong customer relationships.

The Board believes that the greatest value creation for our shareholders from this point will be seen through investing to accelerate growth with a focus on cloud native solutions, initially in the Group's largest markets of the UK and the US. This is expected to result in higher retention rates and increased new customer acquisition.

The Group remains strongly cash generative with underlying cash conversion of 123% and, in line with our policy of maintaining the dividend in real terms, we increased the full year dividend by 2.0% to 17.25p in FY20.

Thank you

Finally, I would like to thank all of our colleagues for their dedication, adaptability and caring behaviour this year. I also thank Steve Hare and Jonathan Howell for their leadership and all the other Board members for their assiduous performance of their duties. I have indicated my intention to retire in September 2021, in line with good governance, after nine remarkable years. The Group is very different to the one I joined in 2012 and with the building blocks for sustained success in place, I am confident that we can all look forward to a successful future as Sage delivers on its purpose to help its customers thrive.

Sir Donald Brydon
Chairman

Helping businesses thrive

As the champion for SMEs, we help build and sustain the economy

Bright Path Consulting – Partner in South Africa

TJ Ledwaba, founder and CEO of Bright Path Business Consultants: "Every accountant has something that works for them; Sage works for me. It puts me in the pulse of my clients' businesses – and that's where lasting relationships form." As a client of Bright Path, Kiara Ramklass of Marimba Jam says, "Sage and Bright Path have given me confidence in the financial component of the business. I no longer have anxiety when I think about our finances and I actually have time to look at other growth aspects in the company."

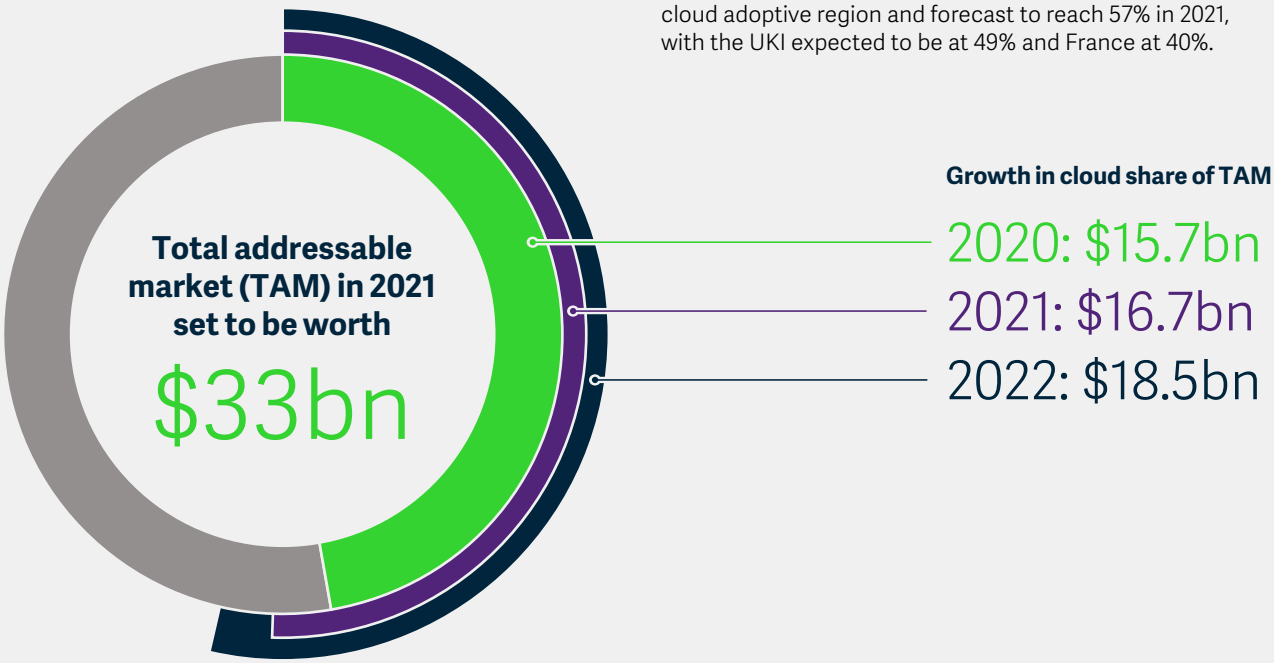
Well positioned to capture future cloud market growth opportunities

Total addressable market (TAM)

Sage's TAM is set to be worth $33bn in 2021, at which point the market for cloud software is expected to exceed that of on-premise software for the first time. Included within this TAM is the single-largest software category in the world, Accounting and Financials. The TAM comprises over 69 million small and medium businesses.

Cloud growth expected to continue

The benefits of cloud applications and services have been brought into sharper focus because of the Covid-19 pandemic. While Sage's TAM is expected to remain broadly stable in 2021 versus 2020, owing to a decline in the on-premise market, cloud growth is expected to be 6% in 2021, accelerating to 11% in 2022. Cloud adoption rates globally are forecast to reach 51% in 2021 and 54% in 2022. The USA is the most cloud adoptive region and forecast to reach 57% in 2021, with the UKI expected to be at 49% and France at 40%.



Source data: IDC Custom Solutions Market Model 2020

Through our focus on customer needs

The move to subscription and the cloud

Enhancing customer value through access to the latest product updates and features

Ensuring ongoing compliance

Data-driven insight

Delivering software that provides analytics and insights into business performance to aid decision making

Automation and efficiency

Helping businesses to become more efficient through data-entry automation, artificial intelligence, and machine learning

A focus on customer experience

Ensuring that the needs of every customer are fully met or exceeded, building long-term relationships and higher lifetime value

Supporting small and medium businesses around the world

Sage targets the professional user, typically an accountant or bookkeeper who understands compliance and wants rich functionality to help drive efficiencies and gain more insight into their business.

Sage serves millions of small and medium customers around the world

Small businesses

Small customers are typically owner-run businesses with professionals or small teams responsible for finances and human resources. They are looking to automate accounting and compliance while managing costs and cash flow. Their concerns tend to be around compliance and risk and they need simple solutions, where they can subscribe and be up and running.

Medium businesses

Medium customers are more complex, usually functionally structured around specialist teams and departments with different needs. They are often scaling and transforming and need insights for growth and competitive advantage. They typically spend longer integrating our solutions into their business.

Through our unique competitive advantages

Trust

Sage has a strong reputation as a trusted advisor, renowned for keeping customers safe and compliant

World-class products

Sage continues to invest in technology to ensure its products remain among the market leaders

Relationships

Sage prides itself on building strong and lasting relationships with its customers. We provide market-leading customer services with our team of caring and dedicated services colleagues

Global reach: local focus

Sage has global scale but extensive local knowledge which helps ensure its products are leading the way in compliance and allows the Group to plan for changes in legislation before they are introduced

Creating products and services to help businesses thrive

Sage Business Cloud is a suite of unified solutions that add high value with common services, so customers can integrate and migrate data across solutions. This is supported by a rich and robust marketplace with around 500 ISV apps and emerging tech across artificial intelligence, machine learning and automation.

	Cloud connected and hybrid solutions	Cloud native solutions
Medium businesses	**Sage** X3 **Sage** 200cloud	**Sage** Intacct **Sage** People
Small businesses	**Sage** 50cloud	**Sage** Accounting **Sage** Payroll **CakeHR**

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

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

Sage has a strong digital and direct sales presence, supported by a global network of partners:

80,000
Accountants who advise and sell Sage solutions

40,000
Value Added Resellers (VARs) who sell and implement Sage solutions

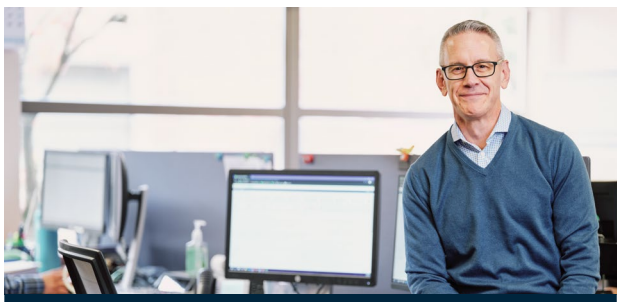
~500
Independent Software Vendors (ISVs) who add further functionality and vertical customisation to Sage solutions

Dozens
of Strategic Alliances with some of the biggest names in technology

Supporting customers with award-winning solutions

Sage Intacct

Award-winning Sage Intacct empowers visionary CFOs, allowing them to digitally transform their finance operations across the globe by delivering insight-led and customer-centric cloud solutions.



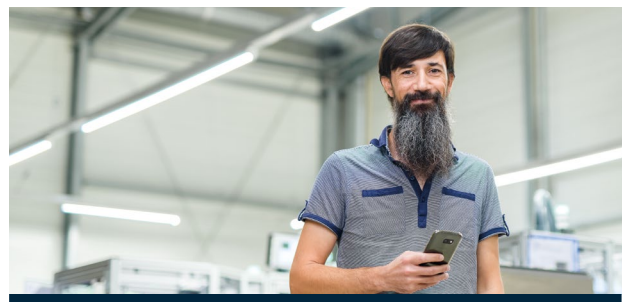
Sage Intacct provides finance professionals with a powerful cloud financial management platform, providing deep multi-dimensional accounting, automation for efficient financial operations and sophisticated visibility for real-time decision making. Sage Intacct's technology uses open APIs, making it easy to connect with third-party cloud applications. In addition, Sage Intacct is a modular solution where customers only pay for what they need.

Sage Intacct is now available to customers in the US, Canada, Australia, UK and most recently in South Africa (launched in August 2020). By using a set of common capabilities and services, Sage Service Fabric has accelerated the entry of Sage Intacct into new markets by delivering reusable services at speed.

Sage Intacct serves customers in the Medium Segment, focusing on services-centric industries as well as Construction & Real Estate and Wholesale distribution, ensuring the product strategy is laser-focused on customer needs.

Sage Accounting

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



With many businesses now working remotely, providing the right information at the right time has never been more important. Small businesses have an even greater need to keep on top of both their finances and their people as they navigate challenges around cash flow, payroll and compliance changes.

Launched in the UK in May 2020, Sage Accounting Plus provides all the latest digital tools to achieve this. Over time, our objective is to launch Sage Accounting into other geographies, using the UK go-to-market as a blueprint for success.

Recent technology acquisition AutoEntry has been embedded into Sage Accounting to eliminate time-consuming, repetitive and error-prone manual data entry tasks. CakeHR, another recent acquisition, is available as an option.

Recognising the strength of our product suite, IDC has positioned Sage in the Leaders category in the IDC Marketscape: worldwide SaaS and Cloud-Enabled Small Business Finance and Accounting Applications 2020 Vendor Assessment.

Sage Payroll

Transformative payroll & HR software for small businesses. Helps our customers to confidently manage their payroll with a simple, reliable and flexible online payroll system; compliant and connected to the cloud.

With less administration customers can make quicker decisions and in turn are more productive, saving organisations time and money.

Sage People

Transforms the way multinational organisations manage and engage their workforce.

Global cloud HR and people management solution, which helps companies design new better ways of working across the entire employment journey, and embrace the new world of HR and people management.

Sage X3

X3 provides faster, more intuitive and tailored business management solutions than conventional ERP for product-centric businesses looking to thrive and stay competitive in the face of growing complexity.

X3 transforms how businesses manage people, processes and operations, allowing them to embrace change at speed.

Sage 50cloud and **Sage** 200cloud

Our Sage 50cloud and Sage 200cloud franchises provide a range of cloud connected accounting solutions for small and medium businesses that combine the freedom and security of the cloud with the power and productivity of the desktop, enabling customers to control their business and gain complete visibility over their finances and operations.

Our business model

Driving our SaaS transition

Inputs

Trusted advisor

A trusted brand providing market-leading customer service

Local knowledge

Our deep understanding of local regulation keeps our customers compliant and allows us to plan for new legislation on the horizon

People

Caring and committed colleagues, embracing Sage's Values and Behaviours and invested in driving success for our customers

Routes to market

Investing in our multi-channel approach of direct sales channels, business partners and accountants helps us grow in our markets

Innovation

We continually invest in technology to ensure our products are ahead of the curve in an ever-changing technological landscape

How we attract and retain customers

1. Awareness and land

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

2. Adopt

New customers sign up to Sage Business Cloud solutions on subscription. Customers on old licences are reactivated and join Sage on subscription and cloud solutions. Sage provides training and onboarding to get customers started

3. Service

Sage provides customer support through phone, web chat, social media, chat bots and online forums and communities. Sage keeps in touch with customers through surveys and regular check-ins

4. Expand

Building a closer relationship with customers, Sage can cross-sell, up-sell and migrate customers to the latest version of their software

5.Renew

High levels of support from Sage leads to high renewal levels and recommendations spread by word of mouth

What this creates

Customer

- Renewal by value of 99%

Colleague

- Colleague Net Promoter Score +38 points year-on-year

Community

- 24,300 Sage Foundation days spent in the community

Shareholders

- High-quality recurring revenue growth of 8.5%
- Underlying cash conversion of 123%
- Sustainable full year dividend of 17.25p per share

Underpinned by sustainability

Sage Foundation

See more on how we bring colleagues together for good on pages 40 to 45

Diversity and Inclusion

See more on our diversity and inclusion strategy on pages 34 to 35

Environment

See more on our new Environmental Strategy on pages 46 to 51

Community

See more on how we support our local communities on pages 44 to 45

Governance

See more on how we are creating long-term sustainable success on pages 78 to 119

Delivering shareholder value today

High-quality recurring revenue

8.5%

organic recurring revenue growth

£1.1bn

software subscription revenue

Efficient capital allocation

Investing efficiently for growth

22.1%

organic operating margin

Strong free cash flow

123%

underlying cash conversion

Sustainable dividend

17.25p

FY20 dividend, commitment to maintaining in real terms

Building significant value for the future

At Sage we start with the customer, enabling businesses to thrive. We help them to create value by delivering insights and relieving them of the burden of admin, in turn generating value for all stakeholders.

We do this through Sage Business Cloud and, ultimately, we want all customers to enjoy their Sage experience through Sage Business Cloud.

As we invest in driving an accelerated transition to subscription and the cloud, we will forge an ever-closer relationship with our customers and unlock significant value creation at Sage.

By embracing a closer relationship with customers, Sage can understand its customers better, enhancing the ability to cross-sell and up-sell.

As customers realise the full benefits of their digital experience on Sage Business Cloud, retention rates trend up. By delighting customers, Sage's reputation and advocacy are enhanced, increasing our ability to acquire new customers.

Over time, this also reduces both the cost to acquire and the cost to serve our customers.

Helping businesses thrive

We are trusted by millions of businesses globally to deliver the best cloud technology and support

Float Digital – Sage Business Cloud Accounting customer

Sam Charles, Founder of Float Digital: "Being able to work on the cloud allows me to react instantly, wherever I am. This is great for when I'm on the road and I need to check my accounts. I can send an invoice when I'm over in a client meeting, and it can be paid by the time I'm back in the office."

Accelerating our strategic progress

"Sage performed well in FY20, achieving consistent recurring revenue growth throughout the year. At the same time our focus on strategic execution has been unwavering, and we've made tangible progress particularly in the development and roll out of our cloud solutions, creating a strong platform for further growth.

Looking ahead, we intend to build on these foundations, driving the Group's continued transition to SaaS with an increased focus on cloud native solutions across the Group. Our focus is on the things we can control – being there for our colleagues and customers, helping customers to adapt and thrive in an increasingly digital world, and making sure Sage is well-placed to seize the opportunities that this period of uncertainty will ultimately present."

FY20 has been a year when communities and businesses have had to adapt to unprecedented change. Customers have moved entire offices to homeworking, transformed their customer offerings and embraced the transition to a more digital economy.

At Sage, we have been guided by what is constant in our business. Firstly, our purpose – to transform the way people think and work so their organisations can thrive. This is the reason we are in business. And secondly, our values – the most important of which is "to do the right thing". Our purpose and values have provided the framework for our decisions and, consequently, have formed the basis for our success.

Our performance

Sage has achieved a strong performance in FY20, delivering significant, high-quality recurring revenue growth, while continuing to focus on attracting new customers and migrating existing customers to Sage Business Cloud. At the same time, we have executed at pace on our strategic priorities.

Organic recurring revenue increased by 8.5% to £1,592m, while organic total revenue increased by 4% to £1,768m. The increase in recurring revenue, underpinned by a 21% rise in software subscription revenue growth to £1,141m, was driven by growth from existing and new customers, principally in North America and Northern Europe. Reflecting ongoing investment to drive strategic execution, organic operating profit for the year was £391m, representing a margin of 22.1%.

These strong results are underpinned by a relentless focus on strategic execution, which has driven the transition of the business towards higher quality recurring revenue based on subscription and Sage Business Cloud. As a result, 90% of Sage's revenue is now recurring, up from 86% in FY19.

Covid-19

Early in the Covid-19 crisis, we moved decisively to protect the health and wellbeing of our colleagues, and to provide continued support to our customers and partners. Our agile response meant that all colleagues worldwide transitioned smoothly to homeworking in a matter of days, and we have continued to support colleagues through a range of focused initiatives including daily communications, networking groups, e-learning and support for mental wellbeing.

We also put in place measures to support our customers and partners, through local online advice hubs, webinars and expert customer service, and by working with governments to help customers directly access the financial support available. I am immensely proud of how our colleagues have reacted, and how they continue to support each other, our customers and our communities.

Inevitably, Covid-19 has led to uncertainty among businesses globally. This caused Sage's growth to ease back in the second half of FY20, and in the short term we expect growth to continue to moderate. However, I am satisfied with our performance during the pandemic so far, as we continued to attract new customers and to grow, helped by our consistent focus on customer and colleague success.

At the same time, the pace of digital transformation is accelerating. Small and medium businesses are adapting to the new environment, and turning to digital technologies to support their businesses, including cloud-based solutions that provide resilience and enable flexible working practices. Our strong progress in innovation leaves Sage well positioned for further growth, as we support customers in their adoption of digital solutions.

Our strategic progress

When I became Chief Executive two years ago, I set out our immediate strategic priorities, and put in place a clear strategic framework to create focus and to drive the simplification of the Group. Today our purpose, vision and strategy remain integral to the way we operate, guiding the decisions we take on a day-to-day basis in order to develop and grow the business.

Our purpose is to transform the way people think and work so their organisations can thrive. This guides the decisions we take and provides the reason we exist as a business. We serve our purpose through our vision, by becoming a great SaaS company for customers and colleagues alike. This is underpinned by our three strategic lenses of Customer Success, Colleague Success and Innovation, which are instrumental in enabling colleagues to focus on what's most important to the business.

I'm happy with the progress we've made against each of the strategic lenses, as we've delivered on the priorities I set out two years ago.

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

In Colleague Success, we've built a more customer-centric culture, launching and embedding our Values and Behaviours, and further investing in training and development. We've established senior sponsorship and mentoring schemes for colleagues, and run development programmes both for our leaders and for emerging talent. The result of investing in colleague experience is more engaged colleagues who are better able to support the success of our customers. Our most recent colleague NPS scores show an increase of 60 points over the last two years, while Sage's Glassdoor rating has increased to 4.4 out of 5, up from 2.9 in FY18.

In Innovation, our cloud native portfolio has been a key area of focus. The acquisitions of AutoEntry and CakeHR, together with the launch of Sage Accounting Plus, have enabled us to create a powerful and compelling cloud native software suite for small businesses, combining accounting and finance, automation, payroll and HR into a single, integrated, end-to-end proposition. For medium customers, we've extended our cloud native availability through the continued internationalisation of Sage Intacct, launching in the UK in November 2019 and South Africa in August 2020. We also invested further in Sage Business Cloud, developing a digital environment where our customers can use our cloud native or cloud connected solutions to connect, collaborate and do business.

Reflecting our focus on innovation, Sage has increased investment in R&D by around £60m since FY18, taking total R&D spend to around 15% of recurring revenue in FY20. Sage has also expanded the Group's total engineering headcount by around 20%, with a focus on Sage Business Cloud.

Simplifying the business

Creating a simpler and more focused business remains a key priority of Sage. In March 2020 we completed the disposals of Sage Pay and the Brazilian business, reducing Sage's exposure to non-core business lines and geographies. We have continued to make progress against this objective, with assets held for sale as at the year-end including:

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

The assets held for sale comprise mainly local products which are not part of Sage Business Cloud.

Measuring our progress

Our four strategic KPIs demonstrate Sage's strategic progress, showing how we achieve success, and reinforcing the quality of our performance.

- Software subscription penetration is now 65%, up from 56% in FY19, as the business continues to transition existing customers and attract new customers to subscription and Sage Business Cloud.
- Sage Business Cloud penetration is now 61%, up from 51% in FY19, reflecting continued progress in the shift towards cloud native and cloud connected solutions.
- Renewal by value reduced slightly to 99%, from 101% in FY19, reflecting lower levels of additional value add-ons to existing customers during the second half of the year due to Covid-19.
- ARR increased by 4.8% in FY20, reflecting continued revenue growth despite Covid-19, which particularly impacted the third quarter.

Our role in society and our community

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

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

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

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

Our priorities for FY21 and beyond

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

Customers are increasingly looking to digitise their businesses and benefit from the operational advantages of a fully hosted, cloud native solution, including anytime, anywhere access and automatic upgrades. Accordingly, we now intend to focus on accelerating our cloud native solutions across the Group, initially in our largest markets of Northern Europe and North America. At the same time cloud connected will remain an important driver of growth, particularly in Continental Europe. We will also focus on further embedding SaaS capability and culture throughout Sage.

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

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

Outlook

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

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

Chairman succession

I would like to thank Sir Donald for his substantial contribution to Sage since he became our Chairman eight years ago. We have all benefitted from his leadership and experience during a period of significant strategic change. He is due to retire from the Group in September 2021, and when he does so it will be with our very best wishes.

Strategic Report for FY20

Our Strategic Report on pages 2 to 77 has been reviewed and approved by the Board.

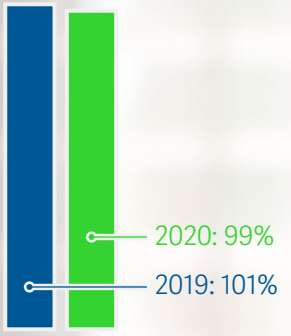
Steve Hare
Chief Executive

Our key performance indicators

How to measure a great SaaS company

Sage has four strategic KPIs that show the impact and progress of strategic execution and the focus on Customer Success, Colleague Success and Innovation.

The KPIs will be disclosed every six months to demonstrate Sage's progress in the transition to a SaaS company.

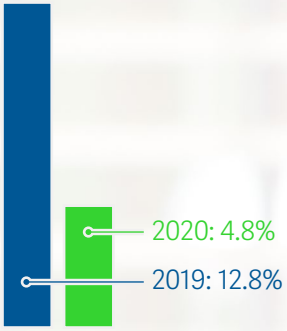


Renewal by value

99%

This metric tracks the growth of existing contracts over the period (up-sell, cross-sell, renewal, migration), offset by churn. It does not include new customer acquisition or reactivation of off-plan customers and therefore measures the strength of the existing customer base.

In FY20 renewal by value reduced slightly, reflecting lower levels of additional value add-ons to existing customers during the second half of the year due to Covid-19.



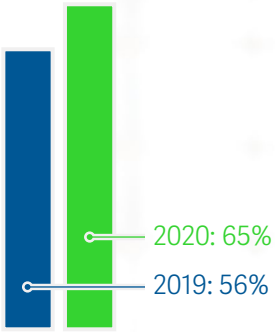
Annualised recurring revenue (ARR) growth

4.8%

Defined as the normalised reported recurring revenue in the last month of the reporting period, adjusted consistently period to period, multiplied by 12 (FY20: £1,611m ARR).

It 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 reported recurring revenue growth.

After a strong performance in FY19, ARR increased by 4.8% in FY20, reflecting continued growth despite Covid-19, which particularly impacted the third quarter.



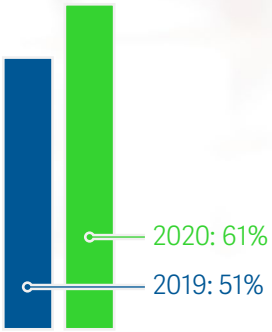
Subscription penetration

65%

% of revenue on subscription

This is measured as software subscription revenue as a proportion of revenue and shows the progress Sage is making in migrating its customers to subscription (FY20: £1,141m organic software subscription revenue).

In FY20, subscription penetration reached 65%, reflecting continued focus on attracting new customers and migrating existing customers to subscription.



Sage Business Cloud penetration

61%

Defined as recurring revenue from the Sage Business Cloud as a proportion of the recurring revenue of the Future Sage Business Cloud Opportunity. This metric measures progress in the transition of the business to the Sage Business Cloud. Find out more about the portfolio view of revenue on page 52.

The focus on driving revenue to cloud solutions has resulted in Sage Business Cloud penetration of 61% in FY20.

Sage also tracks other measures of success linked to strategic lenses including:

Customer Success: NPS and Renewal rate by value

Colleague Success: Colleague NPS, voluntary attrition, Sage Foundation days

Innovation: Availability of native cloud solutions, Sage Business Cloud penetration, consumption of cloud services

See more about our strategy and how we measure our progress on pages 22 to 27

See more about how our performance links to remuneration on pages 120 to 148

Helping businesses thrive

Our solutions and expertise allow customers to focus on what matters

DPR Motorsport – Sage 50cloud customer

Derrick Rowe, co-founder and CFO of DPR Motorsport: "Sage 50cloud helps us deal with our customers in a highly effective manner. You've got to have a trust relationship with your customers. When customers ask you a question, you've got to be able to provide the answers. Recording the customer data in Sage gives you the ability to get the information out accurately. With Sage, there's credibility with what you are telling them."

Customer Success

Customer Success is driven by a customer-centric approach to everything we do, to create enduring subscription relationships and deliver better business outcomes for customers and partners.

Customer Success is strongly linked to Sage's purpose: to transform how people think and work so their organisations can thrive.

This year in particular, our commitment to our customers has been unwavering. Sage has been right by the side of small and medium businesses around the world as they adjust to the new normal and navigate what comes next.

Customer journey

During FY20, we continued to develop our organisational design and invest in systems, tools and processes in order to address more effectively the needs of our small and medium customers. Our focus remains on systematically improving the experience we offer our customers at every stage of their journey with Sage.

For smaller businesses, we redesigned the customer journey for Sage Business Cloud solutions with an initial focus on Northern Europe, aiming to build a stronger relationship with customers at the early stages of their journey with Sage.

For medium sized businesses, we've combined our cloud native and cloud connected organisations across the Group in order to better support the needs of our customers and drive a more rapid adoption of cloud native solutions. We also created a single customer sales and support organisation in North America, ensuring a consistent go-to-market approach between Sage Intacct and our Sage 200 and X3 franchises in the region.

Customer service

We rolled out our single CRM system in North America during FY20, following the successful deployment in Northern Europe last year. This has improved the level of customer insight, while cloud telephony rollouts in both regions have enabled more effective call handling especially during busy periods. We also reviewed and improved our customer service processes in Northern Europe by focusing on first contact resolution, resulting in a 50% reduction in transfers of customer enquiries. Our Trustpilot score in the UK is 4.8 out of 5.

Supporting our customers through the Covid-19 pandemic

From the onset of the Covid-19 pandemic in March, we found new ways to serve and support our customers, including establishing online coronavirus advice hubs, providing webinars and other interactive sessions, and developing special-purpose software to support customers when applying for government funds. Following their success in Northern Europe, our regular "Q&A Live" sessions have also been introduced in North America, connecting customers with experts to provide guidance and support.

To understand how our customers were feeling during the height of the Covid-19 pandemic, we undertook weekly polling of over 5,000 businesses in total, using the insights to inform conversations with all customers. We shared the findings with media outlets, to ensure the voice of small and medium businesses was being heard.

How we measure progress

- Renewal rate by value
- Net Promoter Score

99% FY19: 101%

Renewal rate by value

Colleague Success

We know that the best way to make sure our customers are successful is to have engaged colleagues and an invigorating culture. Colleague Success is all about making Sage a great place to work so our talented colleagues can reach their full potential.

In FY20, Sage has focused on putting people at the heart of its business, demonstrating our genuine care for customers and colleagues alike, particularly in how we have managed our response to the global coronavirus pandemic.

Leadership development and talent management

We know that we need great leaders to become a great SaaS company. As part of our commitment to develop our senior leaders, in January 2020 we completed the Executive Team Development Programme to help build the individual and collective capability of our 40 most senior leaders. This will be extended in FY21 to include our top 200 leaders through our Emerging Talent and Senior Leadership Programmes.

Building SaaS capability

As part of our Strategic Planning process, the Executive Committee agreed that capability and reward would play an important role in driving the high performance and growth which we will need to embed a SaaS culture. We have completed a comprehensive review of the capability and compensation strategy across the business in FY20 which will inform our long-term People strategy over the next three years.

Colleague experience and engagement

Colleague experience and engagement at Sage is a key component of our 'Colleague Success' strategic lens. We measure this by eNPS (Employee Net Promoter Score – measures colleague sentiment) and voluntary attrition – both of which saw significant improvements in FY20.

Listening to and addressing colleague sentiment has been an important part of putting our people at the heart of our business this year, particularly during the global coronavirus pandemic. We hold pulse surveys twice a year to gather feedback on all aspects of life at Sage. 78% of colleagues took part in the most recent survey in June 2020, indicating a high level of engagement and suggesting ways to make Sage an even better place to work.

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

Supporting our colleagues through the Covid-19 pandemic

Throughout the pandemic we have prioritised the health and wellbeing of our colleagues. We launched our weekly Always Listening surveys in March to enable us to check in with our colleagues, find out how they are feeling and what else we can do to support them during these unprecedented times. This regular feedback channel has helped to shape our programme of engagement and support.

The leaders at Sage have responded to colleague feedback with increased communications through Sage TV Live, town halls, targeted emails on topics that our colleagues have told us matter to them and localised support plans.

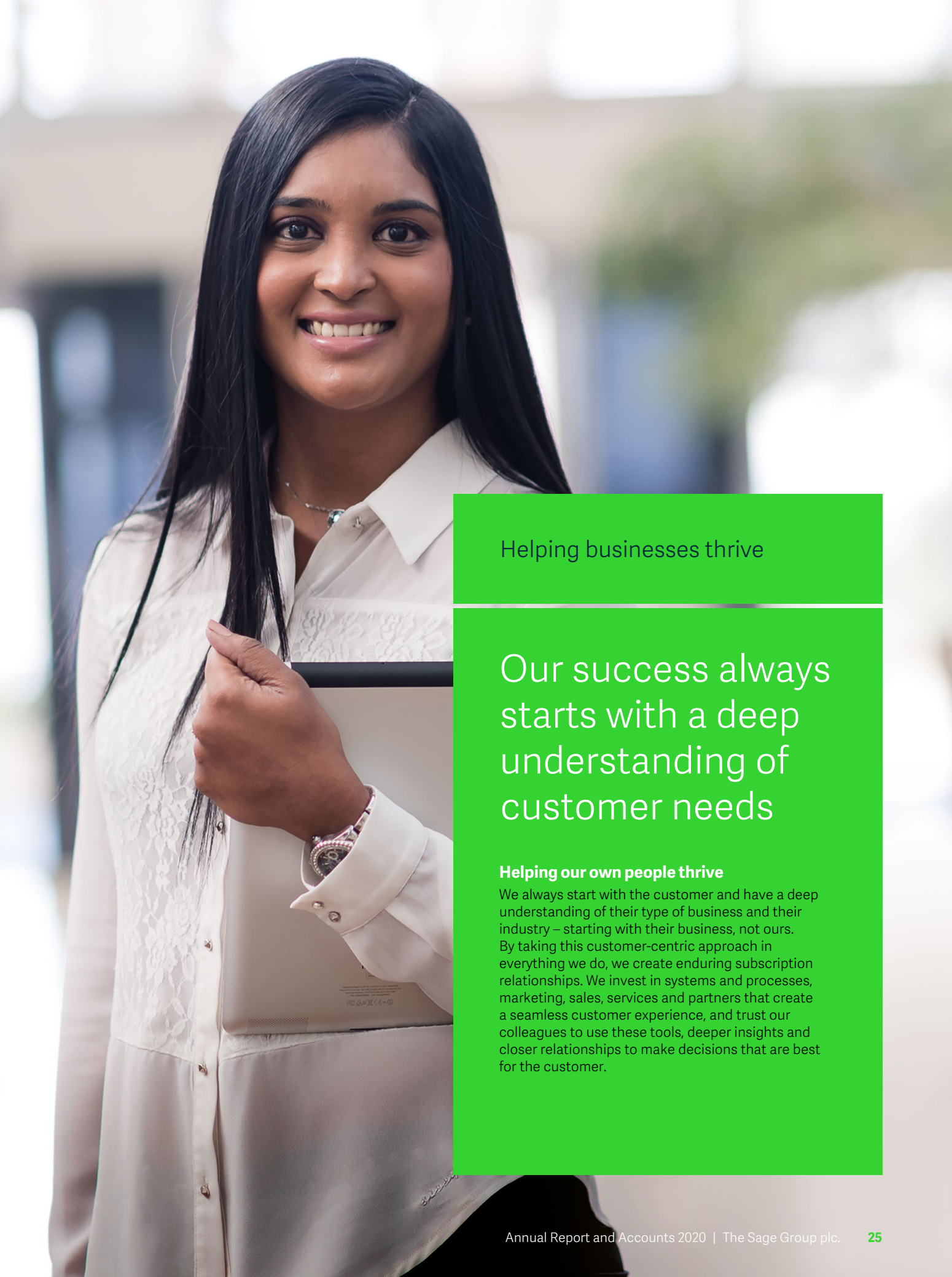
New colleague support networks have been established, focusing on sharing resources, insights and experiences to help colleagues stay engaged and feel supported. We also introduced our Sage Belong speaker series, including short videos of colleagues and external experts sharing advice on how to stay mentally healthy. In addition, all colleagues were given free access to the Headspace app, to support wellbeing and resilience.

How we measure progress

- Colleague Net Promoter Score (eNPS)
- Voluntary attrition
- Sage Foundation days

+32 FY19: -6
Colleague Net Promoter Score

24,300 FY19: 31,250
Sage Foundation days



Helping businesses thrive

Our success always starts with a deep understanding of customer needs

Helping our own people thrive

We always start with the customer and have a deep understanding of their type of business and their industry – starting with their business, not ours. By taking this customer-centric approach in everything we do, we create enduring subscription relationships. We invest in systems and processes, marketing, sales, services and partners that create a seamless customer experience, and trust our colleagues to use these tools, deeper insights and closer relationships to make decisions that are best for the customer.

Helping businesses thrive

Our innovation empowers decision making, improves efficiency and solves customers' pain points

Kingpin Communications – CakeHR customer

Samantha Maskell, Finance Manager at Kingpin: "Before adopting CakeHR, we were living in the dinosaur age and still used Excel, which was difficult to control and manage. It also meant managers were spending time on inefficient HR processes, and not on client or team management. Managing the time and the team through CakeHR has resulted in more time available for both managers and staff."

Innovation

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

Our vision for Sage Business Cloud is a digital environment for finance and operations, composed of platforms, applications and services where it is easy to connect, collaborate and do business.

The environment creates a seamless digital experience for customers across our products and platforms, enables a digital network of connections between individuals and organisations, adds new capabilities and experiences, and creates an end-to-end digital journey with Sage.

Innovation for smaller businesses

In FY20, we developed and acquired solutions to create a differentiated end-to-end proposition for businesses that spans accounting, automation, payroll and HR. This allows customers to scale from an entry-level accounting package to a full suite of integrated back-office software that enables them to manage their finances, operations and people. Highlights include:

- We launched Sage Accounting Plus in the UK in May, attracting new customers both directly and through accountant referrals;
- We integrated AutoEntry, our data automation solution, with key products including Sage 50 and Sage Accounting; and
- We acquired CakeHR, an HR management solution which enables small businesses to manage workforces with tools such as reporting, org charts, payslips and absence requests.

Innovation for medium sized businesses

We are focused on rolling out our cloud native solutions to more geographies, as well as enhancing overall functionality. Highlights in FY20 include:

- We progressed the internationalisation of Sage Intacct, launching in South Africa in August, and making strong progress in the UK;
- We launched Sage Intacct Construction in the US to meet the unique needs of construction and real estate companies;
- We developed new technology platforms that enable existing Sage desktop or cloud connected customers to migrate to a cloud native solution.

Innovation through the Covid-19 pandemic

We worked directly with governments to find new and better ways to support small and medium businesses. In the UK, we developed a special software module to support customers when they applied for government funds, automating key parts of the process, and improving customers' productivity and efficiency.

For our customers and all businesses, new technologies like Artificial Intelligence are driving digital transformation, particularly in light of Covid-19. In order to transform Sage's products through AI and Machine Learning, we have created Sage AI Labs, a focused AI/ML development team. Key projects include Sage Intelligent Time, a time tracking tool that uses AI to learn from an employee's calendar and working patterns, and an outlier detection tool designed to spot accounting mistakes and irregularities.

How we measure progress

- Sage Business Cloud penetration
- Availability of cloud native solutions
- Consumption of cloud services

61% FY19: 51%

Sage Business Cloud penetration

Sage's broader corporate responsibilities to the public interest – Doing the right thing

The Board – individually and collectively – is conscious that Sage has broader corporate responsibilities, including legal, financial, social and environmental responsibilities to the public interest. The Directors have therefore sought to discharge their duties in a way that they believe would fulfil these obligations at the same time as promoting the success of the Company for the benefit of its members as a whole.

In pursuing Sage's strategic, operational and financial objectives, we are driven by our commitment to strive to always act in a lawful and ethical manner, to do the right thing for Sage's stakeholders, and to act in the best interests of society.

At the heart of this are our customers. Our purpose is to transform the way people think and work so that their organisations can thrive. We have a responsibility to our customers that goes beyond the technology we develop, helping them to become more productive and agile. Our customers are primarily small and medium businesses, who have a significant role in sustaining a strong economy for the benefit of society as a whole.

Whilst customer focus is at the heart of our purpose, we believe that our commitment to act in the public interest – to be a responsible and active member of our communities – is also evidenced more broadly by the approach we take to supporting all of our key stakeholders. The following table summarises some of the core actions we have taken and drivers that we follow. Further information can be found elsewhere in our Annual Report, as indicated by the page numbers set out below.

Examples of how Sage has sought to satisfy these broader corporate responsibilities include:

Our customers ***See more on pages 36 to 38***	*We serve millions of small and medium customers across the world, helping SMEs and entrepreneurs to thrive so that they can play their significant role in sustaining a strong economy and healthy society*
Our people ***See more on pages 30 to 35***	*Striving to foster and promote an environment which embraces colleague experience and create the conditions for equality and inclusion, diversity and wellbeing – notably through Sage Belong* *Focusing on colleague experience and engagement, with "Colleague Success" being one of our three core strategic lenses. Listening to and addressing colleague sentiment, which has been particularly important this year during the Covid-19 pandemic* *Having a continued focus on striving to always act in a lawful and ethical manner, including through initiatives such as our refreshed Code of Conduct and renewed Anti-Bribery and Corruption eLearning, and the further embedding of Sage's Values and Behaviours*
Sage Foundation ***See more on pages 40 to 45***	*Giving back to, and supporting, our communities through voluntary work and fundraising*
The environment ***See more on pages 46 to 51***	*Committed to managing our use of resources and proactively managing our environmental impact, through ongoing ESG initiatives and our new Environmental Strategy*

You can also read more about the policies and commitments that underpin these broader corporate responsibilities in the following parts of this Annual Report:

Non-financial information statement

Ethics & Governance

Environment

Social

People

Section 172(1) Statement

The Companies Act 2006 and the UK Corporate Governance Code 2018 require the Annual Report to provide information on how the Directors of Sage have performed their duties under section 172 of the Companies Act 2006.

Section 172(1) (a) to (f)

A director of a company must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

Key

a. the likely consequences of any decision in the long term;

b. the interests of the company's employees;

c. the need to foster the company's business relationships with suppliers, customers and others;

d. the impact of the company's operations on the community and the environment;

e. the desirability of the company maintaining a reputation for high standards of business conduct; and

f. the need to act fairly as between members of the company.

As described earlier in this Strategic Report, the Board has discussed and approved the vision, purpose and strategy of Sage to create a long-term sustainable future. In so doing, the Board collectively has had regard to each of the limbs of section 172(1) set out above in its actions, behaviours and decisions.

Although section 172(1) imposes duties on Directors, we think it is fundamental that Sage's wider leadership also understand the Board's responsibilities – which can sometimes also become their own. Indeed, as is typical for a large listed company, the Directors of Sage fulfil their duties partly through a governance framework that delegates day-to-day decision making to management. The Board is cognisant that such delegation needs to be part of a robust governance structure, which it oversees, and which encompasses the principles of section 172(1) so that they ultimately become embedded within the business and everything we do as a company.

The Board recognises that Sage has a wide range of stakeholders that it needs to have regard to when fulfilling its duties. Stakeholder engagement and considering our stakeholders in principal decisions is central in our journey to becoming a great SaaS company.

We have integrated our reporting on how the Directors have considered each limb of section 172(1), engaged with Sage's key stakeholders, and how such stakeholders have influenced the Board's decisions, throughout this report. Each limb of section 172(1) is illustrated by an icon, as referenced above. You will see these icons applied throughout the report, such as on pages 31, 38, 44, 51, 53 and 59, and in our Corporate Governance Report on pages 78 to 112. The icons highlight examples of the Board's commitment to matters pertaining to section 172(1) when making its decisions.

Our people

United by our purpose

"Sage's Colleague Success vision is founded on the belief that colleagues do their very best work when they are passionate about their role; inspired by their leaders; connected to a common vision and purpose; recognised for their contribution; and they feel like they belong.

Building on this central belief, Sage is creating a compelling culture and environment that people want to join and where colleagues can thrive, grow and find it hard to leave. Our colleagues are empowered to be curious, explore and experiment. They have the opportunity to continuously learn and work in an environment that is inclusive and invigorating.

Sage has an insatiable appetite for talent – both internally developed and externally hired. The success of our colleagues is supported by a strong leadership, underpinned by an effective operating model, and a unique culture with well understood Values and Behaviours."

Amanda Cusdin, Chief People Officer

In FY20, Sage has put people at the heart of its business, demonstrating our genuine care for customers and colleagues alike, particularly in how we have managed our response to Covid-19. With Colleague Success as one of three key strategic areas of focus, we want to ensure we have talented colleagues within Sage who can deliver our strategic goals in an environment which enables everyone to reach their full potential and bring their whole selves to work. At Sage we have high expectations of our colleagues and in return, as we push towards Sage's 40th year, we continue to invest, build, and develop talented people to serve our customers.

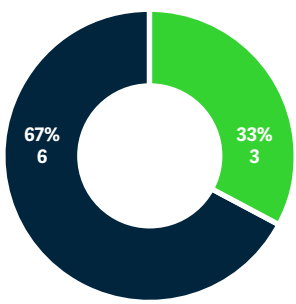
Leadership development and talent management

The Executive Committee consists of 11 members with the gender balance currently at 36% female, and representation from three generations ensuring a vibrant cognitive diversity. In FY20, we have continued to strengthen Sage's Executive Committee with three new appointments. Lee Perkins was made Chief Operating Officer, bringing together Go-to-Market, Product, Segments, Partners, IT and Property & Procurement. This strategic alignment provides greater synergies, reinforces Sage's operating model and will enhance Sage's ability to focus and drive execution. Chief Strategy Officer, Keith Robinson, previously an advisor to the Executive Committee, was appointed into the Executive Committee to drive the focus on the overall strategic direction of the Group and identify ways to accelerate Sage's vision of becoming a great SaaS company.

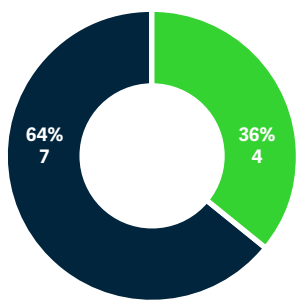
In September we also appointed a new Chief Marketing Officer, Cath Keers, who brings significant digital, customer-centric and brand experience, and strengthens Sage's Executive Committee's expertise and diversity of thought. Cath will lead a best-in-class Marketing Function, driving consistency, alignment and developing marketing talent across the Sage markets to further improve customer experience.

Our commitment to developing our senior leaders saw the completion of the Executive Team Development Programme in January 2020 in partnership with the London Business School. This has helped build the individual and collective capability of our 40 most senior leaders at Sage as we focus on becoming a great SaaS company. We will continue this in FY21, with targeted development for our VPs and Directors launched in September 2020. And to help accelerate a strong pipeline of diverse talent we also launched an Executive Committee Sponsorship Programme with each Executive Committee leader sponsoring up to three high potential individuals. We are confident that we have a strong pool of talent at Sage, evidenced by our Board Associate applications (our colleague representation on the Board) and by the number of colleagues we have identified as succession potential for the Executive Committee in our talent review processes, with 32 unique potential successors identified within a five-year timeline and an average of three successors per role.

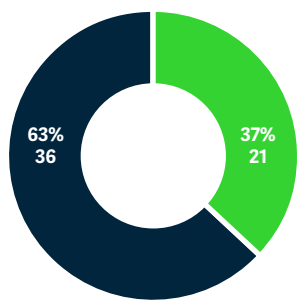
Board gender balance



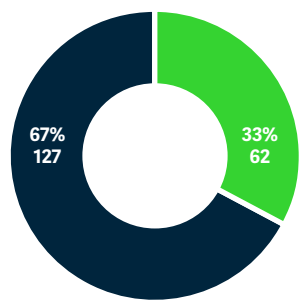
Executive Committee gender balance



Executive Committee and their direct reports gender balance[1]



Senior leadership gender balance[2]



Female
Male

Notes:

1. Executive Committee and their direct reports includes Executive Directors, other Executive Committee members, Company Secretary and their direct reports comprising individuals whom they have direct line management responsibility for, excluding administrative and support roles (for example personal assistants).
2. Senior leadership refers to c.190 leaders in Sage including Executive Committee and Executive Team members.

Sage's Values and Behaviours

Building SaaS capability

We have completed a comprehensive review of the capability and compensation strategy across the business in FY20 to ensure that Sage is ready to transition into a great SaaS company. This will inform our people strategy over the next three years, ensuring we develop a long-term approach that enhances our Employee Value Proposition, colleague experience and competitiveness, and ensuring we have highly capable, culturally aligned and motivated individuals and teams.

This year Sage has also undergone a refresh of its learning programmes for all levels of colleagues. With the impact of Covid-19, Sage moved its Leading@Sage and Growing@Sage classroom learning online and adopted a new learning methodology with the Live it. Learn it. programme. This is an agile approach that encourages colleagues to experiment, reflect, learn, adapt, and apply learning on a continuous basis and in a more progressive way than traditional classroom and online learning offers. To support this further we also introduced LiLi, an AI based experimental learning solution providing access to bite-sized high-level learning in the moment of need, making it easily accessible and at the heart of how we develop great talent.

Culture and values

In FY20 we made significant progress on our culture journey, shaped by ensuring we engaged with all stakeholders. Using the feedback from our 'Big Conversation' held in FY19, we have built on this with colleague pulse surveys; dozens of conversations with leaders across the organisation; and insights from the Executive Committee and Board. We were then able to commence FY20 with the launch of Sage's refreshed Values and Behaviours.

Since then the focus has been on embedding these into our policies and practices, how we operate and govern, and into our leadership and learning programmes so they become part of our DNA. Our refreshed culture has been evidenced in the new Employee Value Proposition, and the level of cohesion of our Executive Team, as well as across our segments, geographies and functional teams. Furthermore, significant headway can be seen in the ratings and comments Sage has received on Glassdoor along with overwhelming positive comments on Sage's response to Covid-19. All are clear indications that our refreshed culture is championing our success.

In FY21 we will continue to roll out our culture blueprint, ensuring that our operating model and organisational changes are managed in a way which reflects and reinforces our Values and Behaviours. This enables us to continue to embed them in the organisation, ensuring that colleagues and leaders are fully aligned behind the transition to a great SaaS company, and most importantly, always doing the right thing for our colleagues, customers and stakeholders.

Colleague experience and engagement

Our 'Colleague Success' strategic lens has led to significant improvement in colleague experience and engagement at Sage in FY20. We have invested in our operational engagement, creating an inclusive culture which supports our colleagues to achieve their full potential by listening to and addressing their feedback.

Our colleague listening strategy is built upon the idea that we listen to them as frequently as we can to understand the moments that matter, and work with them to create a better working experience. We want all our colleagues to be able to share their feedback openly so that we can understand what is most important and how we can improve. To do this effectively we launched a weekly Always Listening survey as part of our response to Covid-19 and redesigned our bi-annual Your Voice pulse survey. We then introduced onboarding and exit surveys as part of this listening strategy with touch points across the colleague lifecycle.

The biannual pulse surveys are used to monitor our levels of engagement. This has improved dramatically, with an increase in employee NPS of 38 points since FY19 and our new measure – employee satisfaction – is 81 out of 100. In response to feedback from our pulse surveys in FY19, we focused on ensuring colleague recognition – both peer to peer and leaders – is encouraged across the organisation. We introduced Sage Hi-Five, a virtual way to recognise and celebrate success simply and socially. Colleagues and leaders have sent over 12,000 recognition messages using the platform to celebrate great work. Peer to peer feedback is driving even greater levels of engagement and performance which we know is critical to our success.

Sage is proud to hear from our colleagues that we are getting many things right for them and we see these improvements reflected across many of our core people metrics such as Glassdoor, which has increased from 3.5 to 4.4 in FY20 with 87% recommendation of Sage to friends, 96% approval of our CEO and Steve winning best UK CEO during Covid-19. We measure our voluntary attrition to ensure we are retaining talent and this has decreased significantly from 12.3% in FY19 to 11% pre Covid-19 and currently 7.2%, while internal fill rate has increased 11% since FY19 to 37% as we provide more opportunities for internal career progression to retain our talent.

We will build on this in FY21 and continue our focus and investment on Colleague Success. This will include delivering programmes which create an outstanding colleague experience during the most important points in an individual's career with Sage. We will continue to be ruthless in ensuring our colleagues have only the best tools and processes to deliver great services for our customers. And as a result of our new capability and compensation strategy we will attract and retain the talent we need to realise our transformation into a great SaaS company.

Always Listening – Covid-19

Our Always Listening surveys have been an important part of putting our people at the heart of our business this year, particularly in response to Covid-19. We asked colleagues to participate in weekly surveys (based on three questions) to understand how they were feeling and what we could do better to support them.

Executives regularly engage with all stakeholder groups, and have increased the level of communications with colleagues through channels such as our intranet 'Your Sage', direct colleague emails on a weekly basis and 'Sage TV live', our bi-weekly broadcast with Executive Committee and Regional Managing Directors. These channels provide colleagues with direct access to our leaders. They give colleagues the opportunity to provide regular feedback and have their questions answered directly so they feel involved.

Always Listening surveys commenced from March to support our response to Covid-19. Over an eight-week period more than 3,000 colleagues took part in the survey, leaving over 6,000 comments. Colleague sentiment was very positive with a score of 93 out of 100 when asked if they were satisfied with our response to Covid-19. From the weekly surveys we were able to quickly provide interventions in response to colleagues' feedback and offer more support as they needed it. This included access for all colleagues to the mindfulness training app Headspace; dedicated intranet hubs of information with Covid-19 updates, leadership and colleague blogs; virtual coffee meetings; quizzes; and networking groups.

93/100 I am satisfied with Sage's response to coronavirus

91/100 I have the resources I need right now to do my job

91/100 I know what I should be focusing on right now

What could Sage do to support you right now?

Diversity and Inclusion

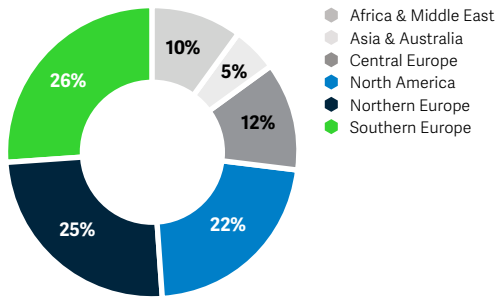
In November 2019 we embarked on a global diversity and inclusion strategy called Sage Belong. The strategy focuses on gender equality, wellbeing and removing barriers to an inclusive working environment for colleagues with disabilities, those from the LGBTQ+ community and fostering respect and understanding of all racial identities and ethnic minorities.

Recent events in relation to both Covid-19 and the Black Lives Matter movement have accelerated our drive to support colleagues and understand where we need to do more. In response to Black Lives Matter, plans are now in place for new networks that support our Black Indigenous People of Colour, and BAME (Black, Asian and Minority Ethnic) colleagues. Across all our work we are also looking to embed the importance of education for all colleagues, with new outreach and learning hubs being rolled out to improve colleague and leadership inclusiveness, awareness and understanding, along with a robust strategy to understand our diversity data across Sage.

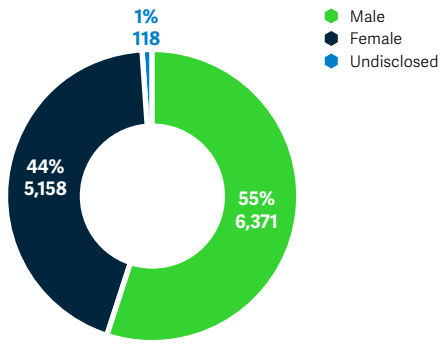
We remain focused on creating a truly inclusive organisation where every colleague – especially those from traditionally underrepresented groups – can reach their full potential, feel valued and rewarded, and know the role they play in helping us achieve our vision. We know that we can – and will – always do more. We know that change will not happen overnight; diversity and inclusion is an ongoing journey involving all of us. This will be strengthened in FY21 when we appoint a VP of Diversity & Inclusion to drive forward the change needed for the next stage in our journey.

Sage's commitment to diversity and inclusion is further accelerated through our D&I Council, chaired by the Chief Executive Officer and Chief People Officer. This has connected the business with our diversity and inclusion strategy at a senior level, ensuring tight alignment of priorities between engagement and diversity and inclusion with our overall business strategy. The group, consisting of colleagues from differing levels and regions across the organisation, helps monitor our global progress against goals and targets set as part of the diversity and inclusion strategy.

Year-end colleague count split by region



Total workforce gender diversity



Race and ethnicity

At Sage we are clear, racism has no place in society, or anywhere in our business. Even with that unwavering clarity, we know we are not where we need to be and we are committed to building on the work we are already doing to ensure a safe and inclusive environment for all Sage colleagues, customers and partners. For Sage, that starts by listening to our Black and People of Colour colleagues; understanding their experiences, reflecting on what needs to change, and – without hesitation – acting on it.

In response to rising public protest and discussion we ran powerful listening sessions in North America – attended by over 700 colleagues. We made space for open, reflective, and honest communications from our leaders, gave a platform to our Black colleagues to tell their personal stories and marked Juneteenth in North America with a half day of leave.

Our colleagues trusted us to facilitate these difficult conversations and we will now be using every candid and honest learning point plus the insight colleagues have shared with us to drive deep, sustainable change. This includes more listening sessions in other countries where Sage Foundation will be offering community support volunteering days focused on Racial Equity – and a new Colleague Success Network, called 'BUILD'. This stands for Blacks United in Leadership Development.

An inclusive Covid-19 response

Throughout the Covid-19 pandemic we prioritised the health and wellbeing of our colleagues. We began by launching free access to the Headspace app to provide all our colleagues with tools and resources to support living a mindful life. We also introduced our Sage Belong Speaker Series which includes short videos of colleagues and external experts sharing advice and best practice on how people can stay mentally healthy and aligned to our inclusion strategy. This was complemented in the UKI by the growth of our Healthy Mind Coach provision – a team of volunteers who have received external training from Mental Health First Aid England, who provide support to colleagues through non-judgemental listening and signposting to internal or external support. During our Covid-19 response, we expanded the programme into Spain.

For more information on Sage's response to Covid-19, please see pages 106 to 107.

Colleague Success Network growth

Our Colleague Success Networks (CSN) aim to create a safe environment for colleagues to come together to provide support and education to one another and provide vital feedback into the business to advance change. We have already introduced Family@Sage, Pride@Sage (LGBTQ+ focused), Belong@Sage (supporting across all Diversity & Inclusion) globally and BUILD (Blacks United in Leadership Development), with plans for Vets@Sage (veterans focused) and CSNs focused on disability and gender in FY21.

More inclusive Colleague Success Awards

Building on the D&I Awards of the last two years, and part of our ongoing journey to evolve recognition at Sage, we reflected on colleague feedback to deliver improved and more inclusive awards in FY20. The new Sage Colleague Success Awards featured four new award categories aligned to our Sage values, whilst two further awards retain a specific focus on inclusive topics. With over 6,700 nominations received for over 2,200 individuals, colleagues from across all levels and areas of the business have had the chance to win at both a regional and global level.

Sage Belong strategy

Sage acknowledges our responsibility to support our colleagues with visible and invisible disabilities and we do so by creating a culture of inclusion which is reflected in our Sage Belong strategy, and alignment with our Diversity & Inclusion and Wellbeing policies.

In a recently commissioned Sage UK review conducted over three days onsite in 2019 by the Employers Network for Equality and Inclusion (ENEI), findings confirmed that Sage was conformant with the UK Equality Act 2010 for disability. Key functions are aware of Sage's obligations, additional employee assistance programmes and networks are available for colleagues who experience visible and invisible impairments in the short and longer term and a workplace/interview adjustments process is available to all candidates and colleagues.

As part of the global Sage Belong strategy and Sage's commitment to the Valuable 500 movement, a Colleague Success Network is in development, with members keen to provide peer to peer support and review key aspects of the colleague lifecycle for disability inclusion improvement opportunities. Colleague-led healthy mind coach networks are also scaling globally to provide mental health awareness and support. Where findings from the review have highlighted opportunities, action is now underway. Sage is engaged in a project with Microlink to review the full workplace adjustment lifecycle and our Sage Belong team are supporting both IT and Communications teams in their next steps to increase accessibility of systems and content.

Supporting our customers as they navigate challenging times

In a year that has seen small and medium businesses around the world face incredibly challenging times, Sage has been right by their side helping them to sustain their businesses and navigate what comes next.

This year we committed to stand in solidarity with small and medium businesses, with technology that gives them confidence, drives productivity and builds business resilience. We focused on three customer priorities: surfacing insight that highlights customer challenges; running virtual customer events to help businesses access practical advice to address those challenges; and using our influence and reach to champion small and medium businesses and their needs as they grappled with the implications of a global pandemic.

Supporting and championing our customers through the Covid-19 pandemic

When the pandemic hit, we rallied our business to safely help our customers during this time of need.

In addition to prioritising the health and wellbeing of our colleagues, we took steps to ensure our customer services teams were able to support our customers remotely. We moved every single Sage colleague, including approximately 5,000 Customer Success colleagues across all of our operating regions, to work from home with minimal customer disruption.

We created Coronavirus Hubs on our regional websites to give customers access to the latest Covid-19 government updates, guidance on how to access government funding schemes, advice on how to support employees and other resources to help them face this extremely challenging environment. We took specific steps in many regions to help provide additional support through our products, services and support teams.

In the UK

We worked closely with HMRC to build a module for our payroll products that helped customers process the Job Retention Scheme (JRS) payments, and access grants for furloughed employees. Following the opening of the HMRC portal, Sage's solution was developed remotely and at pace. We saw significant customer uptake of the module, had record attendance on our advice-based webinars, and fielded thousands of calls into our customer services department providing guidance on how to access government support. We also built an online portal that helped customers understand more about the grants and loans available to them.

To ensure that we were responding to customers' needs, from the first week of lockdown we ran ongoing customer listening and polling. We used the insights to inform conversations with customers, government and business support bodies. Our polling of an additional 2,000 SMEs at the end of June culminated in The Survival, Resilience and Growth Report. The report gave firm recommendations on how the UK Government could further support small and medium businesses through the pandemic, and help build resilience. In total, Sage's polling saw 90 pieces of media coverage, and was cited in the launch of the Department for International Trade's new trade strategy for the tech sector, sending a clear message to UK SMEs that we were listening to their concerns and championing their needs.

To further amplify our customers' needs, we invited customers and business experts from the CBI and Be the Business, an organisation that is leading the UK productivity movement, to a virtual roundtable to discuss the report's findings. Tony Danker, Chief Executive, Be the Business, concluded: "For me, the most important takeaway from this report is that while UK SMEs are optimistic for the future, this is a precarious recovery. Most say they will be making a profit by the end of the year. However, there is a caveat to this optimistic outlook, and this is where I believe policy makers and business support networks must focus their attention."

Lastly, we sought to provide further opportunities for our customers to put their questions directly to experts – we set up webinars and Q&A sessions with HMRC, the Federation of Small Businesses (FSB) and the Minister for Small Business Paul Scully MP, with more than 150 businesses attending.

In North America

A similar programme of weekly polling took place, again to surface customer sentiment and understand how we could specifically help our customers in the region. We launched a Covid-19 telephone outreach programme to non-profit customers to understand how we could help them navigate the pandemic. Customers that provided feedback on the outreach appreciated our help in enabling them to go remote.

In Iberia

We put aside €1m to provide online training and webinars for customers. We also provided companies with business management courses. In Portugal, we created a dedicated team to help answer customer questions around the legal and people implications of measures established by the Portuguese Government.

In France

We shared advice on how businesses could continue to manage everything from finances to HR and supply chains. We championed our customers in the media, offering advice and thought leadership on the issues that matter to them.

In Germany

We helped customers employing short-term workers, and developed a VAT assistant tool to help customers understand the overall impact of VAT changes on their businesses.

Globally

As lockdown restrictions eased around the world, Sage took the opportunity to encourage its colleagues to safely spend within their communities and shop with small and medium businesses with a global #YourLocal social media campaign. Sage's Executive Team led by example, with many posting short clips on their social media channels championing their favourite local businesses, to help bolster local economies.

Trade

Given the volatility surrounding global trade negotiations in FY20, Sage continued to raise awareness of the importance of helping small and medium businesses to export. For this, we held several events around the world including in Malaysia and the UK, inviting key government influencers, customers and media to take part and listen to our customers' voices. According to Sage's research, many small and medium businesses were bullish about trade prospects, with half in the UK (49%) expecting that the amount of trade carried out with customers and suppliers would increase over the next year.

In addition, Sage was a participant in London Tech Week. We hosted a virtual event with the Department of International Trade in September, helping businesses understand how to expand internationally and tap into overseas markets – a notoriously complex but critical way for businesses to achieve growth and safeguard themselves for the future. The 60-minute virtual roundtable offered a small group of ambitious UK tech businesses insight into how to boost growth internationally. Speakers included Sage's CEO Steve Hare, Graham Stuart MP, Minister for Exports, Department for International Trade and Irene Graham, CEO, Scaleup Institute. Over 23 people attended including individuals from tech companies and industry partners.

Sage Session UK

In July, we held our inaugural virtual event for customers in the UK and Ireland. Sage Session UK 2020 was an industry-leading event where Sage leaders, customers, and successful business experts took the virtual stage to share their unique stories and perspectives to inspire attendees to get back to business.

Attendees heard from Sage's Chief Technology Officer Aaron Harris on our technology vision, and UKI MD Sabby Gill, as well as Sage customer and business owner, Tamara Lohan, Founder and CEO of Mr & Mrs Smith, who gave insight into how she has grown her business, and responded to the Covid-19 pandemic. As part of the event, we worked in partnership with Be the Business, to deliver practical insights and tips for attendees on how technology could help their business.

In total, 24 unique breakout sessions provided practical guidance to over 1,400 attendees and viewers, helping them to rebuild their business and plan for future success.

Practice of Now

We serve many of our customers through accountants in practice, and undertake an annual study, the 'Practice of Now', to give accounting professionals from across the globe the opportunity to share their view of the industry. The people that live, breathe and shape this profession every day painted a picture of an occupation on the brink of positive disruption in 2020's report.

In total, 82% of accountants say clients are demanding more business advice and consultancy services, while 87% agree they expect more flexibility and better service without an increase in rates. Concurrently, 83% of accountants said the ongoing effects of technology and digitalisation have forced them to invest more and faster to keep up with the market.

However, the report also shows a robust and tech-enabled accountancy profession, well-placed to help their clients navigate the economic uncertainty of Covid-19. The majority are confident they can provide business management and advisory services (79%), industry-specific advice (75%), and technology implementations beyond accounting and finance products (73%).

Sage has issued the 'Practice of Now' report in several international regions to support both traditional and visionary practices alike, to keep pace and support their ever-changing client demands.

Data study

Over FY20, Sage embarked on a study to understand how its customers feel about the use of data to improve their experience with B2B technology providers. Our research showed that small and medium businesses already have a strong understanding of the importance of data. However, almost 80% believe they could further improve the way they use and analyse it, uncovering a significant 'data productivity gap'.

The primary barriers to adoption of optimal data use by businesses include a lack of awareness, confidence and trust in sharing data with B2B providers, and a lack of adequate resource to manage a complex and evolving environment. As a business that is proud to serve millions of SMEs, we take the responsibility of listening to our customers and working closely with governments very seriously – especially when it comes to progressing conversations around sensitive subjects like data use. And, as we all navigate the next phase of recovery and growth, cultivating an environment of trust and confidence is the only way we will unleash the true potential of data for the world's SMEs.

Ethics and governance

Human rights

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

Anti-bribery & corruption

Sage has an anti-bribery and corruption policy and associated whistleblowing procedures designed to ensure that colleagues and other parties including contractors and third parties are able to report any instances of poor practice safely through an independent organisation. All reports received via this or any other reporting mechanism are thoroughly investigated and reported to the Audit and Risk Committee, which reviews each case and its outcomes. None of our investigations during FY20 have identified any systemic issues or breaches of our obligations under The Bribery Act 2010.

Governance & oversight

We recognise that assurance over our business activities and those of our partners and suppliers is essential. During 2020 we monitored and reported on the completion of our mandatory Code of Conduct training for all colleagues. You can read more about our compliance and assurance activities over the principal risks associated with ethical business conduct from page 65 onwards.

Tax strategy

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

Bringing colleagues together for good

Setting a clear strategy to do more good

Sage Foundation has always championed 'action philanthropy', maximising the power of our 12,000 people to support our local communities using five paid volunteer days each year. Record colleague participation in FY20 alongside anecdotal feedback demonstrated that volunteering is a priority for colleagues during the Covid-19 pandemic. Supporting the Company's strategic lens of Colleague Success, a recent pulse survey of 1,300 colleagues demonstrated that the work colleagues do through Sage Foundation is meaningful (NPS of +87) and that volunteering is the most important contribution Sage Foundation makes to local communities (NPS of +85).

"Sage Foundation volunteering is always a positive experience, it bonds you as a team knowing that you are helping someone and making a difference to someone's life."

Sage colleague comment, pulse survey July 2020

Likewise, as Sage hit a Glassdoor score of 4.4 during FY20, comments on Glassdoor showed that Sage Foundation contributes to a positive colleague experience.

FY20: Inspiring colleague volunteering in unprecedented times

24,300

The total number of working days Sage colleagues spent volunteering in FY20.

£3.5 million

The value of colleague volunteer time invested in our local communities.

$660,331

The total funds raised for the '$2 million by 2022' fundraising challenge.

201

The number of grants awarded to not-for-profits in FY20.

888

The number of non-profits that benefitted from a Sage Business Cloud product discount in FY20.

15%

Increase in colleagues engaging with Sage Foundation volunteering post Covid-19.

Five years of making a difference

Sage Foundation was established in 2015. We look forward to celebrating the fifth anniversary of Sage Foundation in the coming year.

110,000

The total number of working days Sage colleagues and partners spent volunteering.

2,000

The number of non-profits that benefitted from a Sage Business Cloud product discount.

600

The number of grants awarded to not-for-profits.

£14 million

The value of colleague volunteer time invested in our local communities.

Sage Foundation turns five

As we headed towards celebrating five years of Sage Foundation making a difference in local communities, our focus for FY20 was to set a clear framework for our signature programmes – to support youth, women, and military veterans – and enable our partner network to further our impact by joining Sage Foundation activity.

Launched at Sage Partner Summit in March, Sage Foundation Partner Programme invites Sage partners to join our volunteering and fundraising activity. Partners are asked to sign the Sage Foundation Charter for Change, representing their commitment to encourage fundraising and volunteering activities within their organisation, and to work together with Sage Foundation to deliver a global programme of change. Leveraging our own action philanthropy experience, we also help them build on their own corporate philanthropy.

A highlight signature programme, The Growth Project – an innovative development programme – brings together charity and business leaders including Sage in an environment of shared learning. Throughout the ten-month course, participants share knowledge and experiences, develop their leadership skills and learn how to grow their organisation. After three years of success in Australia working with The Growth Project, we have now launched our own programme, Sage Foundation Grow.

In addition to working with our charity partners to manage our signature programmes, we continued to offer discounted software to eligible charities, social enterprises, and non-profit organisations. Moving into FY21, we will be complementing this with financial management tools, training and an online community hub. Supporting the Company's strategic lens of Customer Success, this will enable non-profit organisations to save time, reduce costs, eliminate errors and achieve compliance.

"Prophix is very proud to be a Sage Foundation Partner; it's another great example of how well aligned both organisations are. Just like Sage, corporate social responsibility is taken every bit as seriously as our commercial targets as it fundamentally brings huge business value too. The sense of satisfaction you gain from giving back has such a positive influence on employee wellbeing, which in turn has a positive influence on the quality of work we do to support our customers, retaining them for longer."

James Hanson,
VP Sage Global Partnership, Prophix (Sage Partner)

"The biggest success was bringing together colleagues, regardless of location, and enabling us to all feel like we are a part of something bigger. This applies to Sage Foundation's programmes, Sage as an organisation, and humanity in general. The experience has completely changed the way I feel about volunteering and has reinforced that there are truly no barriers to stop us making a difference."

Vicky Bell,
Australia, Professional Services Coordinator at Sage

Responding to the Covid-19 pandemic

The Covid-19 pandemic had a huge impact on charity partners across the globe during FY20. Sage Foundation adapted the strategy to re-direct grant funding and re-assess our face-to-face volunteer policy. Within two weeks of Covid-19 lockdown, we moved to remote and virtual volunteer activations to safeguard our colleagues and charity partners, and we will continue many of these activities in the medium to long term.

Skills-based volunteering remains high on our agenda and during a recent internal innovation and collaboration event, the power of Sage colleagues' skills was brought to life. Colleagues' coding, design, project management, financial modelling and communication abilities were combined to support non-profits and communities to recover from the Covid-19 pandemic.

We also provided grants quickly to existing charity partners that were working to support the most vulnerable communities affected by Covid-19. Our grants offered financial relief to existing charity partners, who needed our support as they rebuilt their programmes within the first month of the pandemic, and also gave support to charity partners who changed their strategic priorities. In total, we awarded 36 grants.

Signature programmes to support our local communities

We continue to use our time, capability and investment to stimulate education, entrepreneurship and a work-ready mindset through our three signature programmes – **Sage Inspiring Youth, Sage Empowering Women and Sage Serving Heroes.**

Sage Foundation's strategic objectives are aligned to four of the 17 United Nations Sustainable Development Goals: quality education; gender equality; decent work and economic growth; and industry, innovation and infrastructure.

Sage Serving Heroes

Continuing to support veterans to transition into business

In partnership with charity partners Peter Jones Foundation and X-Forces, Sage Foundation has funded a mentoring programme since 2019, the Veteran Tycoon Enterprise Programme, introducing entrepreneurship to veterans and service leavers. Due to the Covid-19 pandemic, we have re-booted the programme to be delivered online. This started in September 2020 and will continue into the next financial year.

Sage Inspiring Youth

FutureMakers connecting young people with AI

Two years ago, we founded Sage FutureMakers to inspire young people to engage in artificial intelligence (AI) and understand how technology can solve environmental and social challenges.

The curriculum develops critical thinking, creativity, and storytelling and inspires young people to use ethical AI to develop creative solutions that will shape the future of work.

Throughout FY20 we delivered face-to-face programmes to over 500 young people between the ages of 13 and 17 in South Africa, US and Spain, and developed an online version of Sage FutureMakers which was piloted successfully in France during the Covid-19 pandemic lockdown. We will be expanding the delivery of this online version with programmes scheduled to run in France, the UK and Canada in the coming months.

Sage Empowering Women

rAInbow bringing hope as domestic violence rises

Funded by Sage Foundation, rAInbow is a chatbot companion built on the Facebook Messenger platform. It provides support for victims of domestic violence, their friends and family. rAInbow offers a safe space for those at risk of abusive relationships, as well as victims and survivors of domestic violence. It gives women access to information about their rights, support options and where they can find help in friendly, simple language.

The initiative has demonstrated that early intervention is key and helps women identify clear signs early on. The Covid-19 lockdown has exacerbated a number of precursors to domestic violence: stress, financial worries, access to alcohol, and being physically locked indoors. The chatbot companion has almost 18,000 users, that have had 843,000 conversations. It has become even more critical during lockdown with an increase of 103% active users during the first three weeks.

Anecdotal feedback from users has demonstrated that rAInbow is giving vulnerable victims access to crucial resources such as legal information; alcoholics support; and anxiety and depression groups.

Rising up to the challenge of raising $2 million by 2022

In March 2019, CEO Steve Hare announced the $2 million by 2022 Challenge – in which he urged all colleagues to use their five paid Sage Foundation days to raise money for charities close to their hearts.

The challenge has been led by leaders with the Sage Executive Team undertaking the 2.6 Challenge to raise funds for UNICEF. In response to the postponement of the London Marathon, which is 26 miles, leaders took on a challenge in any form of exercise with 2.6 as a theme. Challenges included cycling 26 miles, 26 press-ups for 26 days and walking 260 miles in 26 days.

This year we reached $1m in July 2020 with Sage colleagues and partners participating in a number of fundraising activities globally to support the homeless, those affected by the Australian bushfires and to support charities providing aid during the Covid-19 pandemic such as the Red Cross.

Technology and tools to support non-profit organisations

Sage Foundation empowers and transforms non-profit organisations by providing them with the discounted products, resources and expertise they need to succeed. Harnessing Sage's product portfolio, non-profit organisations can have everything they need to efficiently manage their accounts, payroll, operations and people.

This year we have undertaken research to understand the state of the sector in the UK. In FY21 we will launch other added-value components such as training, financial management tools and resources, and an online community through Sage City, so our non-profit customers can improve their financial literacy and have access to expert advice. These changes support our goals of doing the right thing for our customers and helping our local communities.

Doing business the right way: responsibly managing our impact

Introducing our new Environmental Strategy on the path to Net Zero

We are committed to responsibly managing our use of resources and the environmental impact of the solutions we provide to our customers and our partners. Our new Environmental Strategy sets out our ambitious plan to be a leader in this area within three to five years, including the implementation of a Net Zero strategy.

Introducing our new Environmental Strategy

At Sage, we recognise our responsibility to the wider community in which we operate, consistent with our overarching value that we do the right thing. Whilst local legal standards apply as an absolute minimum, we aim to achieve good practice in our markets and share this across the Group. We continue to participate in the CDP (formerly Carbon Disclosure Project), annually disclosing to investors our approach and efforts to manage climate-related risks and our impact.

In line with our ambition to be a leader in this area within three to five years, the Board undertook a review of our environmental approach in 2020. This considered our successes to date in managing our impact, as well as understanding emerging environmental trends that may have an impact on our business, our colleagues, our customers, and our communities over time.

The Board review has resulted in the adoption of our new Environmental Strategy, which will be implemented across the Group beginning in 2021. It outlines our ambitious plan to set clear, science-based targets with a full roadmap, as part of our implementation of a Net Zero strategy.

As part of our commitment to responsibly managing our contribution to long-term climate change and as part of our new Environmental Strategy, Sage is also committed to implementing the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD). This will help to inform our stakeholders about our climate-related financial risks and how we manage these, in addition to capitalising on opportunities to further enhance the value we create for our customers and our communities.

Sage is committed to addressing the impact of climate change

At Sage, we recognise the important role we play in creating a more sustainable future for our colleagues, customers and communities. This commitment is core to our central value of doing the right thing. We are proud of the progress that we have made in recent years, as reflected in our improved CDP score. But we want to go further still, and so we now have an ambitious strategy to be a leader in this area within three to five years. The first step is for us to develop a deeper understanding of our environmental impact, which is already underway. We then intend to set clear, science-based targets with a full roadmap, as part of our implementation of a Net Zero strategy. We recognise that to achieve our ambitions, our colleagues, customers, partners, and suppliers will all be required to act, but we strongly believe that we can succeed together.

Progress against TCFD recommendations

Sage recognises the risks posed by climate change and as part of its new Environmental Strategy, fully supports the TCFD recommendations. As we implement our new strategy, we intend to bring our disclosures and reporting into line with the TCFD recommendations. The TCFD recommendations are structured around four core areas of organisational operations: governance, strategy, risk management, and metrics and targets. The table below shows our current progress against the recommendations.

	Disclosure	Reference
Governance		
Describe the Board's oversight of climate-related risks and opportunities	The Board assumes overall responsibility and accountability for the management of climate-related risks and opportunities. During the year, the Board reviewed Sage's environmental activities and progress to date, and signed off on an ambitious Environmental Strategy to become a leader in this area in the next three to five years. The Board is supported in this area by the Global Risk Committee	
Describe management's role in assessing and managing climate-related risks and opportunities	Climate-related issues are integrated into our core risk management procedures	
Strategy		
Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term	Our new Environmental Strategy will formalise our identification of climate-related risks and opportunities, including around the products and services we develop to support our customers in responsibly achieving their business objectives	
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	Climate-related risks and opportunities are to be further integrated into our business plans as we implement our new Environmental Strategy	
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	As part of our new Environmental Strategy, we anticipate implementing climate-related scenario analysis	
Risks and opportunities		
Describe the organisation's integrated processes for identifying and assessing & managing climate-related risks	Sage considers climate-related risks through our integrated Group-wide risk management policy and framework	
Metrics and targets		
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	Absolute and intensity-based energy and GHG emission metrics are disclosed in our Annual Report	Pages 49-51
Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	GHG emissions are disclosed in our Annual Report	Pages 49-50
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	As part of our new Environmental Strategy, Sage will set clear, science-based targets to support our strategic ambitions	

Disclosing our impact

This section includes our mandatory reporting of greenhouse gas emissions pursuant to The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. In addition to this disclosure, we once again took part in the Carbon Disclosure Project (CDP), reporting our approach to governance, risk management and stakeholder engagement on climate-related issues. This external submission also includes our Scope 1, 2 and 3 emissions for the financial year ending 30 September 2019. We improved our CDP score in 2019 from a B- to a B rating.

Global greenhouse gas emissions data for period 1 October 2019 - 30 September 2020

	FY20 – tonnes CO_2e	FY19 – tonnes CO_2e
Scope 1: Combustion of fuels and operation of facility	**1,566**	1,805
Scope 2: Electricity, heat, steam and cooling purchased for own use	**7,172**	10,524
Scope 3: Company business travel vehicles	**7,245**	8,662
Total emissions	**15,983**	20,991
Company's chosen intensity measurement: Emissions reported above normalised to tonnes of CO_2e per total GBP £1,000,000 revenue	**8.4**	10.83

Scope 2 Market-based and location-based emissions

	FY20 – tonnes CO_2e	FY19 – tonnes CO_2e
Location-based	**7,172**	10,524
Market-based	**6,077**	9,075

Sage witnessed the effects of the Covid-19 pandemic extend to the operation of our global office portfolio and our carbon emissions performance in 2020. To ensure the health and well-being of our colleagues, Sage took the decision to scale back all but essential office-based activities and close our global office portfolio, in line with regional regulations and government guidance.

In parallel, Sage also saw a drop in our Group emissions, related to business travel, particularly air travel, in favour of digital communication platforms.

Reporting period

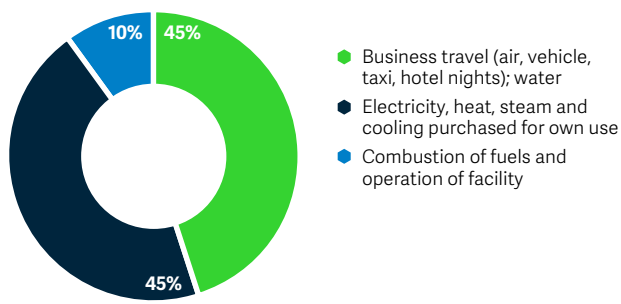
Our Mandatory Greenhouse Gas Report reporting period is 1 October 2019 to 30 September 2020 and is aligned with our financial reporting year.

Organisational boundary & responsibility

We report our emissions data using an operational control approach to define our organisational boundary which meets the definitional requirements of The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the UK Streamlined Energy & Carbon Reporting (SECR) regulations 2019 in respect of the energy consumption and emissions for which we are responsible.

Sage reports on all material emission sources that we are deemed to be responsible for within our operational control approach. We collate data on energy in our buildings, HVAC refrigerant leakage, water usage, as well as business travel (such as air travel, hotel nights and business car travel). We believe these encompass the most material emissions to our business. While we do not currently report on any emission sources beyond the boundary of our operational control, as part of our new Environmental Strategy, our ambition is to continually review the appropriateness of our reporting boundary to expand the monitoring and management of our significant indirect emissions associated with our broader business value chain.

Total CO_2e by type



Methodology

Our methodology underlying our disclosed emissions remains consistent with previous years and is based on the "Environmental Reporting Guidelines: including mandatory greenhouse gas emissions reporting guidance" (March 2020) issued by the Department for Business, Energy & Industrial Strategy (BEIS). This methodology is consistent with the World Resources Institute's Greenhouse Gas Protocol Corporate Accounting and Reporting Standard. We have also used BEIS 2020 conversion factors for the UK, combined with the most recent IEA international conversion factors (2017) for non-UK electricity within our reporting methodology.

In some cases, we have extrapolated total emissions by using available information from part of a reporting period and extending it to apply to the full reporting year. For example, this has occurred where supplier invoices for the full reporting year were not available prior to the publication of this year's Annual Report and Accounts. For further details, our methodology document can be found at http://www.sage.com/investors.

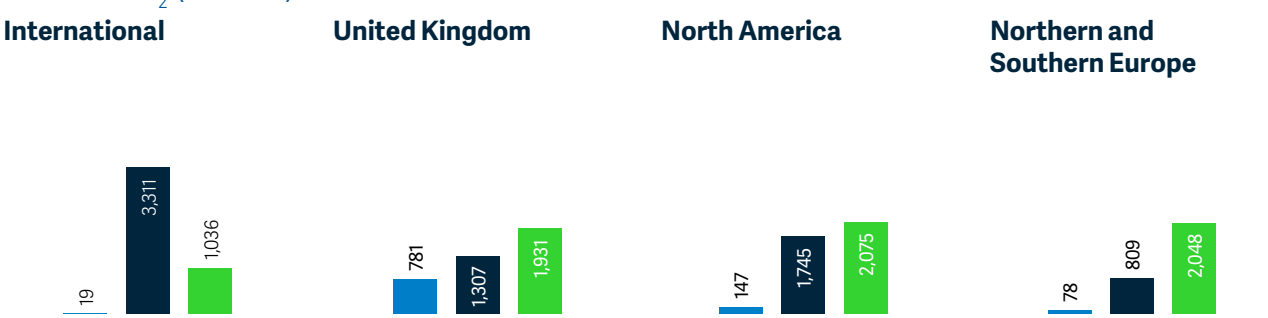
Regional breakdown of Sage greenhouse gas emissions

Region	Scope 1 emissions		Scope 2 emissions		Scope 3 emissions	
	Generated from the gas and oil used in all buildings where the Group operates; emissions generated from Group owned vehicles used for business travel; and fugitive emissions arising from the use of air conditioning and chiller/refrigerant plant to service the Group's property portfolio		Generated from the use of electricity in all buildings from which the Group operates[1]		Business travel (air, vehicle, hotel nights, UK rail); Water	
	FY2020	FY2019	**FY2020**	FY2019	**FY2020**	FY2019
International	**19**	3	**3,311**	5,271	**1,036**	1,620
UK[2]	**781**	791	**1,307**	1,448	**1,931**	2,078
North America	**147**	259	**1,745**	2,473	**2,075**	3,036
Northern Europe	**–**	–	**146**	239	**118**	144
Southern Europe	**78**	51	**663**	1,093	**1,931**	1,608
Unclassified[3]	**541**	701	**–**	–	**154**	175
Grand total	**1,566**	1,805	**7,172**	10,524	**7,245**	8,661

Notes:

1. Represents location-based greenhouse gas emissions from electricity consumption.
2. To further enhance our greenhouse gas emissions reporting in line with regulatory disclosure requirements, in 2020 the inventory data for the UK has been reported as a separate line item. In the previous reporting period, the region's inventory data was aggregated within the performance of Sage's Northern Europe region.
3. Data provided could not be classified by region.

Sum of CO_2 (tonnes)



- Scope 1 emissions are direct emissions from sources that Group owns or controls.
- Scope 2 emissions are indirect emissions associated with our consumption of purchased electricity, heat, steam and cooling.
- Scope 3 emissions occur at sources which we do not own or control and are consequences of our activities.

Carbon emissions

Scope of our carbon reporting

Emissions data from all our global Group operations within scope has been reported, including operations in Australia, Austria, Belgium, Botswana, Brazil, Canada, France, Germany, India, Ireland, Kenya, Malaysia, Morocco, Namibia, Nigeria, Poland, Portugal, Romania, Singapore, South Africa, Spain, Switzerland, the UAE, the UK and the US. A breakdown below has been provided for where data has not been reported either because this was not available or is not applicable to the specific country. Where feasible we continue to work with our suppliers in these locations to capture this information in future reporting years.

Within the mandatory Scope 1 and 2 disclosure, all material emissions are understood to be included in our disclosure, with the exclusion of serviced offices, as well as minor immaterial electricity and refrigerant gas exclusions at a small number of locations.

We continually review data management processes across our global operations to better capture voluntary Scope 3 data such as water, waste, and travel information.

Inventory item	Excluded from reporting
Electricity	United States (Reston, Chicago and San Francisco), France (Olonnes), UAE (Dubai), Israel (Tel Aviv), Germany (Karlsruhe), Belgium (Liege), Spain (Molorussa), Brazil (Americana, Recife and Rio de Janeiro), Nigeria (Lagos), UK (Reading).
Refrigerant gas	Australia, Austria, Belgium, Brazil, Canada, France, Germany, Ireland, Israel, Kenya, Malaysia, Morocco, Nigeria, Poland, Portugal, Romania, Singapore, South Africa, Spain, Switzerland, UAE, United States
Water	Australia, Nigeria, Poland, UAE, Romania, Israel, Germany, Kenya, Switzerland, Malaysia, Austria
Waste	France, Australia, United States, Nigeria, Canada, Poland, Portugal, Singapore, UAE, Romania, Belgium, Israel, Germany, Kenya, Switzerland, Malaysia, Brazil, Austria, Morocco
Hotel nights	Nigeria, South Africa, UAE, Romania, Israel, India, Kenya, Brazil, Austria, Morocco
Air travel	Nigeria, South Africa, UAE, Romania, Israel, Kenya, Brazil, Austria, Morocco
Vehicle travel	Ireland, Nigeria, Poland, Romania, Israel, India, Brazil, Austria, Morocco

Intensity ratio

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

Improving our emissions impact

We continued to make progress to responsibly manage our carbon footprint by focusing on our efficient use of energy and adoption of technology solutions across our business. This year, we made progress to manage the energy use across the buildings in the UK and globally that the Group operates.

	Energy consumed			
Region	kWh of energy from the combustion of gas and oil used in all buildings where the Group operates		kWh of energy from the use of electricity in all buildings from which the Group operates	
	FY2020	FY2019	**FY2020**	FY2019
International	**44,699**	9,048	**4,830,781**	8,180,629
UK[1]	**3,801,259**	4,232,588	**5,605,187**	5,664,819
North America	**800,335**	1,252,785	**4,425,617**	5,307,859
Northern Europe	**–**	–	**385,385**	568,960
Southern Europe	**422,441**	279,490	**2,906,611**	7,077,564
Unclassified[2]	**2,176,340**	2,673,474	**–**	–
Grand total	**7,245,074**	8,447,385	**18,153,581**	26,799,831

Notes:

1. To further enhance our greenhouse gas emissions reporting in line with regulatory disclosure requirements, in 2020 the inventory data for the UK has been reported as a separate line item. In the previous reporting period, the region's inventory data was aggregated within the performance of Sage's Northern Europe region.
2. Data provided could not be classified by region.

Across Sage's global footprint, the Group continued to responsibly manage the carbon emissions of the buildings that we operate. Examples of initiatives implemented in this reporting year include:

- Investing in new technology with lower energy consumption including laptops and workstations
- Adjustments to building heating / cooling and lighting controls
- Introduction of behavioural-based measures for office equipment use, and consistent adoption of energy saving modes across our office-based equipment
- Ongoing installation of LED lighting across the Group
- Energy efficiency integrated into our office redevelopment plans

In addition to the energy efficiency measures we implemented in 2020, examples of initiatives we have progressed in this reporting year to manage our emissions impact include:

- All waste is diverted from landfill at North Park, Manchester and Dublin
- Reduced business travel and encouraging sustainable travel practices across our operations

Financial review

Jonathan Howell
Chief Financial Officer

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

Organic financial results

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

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

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

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

Portfolio view of revenue

	Recurring			Total		
	FY20	FY19	Growth	**FY20**	FY19	Growth
Revenue by Portfolio[1]	**£m**	£m	%	**£m**	£m	%
Cloud native[2]	**£222m**	£172m	+29%	**£234m**	£184m	+27%
Cloud connected[3]	**£636m**	£480m	+33%	**£650m**	£497m	+31%
Sage Business Cloud	**£858m**	£652m	+32%	**£884m**	£681m	+30%
Products with potential to migrate	**£557m**	£634m	-12%	**£666m**	£792m	-16%
Future Sage Business Cloud Opportunity[4]	**£1,415m**	£1,286m	+10%	**£1,550m**	£1,473m	+5%
Non-Sage Business Cloud[5]	**£177m**	£182m	-2%	**£218m**	£232m	-6%
Organic Total Revenue	**£1,592m**	£1,468m	+8%	**£1,768m**	£1,705m	+4%
Sage Business Cloud Penetration	**61%**	51%				

Notes:

1. 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.
2. 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.
3. 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.
4. Revenue from customers using products that are part of, or that management believe have a clear pathway to, Sage Business Cloud.
5. Revenue from customers using products for which management does not currently envisage a path to Sage Business Cloud, either because the product addresses a segment outside Sage's core focus, or due to the complexity and expense involved in a migration.

Within the portfolio view of revenue, the Future Sage Business Cloud Opportunity represents products in, or with a clear pathway to, Sage Business Cloud. Management's primary operational focus is to attract new customers and continue to migrate desktop customers to Sage Business Cloud, and, by delivering increased value to these customers, grow their lifetime value. The Future Sage Business Cloud Opportunity continues to perform well, with recurring revenue growth of 10% and total revenue growth of 5%. Cloud native solutions have delivered recurring revenue growth of 29%, with Sage Intacct delivering recurring revenue growth of 26%.

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

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

Statutory and underlying financial results

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

Note:

1. Revenue and profit measures are defined in the Glossary on pages 241 to 243.

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

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

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

Underlying and organic reconciliations to statutory

	FY20			FY19		
	Revenue	**Operating Profit**	**Operating Margin %**	Revenue	Operating Profit	Operating Margin %
Statutory	**£1,903m**	**£404m**	**21.3%**	£1,936m	£382m	19.7%
Recurring items[1]	**–**	**£53m**	**–**	–	£52m	–
Non-recurring items:						
• *Net gain on disposal of subsidiaries*	**–**	**(£141m)**	**–**	–	(£28m)	–
• *Impairment of assets held for sale*	**–**	**–**	**–**	–	£14m	–
• *Asia goodwill impairment*	**–**	**£19m**	**–**	–	–	–
• *Property restructuring costs*	**–**	**£21m**	**–**	–	£16m	–
• *Professional Services restructuring*	**–**	**£22m**	**–**	–	–	–
• *Office relocation*	**–**	**£33m**	**–**	–	£12m	–
Impact of FX[2]	**–**	**–**	**–**	(£32m)	(£7m)	–
Underlying	**£1,903m**	**£411m**	**21.6%**	£1,904m	£441m	23.2%
Disposals	**(£37m)**	**(£5m)**	**–**	(£103m)	(£16m)	–
Held for sale	**(£98m)**	**(£15m)**	**–**	(£100m)	(£18m)	–
Acquisitions	**–**	**–**	**–**	£4m	(£1m)	–
Organic	**£1,768m**	**£391m**	**22.1%**	£1,705m	£406m	23.8%

Notes:

1. Recurring and non-recurring items are detailed in the paragraph below and in note 3.6 of the financial statements.
2. Impact of retranslating FY19 results at FY20 average rates.

Revenue

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

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

Operating profit

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

Non-recurring items include a £141m net gain on disposal of subsidiaries (FY19: £28m gain), comprising a £193m gain on the disposal of Sage Pay and a £52m loss on disposal of the Brazilian business (of which £44m reflects the non-cash reclassification of foreign exchange losses from other comprehensive income to the income statement). This is offset by a £19m non-cash charge relating to goodwill impairment in respect of our Asia business, costs relating to our property restructuring programme of £21m (FY19: £16m), and non-cash accelerated depreciation related to the relocation of our North Park office in Newcastle of £33m (FY19: £12m). In addition, restructuring charges of £22m were incurred in FY20, reflecting the continued de-prioritisation of low margin professional services.

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

Organic revenue overview

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

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

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

North America

Organic Revenue by Category	FY20	FY19	% Change
Organic Total Revenue	**£692m**	£641m	+8%
Organic Recurring Revenue	**£634m**	£572m	+11%
% Subscription Penetration	**61%**	56%	+5 ppts
% Sage Business Cloud Penetration	**71%**	66%	+5 ppts

Organic Recurring Revenue	FY20	FY19	% Change
US (excluding Sage Intacct)	**£397m**	£372m	+7%
Canada	**£93m**	£86m	+8%
Sage Intacct	**£144m**	£114m	+26%

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

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

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

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

Northern Europe

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

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

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

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

Central & Southern Europe

Organic Revenue by Category	FY20	FY19	% Change
Organic Total Revenue	**£544m**	£556m	-2%
Organic Recurring Revenue	**£467m**	£448m	+4%
% Subscription Penetration	**55%**	46%	+9 ppts
% Sage Business Cloud Penetration	**40%**	27%	+13 ppts

Organic Recurring Revenue	FY20	FY19	% Change
France	**£246m**	£237m	+4%
Central Europe	**£97m**	£91m	+6%
Iberia	**£124m**	£120m	+3%

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

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

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

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

International

Organic Revenue by Category	FY20	FY19	% Change
Organic Total Revenue	**£137m**	£137m	0%
Organic Recurring Revenue	**£114m**	£103m	+11%
% Subscription Penetration	**62%**	53%	+9 ppts
% Sage Business Cloud Penetration	**14%**	11%	+3 ppts

Organic Recurring Revenue	FY20	FY19	% Change
Africa & Middle East	**£101m**	£90m	+12%
Australia & Asia	**£13m**	£13m	+3%

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

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

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

Operating profit

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

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

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

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

Net finance cost

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

Taxation

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

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

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

Earnings per share

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

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

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

Cash flow

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

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

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

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

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

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

Debt facilities

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

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

Maturities within the next 18 months comprise EUR55m (£50m) of the Group's US private placement loan notes in January 2022.

Capital allocation

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

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

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

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

	FY20	FY19 (as reported)
Net debt	**£151m**	£393m
EBITDA (last 12 months)	**£498m**	£509m
Net debt/EBITDA ratio	**0.3x**	0.8x

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

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

Sage plans to operate in a broad range of 1-2x net debt to EBITDA over the medium term, with flexibility to move outside this range as the business needs require. Accordingly, given the current environment, we are comfortable with our current net debt to EBITDA ratio of 0.3x.

Going concern

The Directors have robustly tested the going concern assumption in preparing the financial statements, taking into account the Group's strong liquidity position at 30 September 2020 and a number of downside sensitivities, and remain satisfied that the going concern basis of preparation is appropriate. Further information is provided in the Directors' Report on page 149 and in note 1 of the financial statements on page 172.

Foreign exchange

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

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

Average exchange rates (equal to GBP)	**FY20**	FY19	Change
Euro (€)	**1.14**	1.13	1%
US Dollar ($)	**1.28**	1.28	–
South African Rand (ZAR)	**20.67**	18.30	13%
Australian Dollar (A$)	**1.88**	1.81	4%
Brazilian Real (R$)	**6.15**	4.93	25%

Risk-informed decision making

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

Our risk management framework enables a consistent approach to the identification, management and oversight of risks. This consistency is valuable as it allows us to take a holistic approach to risk management and to make meaningful comparisons of the risks we face and how we manage them across our footprint, which is essential to achieve our strategic objectives.

How we identify risk

Using our Enterprise Risk Management Framework, all Group and local entities and functions identify the risks that could affect their strategy and operations in order to implement risk mitigation plans.

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

- principal risks that may impact our ability to achieve our strategic objectives, with these risks representing the risks that most threaten delivery of our strategy; and
- strategic, commercial, operational, compliance and change risks ("business risks") that occur at a segment, functional, country, and regional level. These risks are those that pose the greatest threat to the success of business activities across the Group and may also feed into our principal risks.

Business risks are consolidated into a Group-wide view and presented to a representative selection of our senior leaders and executives, who add their own input from a strategic, functional and emerging risk perspective. Business risks are then escalated in line with the Risk Management Policy and via our Enterprise Risk Management Framework to the Regional and Global Risk Committees. This escalation process provides organisational visibility to emerging, change, strategic, commercial, operational, and compliance risks, as well as driving action and supporting accountability for risk management.

Our risk appetite and risk tolerances

Our risk appetite reflects our ability or desire to accept a certain level of risk in order to achieve our strategy. We recognise that eliminating risk is often not feasible or desirable, so we use risk appetite statements, Group parameters and metrics to provide our leaders with the guidance they need to make decisions on the level of risk that can be taken or sought to achieve strategic objectives.

All identified risks are measured on an inherent and residual risk basis using the pre-determined risk matrix set out in our Risk Management Policy.

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

How we manage risk

Figures 1 and 2 present an overview of our process and governance structures, including the Audit and Risk Committee and Board. We develop severe but plausible scenarios for all risks. These scenarios not only provide insights into possible threats and points of failure, allowing us to react and adjust our strategy accordingly, but are also used for the purpose of assessing our viability.

Sage's Enterprise Risk Management Framework enables us to identify, evaluate, analyse, manage and mitigate those risks which threaten the successful achievement of our business strategy and objectives.

Each principal risk is assigned an executive owner who is accountable for setting the target tolerance level. The executive owner is responsible for confirming adequate controls are in place and that the necessary action plans are implemented to bring the risk profile within an acceptable tolerance. To provide adequate oversight, we report throughout the year on principal and emerging risks, and hold and conduct deep dive and in-depth reviews of all principal risks at different oversight committees and with the principal risk owners. We continue to consider risks both individually and collectively in order to fully understand our risk landscape. By analysing the correlation between risks, we can identify those that have the potential to cause, impact, or increase another risk and that these are weighted appropriately. This exercise informs our scenario analysis, particularly the combined scenario used in the Viability Statement.

Risks that are identified and captured at a segment, functional, country, and regional level are owned and managed within their respective management structures and are reviewed on an ongoing basis. Formal review of these risks takes place on a quarterly basis through the Regional Risk Committees and Corporate Risk Boards, which are described on pages 62 to 64.

Throughout 2020, Sage Risk has continued to enhance its risk management approach, through the embedding of a revised Enterprise Risk Management Framework, which expands the lenses, governance and coverage of Sage's risk approach. Through this, our first-line colleagues are given responsibility for management of their risk and the subsequent deployment of risk strategies, thus supporting risk-based decision making. Additionally, we have sought to continue the build out and embedding of our Integrated Risk and Assurance Framework alongside our Business Controls Framework to support and empower our first-line colleagues to own their risks and help them to drive consistent application of their controls across our business processes.

Sage Risk has dedicated resources in our Corporate Centre, Europe, North America, Africa and Asia who support colleagues in managing their risks.

The Sage Risk team also manages the organisation's corporate insurance programme, ensuring that global and local insurance placements are appropriate for the risk exposure and in line with the organisation's risk appetite.

Sage Risk also has a single global incident reporting portal, with all entities and functions across the Group now using a single, unified approach to reporting incidents.

As part of the Enterprise Risk Management Framework, Sage has also enhanced the business continuity programme, through the creation of a dedicated team.

FIGURE 1

OUR THREE LINES MODEL

Sage's three lines approach ensures accountability and transparency by setting out the roles and responsibilities of all colleagues when it comes to the management of risk.

The model and its effective operation support a strong control environment with best in class Governance, Risk and Control procedures embedded across Sage.

Culture

The Board recognises that culture underpins the effectiveness of Sage's risk management, and the operation of an effective control environment. Sage's Values and Behaviours set out how our strategy should be executed. Our Code of Conduct supports and reinforces these Values and Behaviours, and sets clear expectations across Sage for compliance with ethical standards. Behaviour forms a significant part of our colleague performance management process, and in FY20, culture continued to be managed as a principal risk.

Our three lines governance model defines clear roles and responsibilities for all colleagues, and establishes accountability for actions and decisions. It also describes how appropriate oversight, challenge and assurance are provided over business activities, including the ethical conduct of our operations. With the development of the integrated assurance framework, leaders will be able to build in relevant and specific Values and Behaviours measures into their own assurance self-assessments.

During 2020 we continued the roll out of our transformed compliance training programme, applying scientific theories and principles into learning design. We provide colleagues with enjoyable learning experiences that support understanding of the subject matter and meet defined business outcomes. Through demonstrating clear alignment between learning content and Sage Values and Behaviours, we are able to support accountability and empower values-aligned, risk-based decision making in the business. In support of Sage's commitment to innovation, 2020 saw the launch of an updated Risk and Incident Management learning module which, as part of a wider risk culture change programme, supports colleagues in identifying, managing and reporting risks and opportunities effectively.

The continued embedding of our Business Control Framework combined with a rationalised, refreshed suite of principles-based policies provides colleagues with comprehensive support and guidance on expected ways of working.

Risk governance

Board

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

Audit and Risk Committee

The Audit and Risk Committee supports the Board in setting the Group's risk appetite and ensuring that processes are in place to identify, manage and mitigate the Group's principal risks. At each meeting, the Committee reviews the principal risks and their associated appetite targets and metrics, to assess whether they continue to be relevant, effective and aligned to the achievement of Sage's strategic objectives, and within an acceptable tolerance for the Group. The Committee also monitors the effectiveness of the control environment through the review of Internal Audit reports and other assurance activity from Sage Assurance and consideration of relevant reporting from management, Sage Risk, Sage Business Integrity and the external auditor. Further information on the Committee's activity in 2020 is set out in the Audit and Risk Committee Report on pages 113 to 119.

Executive Committee

The Executive Committee is responsible for the stewardship of the risk management approach. It develops the strategy and oversees the delivery of the related operational plans that help to manage the associated risks. Each principal risk is also owned by a member of the Executive Committee.

Global Risk Committee

The Global Risk Committee is chaired by the Chief Executive Officer, supported by the VP Risk, Business Integrity and Assurance, and has responsibility for providing direction and support to the management of risk across Sage. It meets quarterly and seeks to:

- Establish clear governance and accountability for risk, and any associated (remediation) activities;
- Provide direction to functions, regions and countries, including the creation and deployment of common methodologies and practices;
- Provide a point of escalation for critical or emerging risks;
- Drive the consideration of risk in decision making;
- Drive the inclusion of risk management into performance management;
- Oversee cultural change;
- Review and approve defined policies; and
- Provide the Board and Audit and Risk Committee with sufficient effective information to enable them to discharge their risk reporting requirements.

The Global Risk Committee's membership includes all principal risk owners and rotational representation from across the business. The Chairman of the Audit and Risk Committee may attend any meeting as desired.

Appropriate regional or emerging risks are escalated from the Regional Risk Committees and Corporate Risk Boards to the Global Risk Committee where necessary.

Regional Risk Committees

Seven Regional Risk Committees were operational throughout FY20 in Africa-Middle East, Asia-Australia, North America, Northern Europe, Central Europe, Southern Europe and Iberia. Each Committee met four times during FY20. During 2020, these Committees received updated risk management packs, which outlined the key material risks against regional strategy, and risks of most severity in relation to strategy, commercial, operational, compliance and change risk across their respective regions.

Corporate Risk Boards

Four Corporate Risk Boards were established during FY20, being the Global Commercial Product Office Risk Board, Global Security Committee, Global Data Privacy Forum and Global IT Risk Board.

The Global Commercial Product Office Risk Board

The Global Commercial Product Office Risk Board provides risk oversight, support and direction to all aspects of the product lifecycle and delivery of the product strategy across the Group. This includes supporting and advising management on risk exposure on and in relation to the principal risks, understanding customer needs, execution of product strategy, third party reliance, route to market, and live services management. The board advises on and oversees the appropriate strategic, operational, technical and organisational measures that are in place to address the risk across the product organisation with support from Sage Risk. Through this, the Global Risk Committee and Executive Committee are advised on the product lifecycle exposure of the Group. The risk board meets on a monthly basis.

Global Security Committee

The Global Security Committee provides oversight and direction to all aspects of cyber and information security across the Group. This includes advising management on the current cyber and information risk exposure of the Group and ensuring that the appropriate technical and organisational measures are in place. The committee supports in the management of the Cyber Security and Data Privacy risk, through advising the Global Risk Committee and Executive Committee on the current cyber and information risk exposure of the Group. The committee meets at least four times a year.

FIGURE 2

Risk governance

Global Data Privacy Forum

The Global Data Privacy Forum provides oversight and direction to all aspects of data privacy risk across the Group. This includes advising management on the current data privacy risk exposure of the Group and ensuring that the appropriate technical and organisational measures are in place. The forum supports in the management of the Cyber Security and Data Privacy risk, through advising the Global Risk Committee and Executive Committee on the current data privacy risk exposure of the Group. The forum meets at least four times a year.

Global IT Risk Board

The Global IT Risk Board provides risk oversight and direction to all aspects of risk exposure across IT and Live Services management across the Group. This includes advising management on the current IT and Live Services risk exposure of the Group and ensuring that the appropriate technical and organisational measures are in place. The risk board supports in the management of the Live Services Management principal risk, through advising the Global Risk Committee, Executive Committee, and Global Commercial Product Office Risk Board on the current Live Services management risk exposure of the Group. The risk board meets on a monthly basis.

Vice President ("VP") Risk, Business Integrity and Assurance

The VP Risk, Business Integrity and Assurance is responsible for the second and third line functions, namely Sage Risk, Sage Business Integrity and Sage Assurance. The VP Risk, Business Integrity and Assurance is responsible for the facilitation and implementation of the risk management approach across Sage, including the consolidation of risk reports from the Regional Risk Committees and Risk Boards, and the provision of appropriate risk reporting from Sage Risk for the Global Risk Committee, the Audit and Risk Committee, and the Executive Committee. The VP Risk, Business Integrity and Assurance attends the quarterly Audit and Risk Committee meetings and regularly meets with the Chairman of the Audit and Risk Committee outside these meetings.

The VP Risk, Business Integrity and Assurance is also responsible for the Sage Insurance programme.

Sage Risk

Sage Risk supports the effective operation of the Sage Risk Enterprise Risk Management Framework and Governance Structure, including the management of the principal risks and providing guidance, support and challenge to the business and functions to effectively manage risk. This includes supporting the Global Risk Committee, the Regional Risk Committees, Global Commercial Product Office Risk Board, Global IT Risk Board, Global Security Committee and Global Data Privacy Forum in fulfilling their responsibilities. Sage Risk also works closely with Sage Business Integrity as a second line partner to improve controls and behaviours across the business, and allow Sage to operate and grow within its risk appetite.

Sage Business Integrity

Sage Business Integrity continues to transform the way colleagues think and work so that Sage can thrive through guiding, supporting and challenging the first line to 'do the right thing', through effective education, frameworks and technology enablers fit for a thriving SaaS company. The team, led by the Business Integrity Director, drive compliance with the Sage Governance Framework, the embedding of Sage Values and Behaviours, the development and embedding of sustainable processes and controls through the rollout and monitoring of the Sage Business Control Framework and also educate appropriate colleagues in the development and delivery of 'risk appropriate' monitoring and oversight to enhance the existing Sage due diligence framework.

Sage Assurance

Sage Assurance is led by the VP Risk, Business Integrity and Assurance, and its purpose and activities are set out in the Internal Audit section of the Audit and Risk Committee Report on page 118.

Risk management and internal controls

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

In accordance with principles M, N and O of the UK Corporate Governance Code 2018 (the "Code"), in addition to Paragraph 58 of the FRC guidance (Section 6), the Board is responsible for reviewing the effectiveness of the risk management and internal control systems and confirms that:

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

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

You can read more about our risk management and internal controls systems in our Strategic Report on pages 2 to 77 and the associated work of the Audit and Risk Committee on pages 113 to 119.

Leveraging our risk profile

In FY20 we continued to accelerate into the cloud, maintaining our focus on our three strategic lenses of Customer Success, Colleague Success and Innovation.

Our principal risks have evolved as we have leveraged our risks and opportunities in support of our strategic goals. Our "always-on, on-demand" risk reporting provides real-time risk information to leaders across the organisation, enhancing leaders' ability to make risk-informed decisions in a timely manner. We also continued to further enhance our enterprise risk management approach, increasing organisational engagement, deepening our understanding of our activities and the way we execute them. This provides a granular understanding of our risks, and allows for proactive risk management, together with enhanced risk-informed decision making, driven through appetite for risk taking.

We continue to utilise the Sage Governance, Risk and Compliance tool to drive action on risks and opportunities across the business, supporting the organisation to continue to grow the right way. We supported risk owners across Sage to leverage, utilise and manage their risks through considered risk taking and appetite. We also worked to enhance our three lines model through the deployment and embedding of an approach to integrated risk and assurance, which will continue to be developed across FY21.

Covid-19

Since January 2020, the Covid-19 pandemic has brought and will continue to bring significant change to the global economic, social, political and business landscape. In response, we have continually reviewed the actual, emerging and potential impacts of the pandemic on our principal risks to identify any new risks or changes to existing risks and opportunities that may have arisen, with a specific lens on what could change the risk profile materially. Whilst the pandemic has not created any additional principal risks, we have amended, as appropriate, some of our mitigating actions, as set out in the principal risks section below.

As the pandemic became increasingly known we initiated our response to this crisis, drawing on existing business continuity plans. The objective at this stage was to prioritise the health, safety and wellbeing of our colleagues and the immediate needs of our customers in the light of government guidance and legislation. During the early stages of the crisis we ensured our critical infrastructure, resources and activities were organised to provide continuity of our operations and to enable us to implement our response approach to Covid-19.

We stood up our Covid-19 Task force which led the response to Sage's recovery approach. The focus was to ensure that our colleagues, customers and partners were being appropriately supported through the available resources and expertise that Sage had at hand. We have also continued our acceleration towards our transition to a fully optimised cloud SaaS company.

Brexit

The status of the UK's withdrawal and proposed trade deals and arrangements with the European Union following the transition window remains unclear. We recognise that Brexit may have an adverse impact on the broader UK economy, which in turn may impact a portion of Sage's UK customer base. However, it is also recognised that due to the manner in which Sage operates, and the industry in which Sage operates, there are also implications in how Sage can and will utilise data to innovate, so that it can continue to grow its product proposition as this is primarily conducted out of the UK and US.

As we reported in FY20, the Group has adopted an approach that we believe will allow us to manage the risks that Brexit may bring, including:

- focusing on changes which may be required to our products;
- the impact for our colleagues both in the UK and Europe; and
- other legal, financial or tax implications which could arise from a Brexit where there are no trade deals agreed.

The Group does not currently foresee any adverse material impact on day-to-day operations due to the local nature of our business operations and customer needs. Additionally, we have low numbers of UK and EU colleagues based outside their home countries. Where this is the case, the risk has been mitigated due to protections put in place by the UK and certain EU governments to enable such citizens to continue to reside and work outside their home countries. In relation to the use of personal data, there remains uncertainty as to whether the UK will receive a data protection regime adequacy decision from the European Commission prior to the end of the Brexit transition period. Whether the UK ultimately obtains such an adequacy decision as a third country depends to a significant extent on the result of political negotiations with the EU. In the absence of an adequacy decision, we must ensure alternative legal safeguards are in place with respect to the transfer to, and processing by, the UK business of personal data relating to individuals located in the EU. We have been preparing, and continue to prepare, on this basis, to facilitate the continued free flow of personal data for permitted business usage.

Principal risks

The Board and the Audit and Risk Committee carried out a robust and ongoing assessment of the principal and emerging risks facing the Group throughout the year. This assessment considered those risks that would threaten Sage's business model, future performance, solvency or liquidity, and ensured that the risks continued to align with our business strategy. In reviewing the principal risks we evolved our Product Strategy principal risk to focus upon Execution of our Product Strategy, incorporated our Sustainable Processes and Controls principal risk within individual principal risks to reflect the progress made in FY19 and subdivided our Information as an Asset principal risk into Data Strategy and Cyber Security and Data Privacy to reflect our focus in these specific areas. In addition, we added a new principal risk titled Live Services Management to acknowledge the increasing importance of the live services environment in underpinning our SaaS strategy. We continued to simplify our risk reporting and align our risk metrics and appetite statements with our strategic goals. We also increased our visibility and reporting of emerging risks, through incorporation into our principal risk assessment and monitoring programme and through dedicated 'horizon scanning' reviews.

The Board monitors the risk environment and reviews the relevance and appropriateness of the principal risks throughout the year in consultation with the Audit and Risk Committee. These risks are proactively managed by executive risk owners, supported by Sage Risk, with progress against plan tracked on an ongoing basis. Local and regional engagement is also undertaken to support the collective actions required to manage these principal risks and to enable the identification and escalation of any local risks as appropriate.

The effective management of strategic, financial, compliance and operational risks is critical to the success of Sage's strategy. By empowering and supporting our leaders to manage risks locally within their business and functional areas, we accelerate our progress against our organisational goals.

Sage continually assesses its principal risks to ensure continued and enhanced alignment to our strategy and consideration of where Sage is currently on its journey to becoming a great SaaS company.

Principal risks are formally reported to the Global Risk Committee, alongside escalated local risks and emerging risks. We manage risk in line with our risk management policy and approach, as set out in Risk management on pages 60 to 64. In FY20 we monitored and reported against 11 principal risks. As detailed in the following table, a range of measures are in place, or are being deployed or developed, to manage and mitigate our principal risks.

Principal risk	Risk context	Management and mitigation
1 Understanding Customer Needs		Improving risk environment
If we fail to anticipate, understand and deliver against the capabilities and experiences our current and future customers need in a timely manner, they will find alternative solution providers. **Strategic alignment:** Customer Success	Sage is a leader in key global markets, and this assists us in gathering valuable insights into what our current and future customers want and need. It also helps us to better understand the strengths, weaknesses and appetite of our products and services, and better develop and position those products and services to meet the needs of our current and future customers. By understanding the specific needs of these customer groups in each country and region, we will be better positioned to efficiently manage our products, marketing efforts and support services. This in turn will allow us to maximise our return on investment and retain a loyal customer and partner base over the long term.	• Brand health surveys are used to provide us with an understanding of customer perception of the Sage brand and its products, which we use to inform and enhance our market offerings • Detailed customer segment analysis is used to develop segment-specific playbooks that support customer-focused development • A Market and Competitive Intelligence team provides insights that Sage uses to win in the market • Utilisation of customer usage data and churn data, to understand their appetite for products and features • The interlock between our Customer Success teams, marketing teams, and product teams to ensure that the right solutions and products are provided to our customers • Master repository of customer MI by region and by product which supports the identification of trends such as time in product, seasonal trends and usage • Ongoing refinement and improvement of market data through feedback from the business, partners and customers, including specific focus upon Covid-19 and the impact on SMBs • Customer Advisory Boards, Customer Design Sessions and NPS detractor call-back channels are used to constantly gather information on customer needs In progress: • By providing ISVs with access to the Sage Developer Platform, which is focused on the development of bespoke solutions, we gain additional insights into customer needs • A Centre of Excellence is being created to support our Indirect Sales and Third-Party Partner approach

Principal risk	Risk context	Management and mitigation
2 Execution of Product Strategy		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:** Customer Success Innovation	A key component of Sage's transition to a Software as a Service (SaaS) company is the delivery of cloud-native products and solutions. To achieve this, we need to execute, in a sound and methodical manner at pace, a prioritised product strategy that moves our product portfolio to cloud-native solutions. This may include a transitional period of cloud-connected products, with a clear path to the cloud-native products for our current and future customers' requirements.	• Following a product rationalisation and prioritisation exercise Sage's product strategy was updated to ensure that native cloud products are delivered in line with customer expectations • A licensing model transition strategy is in place, anchored on the Sage Business Cloud • Sage Business Cloud is available in United Kingdom and Ireland, North America, France and Spain • Recent cloud-native products (Sage Intacct and Sage People) are available in Sage Business Cloud in North America, with international delivery continuing to be rolled out • A Product Marketing team oversees competitive positioning and product development to align products with the needs of our customers • Prioritisation of core product and service delivery in key territories, including responding to the impact of Covid-19 In progress: • An assessment of the key dependencies within the segment and regional plans, to ensure that plans meet the minimal viability thresholds • The continued enhancement of the Governance, reporting and planning framework, to ensure that strategic bets and plans align, are executable, and for on-demand strategy performance reporting • A review of the Partner Model framework across small and medium segments to ensure strategic objectives are being met

Principal risk	Risk context	Management and mitigation
3 Innovation		Stable risk environment
If we fail to identify and leverage disruptive technologies and invest in modern development practices and tools in a timely manner, we will not meet the needs of our customers or our commercial goals. **Strategic alignment:** Customer Success Innovation	As Sage transitions into a SaaS company powered by a subscription licence model, we must be able to rapidly deploy new innovations to our customers and partners. This innovation could relate to new technologies, services, or new ways of working. Innovation requires us to address how we encourage innovation across our people, processes and technology, and how we make this innovation sustainable. By building innovation into our collective DNA, we can empower our colleagues to improve the customer experience, and drive efficiencies in how we deliver our products and services. By strategically investing in platforms and relationships, we can also harness the innovation of our partners. By providing opportunities for our partners to interact with our products we can drive scalable growth and improve the customer experience.	• Creation and growth of Sage AI Labs team to focus and drive AI/ML development including to enhance the capability of our products, starting with Sage Intacct • Focused colleague engagement to accelerate innovation across the organisation through a Continuous Innovation Community • Enhanced, consistent digital experience for all Sage Business Cloud users through the Sage Design System • Acquisition of AutoEntry provides automation of data entry through AI and Optical Character Recognition Technology for our accounting products • Objectives integrated into the planning of each segment and region to drive AI Transformation, Sage Business Cloud adoption and innovation of product features based on identified needs of customers • Integration of the Pegg chatbot with Sage Accounting, to enhance the product experience using artificial intelligence In progress: • Simple, smart and open technology strategy to provide API and microservices through a Sage Developer Platform • Strategic acquisition and collaboration with partners to complement and enable accelerated innovation • Platform Services delivered to Sage Business Cloud to enhance value proposition for cloud adoption • Leveraging Sage ID and the Sage Business Cloud network to deliver a unified and highly personalised experience for each customer across the entirety of Sage Business Cloud • Development of an incubation framework to guide how Sage interacts with its innovation partners • Enhancement of the Pegg AI capability, and increased use of machine learning to support new areas and operations • Continuing development of Sage's Service Fabric to support the development of cloud solutions

Principal risk	Risk context	Management and mitigation
4 Route to Market		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:** Customer Success	By offering our current and potential customers the right information on the right products and services at the right time, we can maximise the value we can obtain from our marketing and customer engagement activities. This can shorten our sales cycle and ensure that customer retention is improved. It can also use new products and services, such as payments and banking technologies, to draw new customers into the Sage family.	• Market data and intelligence is disseminated internally to support decision makers in the best routes to market • Dedicated colleagues are in place to support partners, and to help manage the growth of targeted channels • The Sage Partner Programme has been moved into the marketing organisation to drive increased alignment of the indirect channel to market • New routes to market are being opened through our partnerships with payment and banking technology providers In progress: • Internationalisation of existing cloud-native products (Sage Intacct, Sage People) through a partner-driven sales model • A Centre of Excellence is being created to support our Indirect Sales and Third-Party Partner approach
5 Customer Success		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:** Customer Success Colleague Success	In becoming a true SaaS company, 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. While Sage is renowned for its quality customer support, a focus on customer success requires more proactive engagement as well. By proactively helping customers to recognise and fully realise the value of Sage's products we can help increase the value of these relationships over time and reduce the likelihood of customer loss. By aligning our people, processes and technology with this focus in mind, all Sage colleagues can help support our customers to be successful and in turn drive increased financial performance.	• A Product Delivery team develops and delivers those products needed by our customers to support their success • Battlecards are in place for key products in all countries, setting out the strengths and weaknesses of competitors and their products • Defined 'customer for life' roadmaps are in place, detailing how products fit together, any interdependencies, and migration pathways for current and potential customers • A data-driven Customer Success Framework was designed and piloted in UKI and is being rolled out in phases to other major markets to enhance the customer experience and ensure that Sage is better positioned to meet the current and future needs of the customer • Continuous Net Promoter Score (NPS) surveying allows Sage to identify customer challenges rapidly, and respond in a timely manner to emerging trends • The Customer Success Framework is being rolled out in phases to other major markets to improve the customer experience • Customer Journey mapping and mapping of the five core customer processes to ensure appropriate strategy alignment and alignment to Target Operating Model • All customer success initiatives reassessed from a Covid-19 perspective In progress: • Consolidation of CRM systems continues to provide an efficient single view of the customer across all markets • Delivery of the Customer Core Programme

Principal risk	Risk context	Management and mitigation
6 Third Party Reliance		Improving 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:** Customer Success	Sage places reliance on third-party providers to support the delivery of our products to our customers. Any interruption in these services or relationships could have a profound impact on Sage's reputation in the market and could result in significant financial liabilities and losses. Sage has an extensive network of sales partners critical to our success in the market, and suppliers upon whom it places reliance. Carefully selecting, managing and supporting these partners and suppliers is critical to how we grow our business, as well as ensuring that we only engage with those people and organisations that share Sage's values and aspirations.	• Dedicated colleagues are in place to support partners, and to help manage the growth of targeted channels • Standardised implementation plans for Sage products that facilitate efficient partner implementation • A specialised Procurement function supports the business with the selection of strategic third-party suppliers and negotiation of contracts • Clear roles and responsibilities for colleagues are outlined in the Procurement Lifecycle Policy and Procedures, which includes delegated levels of authority for investment approval • The Sage Partner Programme has been moved into the marketing organisation to drive increased alignment of the indirect channel to market In progress: • Rationalisation of targeted channels is continuing to focus on value-add activities • Managed growth of the API estate, including enhanced product development that enables access by third-party API developers • Enhancement of our third-party management framework, to support closer alignment and oversight of third-party activities • A Centre of Excellence is being created for our Indirect Sales and Third-Party Partner approach

Principal risk	Risk context	Management and mitigation
7 People and Performance		Improving 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:** Customer Success Colleague Success	As Sage transitions into a SaaS company, the capacity, knowledge and leadership skills we need will 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 SaaS companies, Sage can increase colleague engagement and create an aligned high performing team.	• Continued embedding of our operating model to ensure decision making is made as close to the customer as possible with the appropriate governance and strategic direction in place • Extensive focus on our hiring channels ensuring we are attractive in the market through our enhanced employee value proposition, enhanced presence through social media such as Glassdoor, Comparably, Twitter, LinkedIn, and Facebook • Identifying new hiring channels, for example our pathways programme which enables talented returners who are struggling to find a route back into work • Focusing on entry level hiring through apprentice and graduate programmes • Ensuring our reward mechanisms incentivise and drive the right behaviour with a focus on ensuring fair and equitable pay in all markets • Using a range of mechanisms – including digital platforms – to recognise great performance and outstanding achievements • Focusing on the development of our leaders to ensure they create the environment which enables colleagues to thrive and perform at their very best • Through our Sage Belong programme ensuring we are supporting all colleagues to be successful at Sage regardless of age, gender, sexual orientation, ethnic origin or social background • Encouraging collaboration across the organisation through internal media channels, hackathon, collaboration jams and Sage Foundation. • Placing colleagues (and customers) at the heart of our response to the Covid-19 pandemic, including the availability of 'Headspace', our 'Always Listening' portal and 'Your Voice' Hub In progress: • Sage-wide reward and capability review ensuring we have in place the SaaS skills and reward mechanisms we need • Design for emerging talent programme (including VP development programmes)

Principal risk	Risk context	Management and mitigation
8 Culture		Improving risk environment
If we do not fully empower our colleagues and enable them to take accountability in line with our shared Values and Behaviours, we will be challenged to create a SaaS culture, that meets Sage's business ambitions. **Strategic alignment:** Customer Success Colleague Success	The development of a shared behavioural competency that encourages colleagues to always do the right thing, put customers at the heart of business and drive innovation will be critical in Sage's successful transition to a SaaS company. Devolution of decision making, and the acceptance of accountability for these decisions, will need to go hand in hand as the organisation develops and sustains its shared Values and Behaviours, and develops a true SaaS culture. Sage will also need to create a culture of empowered leaders that supports the development of ideas, and that provides colleagues with a safe environment that allows for honest disclosures and discussions. Such a trusting and empowered environment can help sustain innovation, enhance customer success and drive the engagement that results in increased market share.	• Integration of Values and Behaviours into all of our core colleague priorities including, performance management, talent attraction, selection and development, leadership development and onboarding • Code of Conduct communicated to all colleagues, and subject to annual certification • Alignment of personal objectives across Sage, with direct cascade from the CEO • Formal assessment against personal objectives for each colleague as part of established performance management process, which also considers personal application of Sage's Values and Behaviours • Core eLearning modules rolled out across Sage, with annual refresher training • Whistleblowing and Incident Reporting mechanisms in place to allow issues to be formally reported and investigated • All colleagues are actively encouraged to take up to five paid Sage Foundation days each year, to support charities and provide philanthropic support to the community. Support for Sage Foundation included in bonus goals for our most senior leaders • Placing colleagues (and customers) at the heart of our response to the Covid-19 pandemic, including the availability of 'Headspace', our 'Always Listening' portal and 'Your Voice' Hub • Sage Compliance has been transformed into Sage Business Integrity, with a mandate to guide, support and challenge the business to own and enhance its Values and Behaviours • In-person anti-bribery and corruption training has been delivered to multiple regions, with the remaining regions to be completed based on assessed risk In progress: • Creation of a culture framework and specific metrics to drive Sage's Values and Behaviours into the core of the business • Sales Capability Framework has been built with Values and Behaviours embedded to act as a pilot for our global Capability Framework approach

Principal risk	Risk context	Management and mitigation
9 Cyber Security and Data Privacy		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:** Customer Success Innovation	Information is the life blood of a SaaS 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.	• Accountability is established within both IT and Product for all internal and external data being processed by Sage. The Chief Information Security Officer oversees information security, with a network of Information Security Officers that directly support the business • The Chief Data Protection Officer supported by a Data Governance forum oversees information protection and development for Sage • A network of country-level data champions supports the business in embedding Sage practices across the organisation, with a particular focus on the requirements of the GDPR • Formal certification schemes are maintained, across appropriate parts of the business, and include internal and external validation of compliance • An incident management framework is in place, which includes rating of incidents and requirements for notification and escalation, and online incident reporting to Sage Risk • All colleagues are required to undertake awareness training for information management and data protection, with a focus on the GDPR requirements. Colleagues who frequently handle personal data also undertake role-based training • The Information Security Risk Management Methodology continues to be deployed to provide objective risk information on our assets and systems • Ongoing assessment of the impact of working from home, and any potential additional risks and required enhancement in controls In progress: • Data governance forum is leading a review of how Sage can provide maximum value to its current and future customers, including through the use of enhanced AI/ML capabilities • A dedicated insider threat workstream to continually develop and assess insider risk in Sage and update response plans

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

The principal risks are assessed as presenting the greatest threat to the successful delivery of Sage's strategy. For this reason, they are used as the basis for challenging and establishing our financial viability.

Viability statement

Assessment of prospects and viability period

In accordance with provision Section 4.31 of the 2018 UK Corporate Governance Code, the Directors set out how they have assessed the Group's prospects, the period covered by the assessment and the Group's formal viability statement.

The Directors have assessed the prospects of the Group by considering the Group's current financial position, its recent and historic financial performance and forecasts, its business model and strategy (pages 12 to 13 and 22 to 27) and the principal risks and uncertainties (pages 65 to 75). In addition, the impact of the Covid-19 pandemic has been considered in determining the impact of the severe but plausible scenarios.

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

- High quality recurring and subscription based revenue;
- Resilient cash generation and strong liquidity position as demonstrated by cash generation in excess of £350m for the past three years; and
- A well diversified small and medium customer base.

The Directors have reviewed the period used for the assessment and determined that three years remained suitable despite the ongoing economic uncertainty associated with the Covid-19 pandemic. Whilst the severity and duration of the impact of Covid-19 on the economy remains uncertain, the Directors are of the view that projections over a three-year period remain appropriate given the relative predictability of cash flows associated with Sage's subscription business.

This period aligns our viability statement with our three-year strategic planning horizon and is appropriate given the nature and investment cycle of a technology business. Projections beyond this period are less reliable, particularly at this point in Sage's SaaS transition as we focus on acceleration of growth in cloud-based solutions and rationalisation of the legacy product portfolio.

The Directors have no reason to believe the Company will not be viable over a longer period. However, given the nature of the Group's investment cycle and ongoing transition, the Directors consider a three-year period to be appropriate in forming a reasonable expectation on the Group's longer-term viability.

The assessment process

In forming the viability statement, the Directors carried out a robust assessment of the principal risks and uncertainties facing the Group which could impact the business. These are reviewed by the Board and the Audit and Risk Committee quarterly and are a foundation for the Group's strategic plan. The potential impact of Brexit has been considered and it is not deemed to have a significant impact on this assessment due to the geographically diverse nature of Sage's business.

Whilst the impact of Covid-19 on the Group's FY20 financial performance has been limited, the Group is subject to increased uncertainty in the near term, particularly from the potential impact on our customers of extended lockdowns and winding down of government support mechanisms. However, the business's long-term strategy for value creation in its core markets remains unchanged. The pandemic has accelerated digital transformation among small and medium businesses, creating a greater focus on the need for cloud-based solutions which in turn provides an opportunity for us to support customers by accelerating our strategy in this area.

The financial forecasts contained in the plan make certain assumptions about the composition of Sage's product portfolio, the uptake of subscription services across our core markets and the acceptable performance of the core revenue streams and market segments. They assume that debt instalments are paid as they fall due.

As part of the assessment the Group stress tests the plan using various severe but plausible scenarios. To achieve this, management reviewed the principal risks and considered which might threaten the Group's viability. It was determined that none of the individual risks would in isolation compromise the Group's viability, and so several different severe scenarios were considered where principal risks arose in combination. The scenarios were developed with input from the Group's Global Risk Committee which comprises representation from critical areas across the business.

Additional scenarios have been modelled in the year to reflect the changing risk landscape of the business. Specifically, a Live Services Environment risk has been included due to the increasing importance of hosting capacity as we accelerate the transition towards Cloud Native in both the small and medium segments. Furthermore, a Global Economic Shock scenario has been modelled, reflecting the specific risk associated with a black swan recessionary event.

The Group's forecasts and projections have been stress tested to reflect a range of possible adverse effects of this scenario. Under these additional stress scenarios, churn assumptions have been increased by around 100% and a complete collapse in new customer acquisition is considered. In these more extreme scenarios, the Directors have considered the further actions that could be taken to mitigate negative cash flow impact and ensure additional liquidity is available. In both cases, the risks are mitigated in full through cost management measures without triggering the need to renegotiate debt.

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

Scenario modelled	Principal risks included in the scenario
1. Malicious data breach impacting data subjects across Sage Group The deliberate targeting of data relating to data subjects by malicious or criminal actors would have a significant impact on Sage's reputation in the market, as well as impact its regulatory compliance in the various data protection laws to which Sage is subject. This scenario considers the impacts on both customer data and Sage colleague data.	• Understanding Customer Needs • Customer Success • Innovation • Route to Market • People and Performance • Culture • Cyber Security and Data Privacy • Data Strategy • Live Services Management
2. Accidental data breach in a major market An accidental release of customer or colleague data within a major market within a short period of time could have a significant impact on Sage's reputation in the market, as well as impact Sage's regulatory compliance.	• Understanding Customer Needs • Customer Success • Innovation • Route to Market • People and Performance • Culture • Cyber Security and Data Privacy • Data Strategy • Live Services Management
3. Existing or new market disruptor The entry of a new player, merger/ acquisition, or the expansion of an existing market player in the financial and accounting management space with a free or very low cost offering that significantly disrupts up to 15% of Sage's total market share.	• Understanding Customer Needs • Execution of Product Strategy • Innovation • Route to Market • Customer Success • Cyber Security and Data Privacy • Data Strategy
4. Global economic shock, collapsing small and mid-market customers The crystallisation of a global economic shock which leads to a global economic downturn, resulting in small to medium businesses failing to stay afloat or struggling to pay for products / services, e.g. a significant number of customers fail or are unable to pay for Sage's products and services for a number of months.	• Execution of Product Strategy • Route to Market • Customer Success • Understanding Customer Needs
5. Live services failure The risk of an event that causes the live services environment to be brought down due to the operating environment being changed internally through product or system changes, external or internal cyber-attack/ malicious attack, or a key third party provider being impacted or brought down.	• Understanding Customer Needs • Execution of Product Strategy • Innovation • Route to Market • Customer Success • Cyber Security and Data Privacy • Live Services Management

The monetary impact of each scenario was estimated by a cross-functional group of senior leaders, including representatives from Finance, Risk, IT, Product Marketing and Legal, who evaluated the possible consequences, primarily through reducing revenues and net cash inflows. These impacts were based on similar events in the public domain and internal estimates. Consideration of the impact of Covid-19 is specifically factored into Sage's three-year forecast, with a specific recessionary stress applied in scenario 4 to reflect the higher level of uncertainty which currently exists globally.

The impacts were modelled for both year one and year three of the forecast period to ensure that expected changes in the Group's product mix, through migration towards a greater proportion of cloud-based products, or repayment of financing did not adversely impact on the Group's viability.

As set out in the Audit and Risk Committee Report on pages 113 to 119, the Directors reviewed and discussed the process undertaken by management, and also reviewed the results of reverse stress testing performed to provide an illustration of the level of churn and deterioration in new customer acquisition which would be required to trigger a breach in the Group's covenants or exhaust cash down to minimum working capital requirements.

In the event that scenarios such as those tested were to occur, management would have a number of options available to maintain the Group's financial position including cost reduction measures, the arrangement of additional financing and a review of the sustainability of the dividend policy.

Confirmation of longer-term viability

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

Corporate Governance

Creating long-term sustainable success

Dear shareholder

The Board of the Company is responsible for ensuring the long-term success of the Company, generating value for shareholders and contributing to the communities in which it operates and wider society.

The Board is committed to ensuring that it provides effective leadership and promotes uncompromising ethical standards. One of the ways in which the Board achieves this is by requiring that good governance principles and practices are adhered to throughout the Group. The Board has determined that the following is a helpful summary of its role.

Good governance is about helping to run the Company well. It involves being satisfied that an effective internal framework of systems and controls is in place which clearly defines authority and accountability and promotes success whilst permitting the management of risk to appropriate levels.

It also involves the exercise of judgement as to the definitions of success for the Company, the levels of risk we are willing to take to achieve that success, and the levels of delegation to the Executive Team. The exercise of this judgement is the responsibility of the Board and involves consideration of processes and assumptions as well as outcomes. It also involves the creation of a sensitive interface for the views of shareholders and other stakeholders to be given appropriate consideration when reaching these judgements.

One way in which the Board has sought to ensure the voices of stakeholders are heard is through our Board Associate role, introduced in 2017. This role continues to be a successful way of ensuring that the Board appropriately considers the interests of colleagues in its deliberations and, in doing so, makes better decisions. The Board Associate also generates greater understanding of the role of the Board amongst colleagues. In June this year we appointed a new Board Associate, Pamela Novoa Ralli, as a successor to Albert Sampietro, to serve for a 12-month term. We have also created an Associates' Council to enhance further communication with our colleagues.

The Executive Team is required to provide the information to the Board that the Board needs to enable it to exercise its judgement. It must also evidence appropriate process. There is a very fine distinction between the approval of processes and their definition. Only exceptionally would the Board intervene to initiate or define.

The Board sets the tone for the Company. The way in which it conducts itself, its attitude to ethical matters, its definition of success, and the assessment of appropriate risk, all define the atmosphere within which the Executive Team and all colleagues work. The Board has ultimate responsibility for ensuring an appropriate culture in the Company to act as a backdrop to the way in which the Company behaves towards all stakeholders.

Good corporate governance is not about adhering to codes of practice (although adherence may constitute a part of the evidence of good governance) but rather about the exercise of a mindset to do what is right. One of the challenges facing any Board is the way in which the Non-executive and the Executive Directors interact. It is clear that they each have the same legal responsibility but it is generally unrealistic to expect Executive Directors to speak individually with the same freedom as the Non-executive Directors. Equally, Executive Directors who just "toe the executive line" in contradiction to their own views may not be effectively contributing to good governance.

A well-functioning Board needs to find the right balance between hearing the collective executive view, being aware of the natural internal tensions in an Executive Team and allowing independent input from the Non-executive Directors.

One of the consequences of both increasing the watchdog role of the Board and finding this balance between individuality and team behaviour is more boards have fewer and fewer executive directors. In our circumstances, the Board construction continues to work effectively and an appropriate balance is struck.

Notwithstanding the tensions created by many external expectations, which may be wholly or in part unrealistic, a successful Board should, ideally, be composed of a diverse group of respected, experienced and competent people who coalesce around a common purpose of promoting the long-term, sustainable success of the Company, provide a unified vision of the definitions of success and appropriate risk, endeavour to support management (i.e. those who honestly criticise at times but encourage all the time) and who create confidence in all stakeholders in the integrity of the business. I am pleased that this statement of the role of the Board has proved robust in the face of the challenges of the pandemic in 2020, illustrating enduring principles of governance.

Sir Donald Brydon
Chairman

The UK Corporate Governance Code

The principles set out in the UK Corporate Governance Code 2018 (the "Code") emphasise the value of good corporate governance for long-term sustainable success. We are pleased to report that Sage applied the principles and complied with all of the provisions of the Code throughout FY20, with the exception of Provision 38, aligning executive director pension contributions with those of the wider workforce. As explained on page 124 in the Directors' Remuneration Report, we propose to review the pension policy for our CEO as part of the next Remuneration Policy review cycle in 2021, which will be presented for shareholders' approval at the 2022 Annual General Meeting. Pension provision for any future Executive Director will be aligned with the majority of Sage's workforce, and this policy was applied on the appointment of our CFO in December 2018.

Our stakeholders are very important to us and we remain committed to maintaining regular and open communication with them. In compliance with the Code, this Annual Report describes how their interests and the matters set out in section 172(1) of the Companies Act 2006 ("Section 172(1)") have been considered in Board discussions and decision-making. The global restrictions in place due to Covid-19 have paused face to face engagement activities but we have introduced virtual methods of communication to ensure we continue to maintain the same level of engagement. Details of how the Board has complied with Section 172(1) and how we engage with our stakeholders can be found in our Section 172(1) Statement on page 29 and throughout this report.

Colleagues are key stakeholders at Sage. In FY20 the Board has continued with its chosen approach to workforce engagement, through the Board Associate programme. This arrangement has been chosen by the Board as an alternative to the workforce engagement methods referred to in the Code, as is permitted by the Code.

The Board Associate programme was first adopted by the Board in 2017 and continues to deliver success in enabling efficient and effective engagement with our colleagues. The Board Associate attends all scheduled Board meetings, receives copies of Board papers, has direct access to Board members and receives mentoring from a designated Non-executive Director. The Board considers that the Board Associate role is effective in delivering meaningful dialogue and therefore represents an appropriate method of engaging with colleagues, including providing a two-way communication channel to create greater understanding of the role of the Board amongst the workforce. This enables the Board to hear more of colleagues' views, thereby ensuring that the Board appropriately considers the interests of the workforce when making decisions. During the appointment process, care is taken to ensure that the Board Associate is representative of areas core to Sage's strategy and each of the three Board Associates appointed to date have come from different functional areas and different geographies. Sage's drive to maintain colleague engagement was further enhanced in FY20 by the formation of the Associates' Council, comprising past and present Board Associates and selected candidates from the Board Associate appointment process. The Board will meet the Associates' Council on a twice yearly basis to hear a wider range of colleagues' views and sentiments. Further details on the Board Associate's role can be found on pages 94 and 100.

Further information on how we have applied the principles set out in the Code can be found as follows:

Board leadership and company purpose

	Pages
Purpose and culture	32, 62 and 101
Shareholder engagement	95
Colleague engagement	95 and 96
Other stakeholder engagement	97 to 99
Conflicts of interest	86

Division of responsibilities

	Pages
The role of the Board	84
The role of the Committees	85
Board composition	86
Committee composition	92
Independence of Non-executive Directors	86
Time commitment	87

Composition, succession and evaluation

	Pages
Board composition and succession	110 and 111
Diversity and Inclusion	87, 111 and 112
Annual re-election of Directors	93
Induction, Director training and development programme	87 and 92
Board effectiveness and evaluation	88 and 89

Remuneration

	Pages
Remuneration principles	121
Remuneration Policy	128 to 132
Pension and benefits	143
Directors' shareholdings and share interests	145
External advisors	148

Audit, risk and internal control

	Pages
Significant reporting and accounting matters	115
Fair, balanced and understandable	117
Viability statement and going concern	117
Risk management and internal controls	117
Internal audit	118
External auditor	118
Principal and emerging risks	66, 115 and 117

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

Board of Directors

The operation of the Board is supported by the collective leadership of the Directors and complemented by the diverse skills and experience they individually possess.

Sir Donald Brydon

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Chairman of the Board

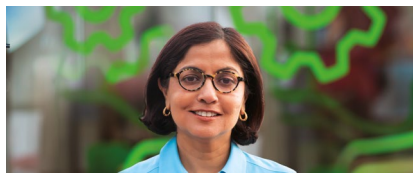
Chairman of the Nomination Committee

Date appointed to the Board
6 July 2012 and as Chairman on 1 September 2012

Key strengths and experience
- Had a 35-year career in financial services
- Overseen comprehensive changes to the composition of the Board and Committees
- Navigated Sage through significant change since his appointment as Chairman
- A strong advocate of Sage's stakeholders including the wider community

Sir Donald has a wealth of experience gained as chairman and senior independent director of companies across a wide range of sectors including the London Stock Exchange Group plc, the Barclays Group, the AXA Group, Royal Mail plc, Smiths Group plc, the London Metal Exchange, Amersham plc, Taylor Nelson Sofres plc, Allied Domecq plc, Scottish Power plc, the ifs School of Finance, and EveryChild. Sir Donald also chaired the Government's Independent Review into the Quality and Effectiveness of Audit (the Brydon Review) and has also recently been appointed as independent non-executive chair of Tide Holdings.

Key external commitments
None



Sangeeta Anand

Independent Non-executive Director

Date appointed to the Board
1 May 2020

Key strengths and experience
- Senior software technology leader with extensive experience in driving P&L and catalysing growth
- Extensive understanding and knowledge of transforming product portfolios to capture the cloud opportunity

Sangeeta's experience spans a broad range of public and private companies, from the Fortune 100 to a $30m stage start-up. She has also held senior management roles at F5 Networks Inc and Cisco Systems and until recently was chief marketing officer of Alkira Inc, a cloud native software start-up in San Jose, California.

Key external commitments
None

Dr John Bates

N R

Independent Non-executive Director

Date appointed to the Board
31 May 2019

Key strengths and experience
- Visionary technologist and highly accomplished business leader
- Deep experience in the field of technology innovation including the use of Artificial Intelligence and Machine Learning functionality to improve the customer experience
- Pioneer focusing on areas such as event-driven architectures, smart environments and business activity monitoring
- Led the evolution of platforms for digital business

John brings valuable technology skills to the Board having served as co-founder, president and chief technology officer of Apama (now part of Software AG), executive vice president of Corporate Strategy and chief technology officer at Progress Software, chief technology officer of Big Data, head of industry solutions and chief marketing officer at Software AG and chief executive officer at Plat.One.

Key external commitments
Chief executive officer of the Eggplant Group, now part of Keysight Technologies Inc

Jonathan Bewes

A

Independent Non-executive Director

Chairman of the Audit and Risk Committee

Date appointed to the Board
1 April 2019

Key strengths and experience
- Has prior experience of serving as chairman on an audit committee
- A wealth of accounting and financial experience
- Strong investment banking experience gained over a 25-year career in the sector
- Advisor to boards of UK and overseas companies on a wide range of financial and strategic issues, including financing, corporate strategy and governance

Jonathan is a seasoned investment banker, having worked at Robert Fleming, UBS and Bank of America Merrill Lynch.

Key external commitments
Non-executive director and chair of the Audit Committee of Next plc

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

Annette Court

A R

Independent Non-executive Director

Chair of the Remuneration Committee

Date appointed to the Board
1 April 2019

Key strengths and experience
- Has experience of both executive and non-executive director roles at the highest levels including as chair of a FTSE 100 company
- Has prior experience of serving as chair of a remuneration committee
- Strong technology background with a record of using e-commerce to drive commercial success
- Expertise in mentoring leaders to achieve greater clarity of purpose and provide a practical approach to problem-solving

Annette's prior roles include senior independent director of Jardine Lloyd Thompson Group, chief executive officer of Europe General Insurance for Zurich Financial Services, chief executive officer of the Direct Line Group and director of the board of the Association of British Insurers and Foxtons Group plc.

Key external commitments
Chair of Admiral Group plc

Drummond Hall

A N R

Senior Independent Director

Date appointed to the Board
1 January 2014

Key strengths and experience
- Experienced non-executive director and chairman
- Wealth of experience gained across a number of customer-focused blue-chip businesses in the UK, Europe and the US
- Strong knowledge of marketing and customer service and bringing deep insight to how Sage may expand markets and delight customers

Previously Drummond was the senior independent director of WH Smith plc and FirstGroup plc, a non-executive director then chairman of Mitchells & Butlers plc and chief executive of Dairy Crest Group plc, prior to which the majority of his career was spent with Procter and Gamble, Mars and PepsiCo.

Key external commitments
None

Steve Hare

Chief Executive Officer

Date appointed to the Board
3 January 2014 as Chief Financial Officer ("CFO")
31 August 2018 as Chief Operating Officer, and as Chief Executive Officer ("CEO") on 2 November 2018

Key strengths and experience
- Significant financial, operational and transformation experience which includes driving change programmes in a number of his previous roles
- Broad knowledge of Sage, having joined the Board in January 2014 as CFO
- Extensive understanding of the drivers and priorities needed to complete Sage's evolution to a SaaS company and to create a strong SaaS culture in the organisation

Steve joined Sage in January 2014, having previously been operating partner and co-head of the Portfolio Support Group at the private equity firm Apax Partners. Prior to this he held leading roles in the finance function for listed companies including chief financial officer for Invensys plc, Spectris plc and Marconi plc.

Key external commitments
None

Jonathan Howell

Chief Financial Officer

Date appointed to the Board
15 May 2013 as a Non-executive Director and as CFO on 10 December 2018

Key strengths and experience
- Highly experienced group finance director as well as experience as a chairman and non-executive director
- Significant financial and accounting experience gained across a number of sectors which allows him to provide substantial insight into the Group's financial reporting and risk management processes
- Excellent working knowledge of Sage, having joined the Board in May 2013 as an Independent Non-executive Director and acting as the Chairman of the Audit and Risk Committee for six years

Prior to his appointment as CFO, Jonathan had been group finance director of Close Brothers Group plc and the London Stock Exchange Group plc. He has also been a non-executive director of EMAP plc and chairman of FTSE International.

Key external commitments
None

Irana Wasti ▲

Independent Non-executive Director

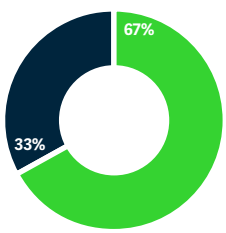
Date appointed to the Board
1 May 2020

Key strengths and experience
- Experienced leader driving international growth by enabling everyday entrepreneurs to start, grow and run their businesses online
- Wealth of experience in creating brand identity, go-to-market strategy, customers' experiences, sales and support across diverse cultural regions

Irana is President of GoDaddy EMEA and previously held the role of SVP and general manager for GoDaddy's Productivity business, where she led teams that provide small businesses with tools and services to help run their ventures. Irana previously worked for Intuit where she oversaw the launch of QuickBooks POS with Mobile Payments integration, enabling more than 200,000 merchants to "go mobile" and has also held product and development roles at Google and IBM.

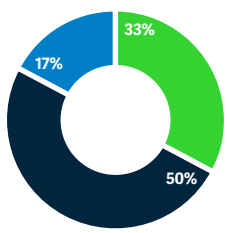
Key external commitments
President of GoDaddy EMEA

Gender (%)



- Male
- Female

Experience (%)



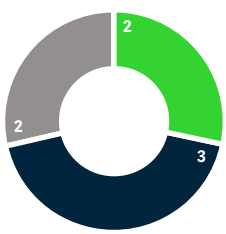
- Technology & Innovation
- Financial
- Sales & Marketing

The following Directors stood down from the Board during FY20

- Blair Crump stepped down as Executive Director on 25 February 2020
- Soni Jiandani stepped down as Non-executive Director on 25 February 2020
- Cath Keers stepped down as Non-executive Director on 30 June 2020

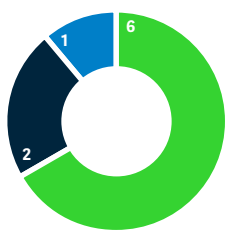
Tenure

(Chairman and Non-executive Directors)



- Less than 1 year
- 1-3 years
- 3-6 years
- Over 6 years

Board composition



- Non-executive Directors
- Executive Directors
- Chairman

Key

- A Audit and Risk Committee See page 113
- N Nomination Committee See page 108
- R Remuneration Committee See page 120
- ▲ New appointment

Full biographies can be found at sage.com

Executive Committee

Steve Hare chairs the Executive Committee and Jonathan Howell is also a member. For their skills and experience, please see page 81.

Derk Bleeker

Chief Corporate Development Officer

Date appointed to the Executive Committee
1 October 2019

Key strengths and experience
Derk is responsible for portfolio simplification, M&A and business planning including driving the accelerated transformation of Sage's product portfolio to create a focused and high-growth SaaS company. He joined Sage to build its Corporate Development function and was also responsible for Commercial Finance. Derk has experience as a leader of corporate development gained from working for a global industrial and medical technology company, and prior to that he worked in private equity and as an M&A specialist in investment banking.

Vicki Bradin

General Counsel and Company Secretary

Date appointed to the Executive Committee
1 October 2016

Key strengths and experience
Vicki leads the Legal, Company Secretarial, Cyber Security and Risk and Assurance teams at Sage. Having worked as a corporate lawyer in global and magic circle law firms, Vicki brought this experience in-house at large multi-nationals and UK-listed companies and has spent over 10 years working in the software and technology sector. Before joining Sage she was at Misys (now Finastra), where she was responsible for a number of core legal areas including M&A, litigation, risk and intellectual property.

Amanda Cusdin

Chief People Officer

Date appointed to the Executive Committee
1 October 2017

Key strengths and experience
Amanda has 20 years of HR experience across several global FTSE organisations in a variety of sectors, where she focused on supporting executive leaders to drive change and transformation. Amanda has experience in HR aspects of M&A, growth in new geographies and working across cultures and matrix organisations. She is also passionate about developing talent and leadership and creating truly inclusive organisations which promote diversity.

Sue Goble

Chief Customer Success Officer

Date appointed to the Executive Committee
1 October 2019

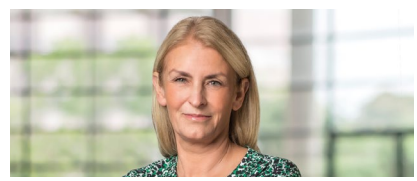
Key strengths and experience
Sue is accountable for setting the strategy and governance for customer services and customer success on a global basis and ensuring customer centricity is at the heart of the business, built into strategy and executed flawlessly through our operations. Previously, Sue was responsible for Business Operations, landing major programmes successfully across the organisation. Sue has had a distinguished career at a range of cloud companies and senior roles in customer relationship management.

Aaron Harris

Chief Technology Officer

Date appointed to the Executive Committee
1 April 2019

Key strengths and experience
Aaron has more than 20 years of high-tech engineering experience in business applications and software development strategies and is responsible for Sage's technology strategy and software architecture.
Previously Aaron was CTO of Sage Intacct where he was part of the founding team establishing it as the innovation leader in cloud financial management solutions.



Cath Keers

Chief Marketing Officer

Date appointed to the Executive Committee
8 September 2020

Key strengths and experience
Cath brings a wealth of digital and customer experience insights to Sage and a deep understanding of leveraging sales and marketing activity to build successful brands. Her past experiences include retail, marketing and business development, and she has held a number of commercial roles at Sky TV, Avon, Next and BT Group, amongst others. Cath was appointed as a Non-executive Director of Sage on 1 July 2017 and continued in her role until 30 June 2020.

Lee Perkins

Chief Operating Officer

Date appointed to the Executive Committee
25 January 2019

Key strengths and experience
Lee leads Sage's regional businesses and Global Product Organisation comprising: Product Marketing, Product Management and Product Engineering and during FY20 he took on the additional role of overseeing go-to-market in addition to product. Lee has 20 years' commercial and general management experience in public and private equity backed companies and deep understanding and relationships across the business to ensure progress in the product and sales functions.

Rob Reid

Chairman, Mid-Market Solutions

Date appointed to the Executive Committee
2 November 2018

Key strengths and experience
With more than 30 years' experience in the software industry, Rob has a proven track record of driving rapid growth at innovative companies and has demonstrated a wealth of expertise in bringing cloud computing to the world of business applications.

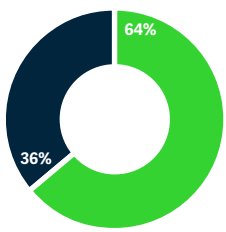
Keith Robinson ▲

Chief Strategy Officer

Date appointed to the Executive Committee
1 April 2020

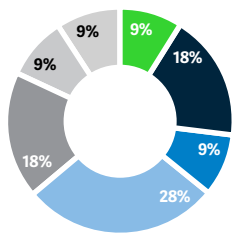
Key strengths and experience
Keith was an advisor to the Executive Committee before joining as a member during the year. Keith is responsible for the overall strategic direction of the Group driven by both organic and inorganic initiatives, and he identifies ways to accelerate delivery against Sage's vision of becoming a great SaaS company.

Gender (%)



- Male
- Female

Experience (%)



- Technology & Innovation
- Sales & Marketing
- Corporate Development & Strategy
- Financial
- Customer Success
- Culture, Diversity & Inclusion
- Legal & Governance:

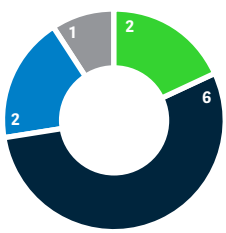
The following Executive Committee members stood down from the Executive Committee during FY20

- Marc Linden and Klaus-Michael Vogelberg stepped down from the Executive Committee on 12 August 2020
- Marcus Banks, who was acting as an interim Chief Marketing Officer, stepped down from the Executive Committee on 30 September 2020

Key

▲ New appointment

Tenure



- Less than 1 year
- 1-3 years
- 3-6 years
- Over 6 years

Full biographies can be found at sage.com

Our Governance framework

The Board and its role

Sage is headed by an effective Board which brings a wide range of commercial, technology and financial experience and is collectively responsible for the long-term sustainable success of the Company and the Group for the benefit of all Sage stakeholders. The Board provides entrepreneurial leadership and sets our purpose, strategy and values, ensuring these and our culture are aligned. Like any director of a UK company, each Sage Director must act in a way that they consider, in good faith, would be most likely to promote the success of Sage for the benefit of its members as a whole, having regard to the interests of its other stakeholders and wider society. Further information on how the Directors have had regard to these matters can be found in our Section 172(1) Statement on page 29 and throughout this report.

The Board is supported by its Committees, the CEO and the Executive Committee, while retaining exclusive control over the key decisions set out in the Matters Reserved for the Board (available on our website at sage.com). These include having primary responsibility for risk appetite and effective systems of internal control, corporate governance policies, and material changes to the Group's capital and corporate structure.

The Board recognises the need to be flexible and respond to an ever-evolving business environment, whilst effectively executing its oversight responsibilities and ensuring that Sage's long-term objectives are met. FY20 saw the emergence of the Covid-19 pandemic, which highlighted the criticality of maintaining flexibility and responsiveness whilst ensuring business resilience.

Division of responsibilities of the Board

As required by the Code, the division of responsibilities between the Chairman and the CEO are clearly established and agreed by the Board to retain separate and clearly defined roles. While both the Non-executive and Executive Directors have the same legal duties, they have different roles on the Board. Our Non-executive Directors are committed to providing constructive challenge and strategic guidance, offering specialist advice and holding management to account. These are summarised below:

Chairman

- Responsible for the leadership and effective operation of the Board in all aspects of its role
- Sets the agenda for Board meetings, following consultation with the CEO and the Company Secretary, to ensure coverage of material topics
- Ensures that the views of all stakeholders are understood and considered in Board discussions (please see pages 94 to 99 for more details)
- Promotes a culture of openness and debate in the Boardroom and encourages contribution by all Directors
- Responsible for the promotion of the highest standard of corporate governance, assisted by the Company Secretary

CEO

- Proposes corporate strategy for consideration by the Board
- Responsible for delivery of Sage's strategy and leads the Executive Committee in overseeing the operational and financial performance of Sage
- Ensures that risks are rigorously managed and that Sage maintains a disciplined internal control environment
- Identifies potential acquisitions and disposals and monitors competitive forces
- Ensures that Sage operates in line with its Values and Behaviours and vision by fostering a culture of collaboration and empowerment

Senior Independent Director

- Provides support and acts as a sounding board for the Chairman
- Serves as an intermediary for the Non-executive Directors
- Acts as an alternative contact for our shareholders
- Leads the Non-executive Directors in the evaluation of the performance of the Chairman

Non-executive Directors

- Constructively challenge and monitor the delivery of strategic objectives and Group performance
- Bring external perspectives, independent insight and support based on relevant experience
- Engage with internal and external stakeholders and take their views into account in their decision-making

Other Executive Director

- Supports the CEO in the delivery of corporate strategy and the day-to-day management of the business
- Oversees and reports on his distinct areas of responsibility
- Engages with Sage's stakeholders and leads on related activity within his scope of responsibility
- Provides insights into the Group's commercial and financial position from within the business

Company Secretary

- Provides appropriate and timely information to the Board and its Committees
- Ensures good information flows between the Board and its Committees and between senior management and Non-executive Directors
- Advises the Board on legal, compliance and corporate governance matters
- Supports the Chairman with Board procedures by facilitating the provision of inductions, training and professional development, effectiveness reviews and engagement plans
- Available to Directors for advice and assistance and obtains independent professional advice at the Company's expense when required

Board Committees and their role

The Board discharges some of its responsibilities directly and others through its Committees and senior management. The Committees assist the Board by fulfilling their roles and responsibilities, reporting to the Board on decisions and actions taken. They make recommendations to the Board in line with their Terms of Reference, which are annually reviewed by the Board and available on our website at sage.com. The Chairs of the Audit and Risk Committee and the Remuneration Committee provide a formal update on their activities at each Board meeting, following the relevant Committee meeting. The Chairman of the Nomination Committee provides updates on its activities as and when required.

Audit and Risk Committee

Oversees and assesses the integrity of the Group's financial reporting; risk management and internal control procedures; and the work of Sage Assurance (internal audit) and the external auditor.

Please read Jonathan Bewes' Audit and Risk Committee Report on pages 113 to 119

Remuneration Committee

Determines the framework, broad policy and levels of remuneration for the Executive Directors, the Chairman, the Company Secretary and other executives and senior management, and reviews workforce remuneration and policies.

Please read Annette Court's Directors' Remuneration Report on pages 120 to 148

Nomination Committee

Reviews the composition of the Board and its Committees; plans for progressive refreshing of their membership; and considers succession plans for the Board and senior management, in view of Sage's global diversity and inclusion strategy.

Please read Sir Donald Brydon's Nomination Committee Report on pages 108 to 112

Chief Executive Officer

Executive Committee

Assists the CEO to implement strategy, drive improved operating and financial performance and commercial objectives while remaining focused on the strategic lenses and aware of the risks which could derail Sage's purpose and strategic execution.

In addition to the above Committees, Sage also has a Disclosure Committee, which assesses when Sage has inside information and advises the Board to ensure that Sage complies with all obligations under the EU Market Abuse Regulation, including the obligation to make accurate and timely disclosure of inside information. The Disclosure Committee members include the Chairman, the CEO, the CFO, the Chairman of the Audit and Risk Committee and the General Counsel and Company Secretary.

Below the Board and its Committees, there is a clearly defined management governance structure reporting into one of the Committees referenced above. Key decisions involving financial spend or associated risk are governed by the Group's Delegation of Authority matrix (the "DOA"). The DOA is structured to ensure that day-to-day operational decisions can be taken efficiently, whilst driving higher-risk and high-value commitments for approval through the appropriate channels.

To ensure that all decision making is well-informed, transparent and balanced, careful consideration is given to information provision and flows within the Governance framework.

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

Board composition

The composition of the Board is subject to ongoing review and appointments result from a combination of comprehensive successive planning and formal and rigorous search, a responsibility delegated to the Nomination Committee. Please see pages 108 to 112 for more information.

At the date of this report, the Board comprises nine Directors: the Chairman, six Non-executive Directors (including the Senior Independent Director) and two Executive Directors.

The below changes to the composition of the Board took place during the year:

- Blair Crump stepped down as President and Executive Director
- Soni Jiandani and Cath Keers stepped down as Non-executive Directors
- Two new Non-executive Directors, Sangeeta Anand and Irana Wasti, were appointed to the Board. The Lygon Group was instructed to assist with the search for the new appointments. The search firm has signed up to the voluntary Code of Conduct and does not have any other connection to Sage or with any individual Directors, other than to provide recruitment services. Open advertising was not used for these positions.

It was announced that Sir Donald Brydon would retire from his role as Chairman of Sage, and step down from the Board, in September 2021, having by that time served as Chairman for nine years.

Please see pages 110 and 111 for more information.

The Directors' terms of appointment are available for inspection at Sage's registered office.

Independence of Non-executive Directors

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

The Board has concluded that all Non-executive Directors are independent in character and judgement. The Chairman was considered to be independent on appointment and over half of the Board (excluding the Chairman) were independent Non-executive Directors throughout the year, in line with the Code. All Non-executive Directors remained independent throughout the year in the manner envisaged by the Code, with the exception of Cath Keers, who took on an additional role within Sage, as explained below. The Non-executive Directors demonstrated an independent mindset by objectively challenging management, balanced against the need to ensure continuity on the Board.

In April 2020, Cath Keers was invited by our CEO, Steve Hare to work with Sage's brand and customer teams on projects where she had particularly relevant expertise, subject to the approval of the Board. The Board agreed to this activity but determined that she was no longer independent and therefore redefined her status with effect from 22 April 2020. Cath stepped down as member of the Remuneration Committee with immediate effect on this date. On 30 June 2020, it was announced that Cath was to become the Group's new Chief Marketing Officer and she stepped down from the Board on the same day. Cath commenced her role as Chief Marketing Officer and member of the Executive Committee effective 8 September 2020.

Conflicts of interest

The Board operates a policy to identify and, where appropriate, manage conflicts or potential conflicts of interest. At each Board meeting, the Board considers a register of interests and potential conflicts of Directors and, when appropriate, gives any necessary approvals.

There are safeguards which will apply when Directors consider a conflict or potential conflict, with only those Directors who have no interest in the matter taking the decision. No conflicts of interest have been identified during FY20.

Diversity and Inclusion

We value diversity, inclusion and belonging, which we believe to be vital to our success and fundamental to achieving our vision of becoming a great SaaS company for customers and colleagues alike. We embrace diversity in all forms, and it is our ambition to reflect the diversity of our customers and partners in the communities where we operate – which we believe will accelerate growth and innovation. Diverse teams create more ideas through diversity of thought.

Our Board comes from broad industry and professional backgrounds, with varied experience and expertise aligned to the needs of our business. The Board is committed to ensuring that all appointments are made on merit, in the context of relevant skills and experience and in view of the overall Board composition. Diversity was a key consideration when assessing the candidates for our new Board appointments made during the year. The appointment of Sangeeta Anand and Irana Wasti as Non-executive Directors has brought more SaaS experience into the Board's deliberations and has also enriched its diversity as a whole. We are pleased to report that 33% of our Directors are female, in line with the recommendations of the Hampton-Alexander Review and that we have met the target set by the Parker Review for ethnic diversity on the Board, in advance of 2021. Our commitment to diversity and inclusion is further demonstrated in the composition of our Executive Committee and their direct reports, and senior leadership team, having 37% and 33% female representation, respectively. The Board has encouraged and endorsed the broader initiatives Sage has in place to promote and drive an inclusive and diverse culture.

You can read more about how the Nomination Committee addresses diversity and inclusion and results achieved during the reporting period on pages 111 and 112, with further information on pages 31, 34 and 35 of the Strategic Report.

Time commitment

The Non-executive Directors are advised of the commitments which are expected of their role at Sage prior to their appointment and are required to devote such time as necessary to discharge their duties effectively. After they have joined Sage, Directors may only take additional external appointments if they have prior approval of the Board. No additional external appointment was considered significant by the Board for any of its Directors during the year.

The Non-executive Directors devote considerable time to the Group beyond the programme of Board and Board Committee meetings. Their activities necessarily include further investigation of reports submitted to them and discussion with the senior management and other subject matter experts. Their activities also extend to induction and training to ensure they maintain an in-depth understanding of the business and are kept up to date with emerging technology, regulations, and other matters impacting the Group. All Directors also participate in site visits and undergo a formal engagement plan to meet colleagues and other stakeholders.

Induction

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

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

- the Group's strategy and performance
- governance documents including Directors' legal duties and responsibilities
- specific information relating to Committee membership
- Sage policies and procedures
- other useful information such as meeting schedules, Sage's financial calendar and useful contacts

During the induction period, the individuals (this year, Sangeeta Anand and Irana Wasti) are asked for regular feedback, so that the programme can be adapted if needed. Please see page 110 for more information about their appointments.

Board effectiveness and evaluation

An effective board is key to the establishment and delivery of a company's strategy to promote long-term sustainable success. The Code requires the Board to conduct a formal and rigorous evaluation of its performance including the performance of its Committees, individual Directors and the Chairman annually, and an externally facilitated evaluation at least every three years.

In 2019, the Board used an independent third party to evaluate its performance and that of its Committees and individual members. It was facilitated by an independent external corporate governance consultancy, Independent Board Evaluation (IBE), with no other connection to the Group or any of the Directors. The 2019 Board review identified a number of areas on which the Board considered focus would be needed in 2020. These are summarised below, together with the resulting actions taken in 2020:

Area	Description	Summary of actions identified and taken
Consider ways to further build out the Board Associate role	The Board wanted to further evolve the role of Board Associate, to more clearly articulate its purpose and to open the selection process out to a wider group of colleagues across the business	The Board reflected on the Board Associate role in its third year in operation and refined its role and purpose, namely: a. to provide a two-way communication channel to create greater understanding of the role of the Board amongst colleagues and to enable the Board to hear more of colleagues' views b. to ensure that the Board appropriately considers the interests of colleagues when making decisions A new selection process was put in place, opening the role up to a wider selection of colleagues at differing levels of seniority across the Group (see page 94 for more information) An Associates' Council was also formed
Continue the focus on Board and Company succession planning	The Board acknowledged that effective succession planning (at both Board and senior management level) would be key to the long-term success of Sage	A talent deep dive was held with the Board in November 2019 which included consideration of senior management succession Two new additional Non-executive Directors were appointed during FY20 The Board announced in August 2020 that Sir Donald Brydon would retire as Chairman and step down from the Board in September 2021. The Nomination Committee, led by the Senior Independent Director, Drummond Hall, has started a process to identify his successor
Ongoing induction activities for new Board members	Ensuring new Board members had continued opportunities to educate themselves following their initial induction on the business and the regulatory environment was also highlighted	Improvements were made to the induction programme for new Non-executive Directors to ensure they had access to both internal and external training on corporate governance developments during FY20

Evaluation process

In FY20, the Board carried out an internal review of its own effectiveness and that of its Committees and Directors. The evaluation process was conducted by the Company Secretary using the same online evaluation tool provided by Independent Audit Limited that was used previously for the internal evaluations in FY17 and FY18 . Independent Audit Limited do not have any additional connection with the Group or any individual Director. The question banks were tailored into six sets of questionnaires, covering the Board, each of the Committees, the Chairman and individual Directors. As with previous years, the questions were designed to be as specific to Sage as possible and to enable the respondents to rate each question element on a sliding scale, as well as focus in on the elements of each topic that they felt could be improved on or which they would like to discuss more. To aid the assessment of progress against previous evaluations, the questions were kept similar. Free text comment boxes also allowed respondents to expand on these thoughts as they saw fit. All the Directors, the Company Secretary and a selection of regular meeting participants were invited to respond to the questionnaires.

The evaluation included the following topics:

Strategy and risk

Strategic decision making, understanding of risk (including cyber security risk)

Line of sight

Culture, talent management and succession planning (Board and senior management), monitoring execution, the quality of information flows, Board composition and the dynamics of Board discussions

Board support

Meeting logistics: timing, preparation and content of Board packs

Effectiveness

Effectiveness of the Chairman and each of the Committee Chairs

Performance

Individual Director performance and development opportunities

The Board also considered its performance against its FY20 objectives and provided feedback on the engagement activities which had taken place during FY20.

The Company Secretary collated and summarised the Directors' responses into a report for the Board which was discussed at its meeting in September 2020. As part of the process, the Senior Independent Director, along with the other Non-executive Directors, received a report on the Chairman. The Senior Independent Director then led a separate meeting without the presence of the Chairman to discuss the Chairman's performance. Feedback was provided on each Committee to the Committee Chair and its members. The Chairman also met with each Director individually to discuss their performance.

The overall conclusion from this year's evaluation was that the Board, its Committees, individual Directors and the Chairman continue to work well to achieve Group objectives and are operating effectively. Good progress was noted in relation to a number of the actions taken forward from the FY19 evaluation, in particular the oversight of Board and executive succession planning and the development of the Board Associate role and the appointment process during the year for the new Board Associate (as referenced on page 100).

The Board identified that the key areas for Board focus in FY21 are:

- Finding more opportunities for the Non-executive Directors to spend time with senior management to gain greater understanding of the business and to share their experience
- Finding more opportunities for the Board itself to spend time together (physically or virtually), particularly given the number of relatively new members and the period of enforced distance as a result of Covid-19
- Continuing the Board's focus on the customer-centric culture, ways of working, processes and systems needed for Sage to become a great SaaS company
- Enabling Directors to increase their understanding of the wider technology environment
- Continuing to focus on Sage's competitive points of differentiation, and how these are being factored into strategic thinking across the short and longer term
- Within the Board annual agenda, creating space to accommodate deep dives on specific business areas and on Sage's corporate responsibility stance
- Continuing the focus on senior management and Board succession planning, including Chair succession

A number of these areas have been built into the Board's objectives for FY21. For further information on the Board's FY21 objectives, please refer to page 104.

The Board plans to conduct an internal review in FY21 and an externally facilitated evaluation in FY22 in line with the Code.

Board meeting attendance and support

The Board held six scheduled meetings during FY20. An additional three unscheduled meetings were also held and written Board resolutions were passed as and when required, for example in response to the Covid-19 pandemic.

Directors are expected to attend every scheduled meeting; their individual attendance during the year is set out below. If a Director is unable to attend a meeting due to exceptional circumstances, or pre-existing business or personal commitments, they are encouraged to provide comments and observations on the Board papers to the Chairman so that they may be shared with Directors at the meeting. Finalisation of meeting content is a collaborative process involving the Chairman, the CEO and the Company Secretary, who assists in setting the agenda and ensures adequate time is allocated to support effective and constructive discussions.

Each year, the Board aims to hold at least two meetings in different operating locations. By visiting these locations, the Directors are able to meet with a diverse group of senior business leaders and high-potential colleagues, to gain further insight into how the business works and listen to colleague views. This year, due to travel restrictions imposed by most governments in response to the Covid-19 pandemic, Board travel plans to Barcelona and Atlanta were cancelled. However, the Board has demonstrated its ability to adapt in making full use of the technology available at Sage, thereby allowing Board meetings to be conducted safely and efficiently.

	Directors	Independent	Attendance at scheduled meetings
Chairman	Sir Donald Brydon	On appointment[1]	6/6
Non-executive Directors	Sangeeta Anand[2]	Independent	3/3
	Dr John Bates	Independent	6/6
	Jonathan Bewes	Independent	6/6
	Annette Court	Independent	6/6
	Drummond Hall	Senior Independent Director	6/6
	Soni Jiandani[3]	Independent	2/3[4]
	Cath Keers[5]	Independent/Non-independent[6]	4/4[7]
	Irana Wasti[8]	Independent	3/3
Executive Directors	Blair Crump[9]	Executive Director	3/3
	Steve Hare	Executive Director	6/6
	Jonathan Howell	Executive Director	6/6
Company Secretary	Vicki Bradin		6/6

Notes:

1. As required by the Code, the Chairman was independent on appointment.
2. Sangeeta Anand was appointed to the Board on 1 May 2020.
3. Soni Jiandani stepped down from the Board on 25 February 2020.
4. Soni Jiandani was unable to attend one scheduled Board meeting due to unforeseen circumstances.
5. Cath Keers stepped down from the Board on 30 June 2020.
6. Cath Keers' status was redefined as non-independent with effect from 22 April 2020.
7. Cath Keers attended three scheduled meetings as independent Non-executive Director and one scheduled meeting as non-independent Non-executive Director.
8. Irana Wasti was appointed to the Board on 1 May 2020.
9. Blair Crump stepped down from the Board on 25 February 2020.

Meeting schedule

- 3 years	Dates and venues of Board meetings are set
- 1 year	A rolling calendar of standing and periodic agenda items for the following 12 months is compiled and updated whenever appropriate addressing key developments in the business with reference to Sage's strategic pillars, principal risks and stakeholder concerns
- 1 month	The agenda of the meeting is prepared by the Company Secretary in consultation with the Chair with reference to the rolling calendar and any business need arising including topics of deep dives or additional emerging items. Report writers are sent templates and guidelines addressing format, specific considerations and high-quality content required, reminders of the actions allocated to them and deadlines for submission of draft and final paper
- 7 working days	Papers are submitted to the Company Secretary for final review
- 5 working days	Papers are circulated electronically to the Board in real time via a secure web portal to allow Directors sufficient time to consider them
Board meeting	
+ 10 working days	Minutes and schedule of actions arising from the meeting are completed and sent to the Chair for review. Those responsible for matters arising are asked to provide an update before the subsequent meeting. The rolling calendar is updated following each meeting (as required) and in readiness for the next meeting

Beyond Board meetings

In addition to routine and ad-hoc Board meetings, the Board meets over informal Board dinners, to connect and discuss wider business topics. As a result of the Covid-19 pandemic, the Board held its first virtual Board dinner in June 2020.

The Board is committed to effective engagement with all stakeholders of Sage. Engagement activities include 'talent lunches' and 'engagement days' which generally precede Board meetings and provide the Board with opportunities to spend time with colleagues outside formal Board meetings. This helps Directors gain a deeper understanding and insight into the operation of various function lines and significant elements of the business. Our Board Associate also has a significant role in bringing the colleague voice into the Boardroom. An engagement day and a talent lunch session for the Non-executive Directors were held in Newcastle in February 2020. Whilst face to face engagement activities were put on pause for a time due to Covid-19 travel restrictions, these were reinstated during the year through virtual means.

The Board holds a strategy day on an annual basis, where core strategic initiatives are discussed in depth with management. The Board continues to review strategic decisions throughout the year. In considering strategy, the Board takes a long-term perspective on matters such as technological development, competitive landscape, emerging risks and general market and macroeconomic issues.

Please see pages 94 to 99 for more information on our stakeholders and how the Board engages with them.

Communication between Board Committees and cross membership

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

To further assist information flows between the Board and its Committees, there are cross memberships of the Committees. Current Committee membership is shown in the table below.

	Audit and Risk Committee	Remuneration Committee	Nomination Committee
Chairman			
Sir Donald Brydon			Chairman
Non-executive Directors			
Sangeeta Anand			
Dr John Bates		X	X
Jonathan Bewes	Chairman		
Annette Court	X	Chairman	
Drummond Hall	X	X	X
Irana Wasti			
Executive Directors			
Steve Hare			
Jonathan Howell			
Company Secretary			
Vicki Bradin			

The Company Secretary acts as the Secretary to all the Committees.

The composition of all Committees complied with the Code throughout the year.

The below changes to the membership of the Remuneration Committee and the Nomination Committee took place during the year:

- **Remuneration Committee**
  Cath Keers's status was redefined as non-independent Non-executive Director on 22 April 2020 and she stepped down from the Remuneration Committee with immediate effect. Dr John Bates was appointed to the Remuneration Committee as new independent Non-executive Director member with effect from the same date, 22 April 2020, to ensure compliance with the Code.
- **Nomination Committee**
  Dr John Bates was appointed to the Nomination Committee on 6 February 2020. Soni Jiandani stepped down from the Nomination Committee and the Board on 25 February 2020.

Director training and development programme

To assist the Board with their continuing knowledge and familiarity with the business, and to undertake their responsibilities, ongoing training and development activities are provided for all Directors. The Board programme includes presentations from senior management, site visits and informal briefings. In addition, the Directors have access to the Company Secretary for the provision of any additional information or advice in carrying out their duties.

During FY20, the Directors received briefings on the following matters of topical interest to the Group:

- update on section 172(1) matters and related emerging market trends
- developments in the external artificial intelligence and machine learning landscape and work undertaken by the Sage AI Labs team
- an overview of the Sage operating model in action including joining a working session with the Small Segment team in the UK
- product demonstrations including Sage Business Cloud Accounting Professional and CakeHR
- demonstrations of new technology such as Einstein Analytics and the role they play in the production of more granular SaaS metrics for use within the Finance and business teams

Annual re-election of Directors

Sangeeta Anand and Irana Wasti will be subject to election as Non-executive Directors by shareholders for the first time at Sage's Annual General Meeting ("AGM") on 4 February 2021. In compliance with Sage's Articles of Association, all other current Directors will submit themselves for re-election.

All Directors seeking election or re-election are subject to an annual effectiveness review. Details of the review undertaken in September 2020 are set out on pages 88 and 89. The Board has considered the results of the evaluation and has separately assessed the independence and commitment of each individual. It concluded that the Directors' performance continues to be effective and that they demonstrate commitment to their roles. It was also confirmed the Directors have recent and relevant experience and the skills required for the Board to effectively discharge its responsibilities. Further information on each Director's skills and contribution to the Board is on pages 80 and 81.

Engagement with investors

Communication with our investors is extremely important for the Board. By maintaining dialogue with our investors, we aim to ensure that their views are heard and that our objectives are understood. Trading updates are published quarterly, and on an ad hoc basis where relevant. Analysts are invited to attend presentations, and interact with the Executive Directors, following the announcement of Sage's interim and final results. The Executive Directors interact with shareholders, both as part of post-results roadshows and on an ad hoc basis.

Capital allocation – Dividend

Sage's policy to maintain the dividend in real terms remains unchanged as a result of Covid-19. The Board carefully considered the FY20 interim and proposed final dividend, taking into account the interests and impact on our stakeholders, including our shareholders, customers and colleagues, and the Group's long-term strategy. After discussion and deliberation, the payment of the FY20 interim dividend and recommendation of the final dividend were approved by the Board.

Annual General Meeting

The AGM provides us with a valuable opportunity to engage with our shareholders. In FY20, all members of the Board with the exception of Soni Jiandani (who had an unavoidable business commitment and stepped down from Board shortly after the AGM) attended the AGM to discuss the proposals and answer questions where necessary. Certain members of senior management also attended and were available to answer questions.

All resolutions at the 2020 AGM were voted on a poll. This follows good practice and allows Sage to count all votes, including the votes of all shareholders who are unable to attend the meeting but who appointed a proxy to vote on their behalf. We received voting instructions from over 75% of shares and all proposals were passed with over 95% of votes cast in favour.

You will find below a reminder of the icons which you will see used throughout this report and including on the following pages. The icons highlight examples of the Board's commitment to matters pertaining to section 172(1). Further explanation can be found in our Section 172(1) Statement on page 29 of our Strategic Report:

Section 172(1) (a) to (f)

A director of a company must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

Key

a. the likely consequences of any decision in the long term;

b. the interests of the company's employees;

c. the need to foster the company's business relationships with suppliers, customers and others;

d. the impact of the company's operations on the community and the environment;

e. the desirability of the company maintaining a reputation for high standards of business conduct; and

f. the need to act fairly as between members of the company.

Engagement with stakeholders

We are committed to effective engagement with all our stakeholders. The Board is mindful that Sage's success depends on its ability to engage effectively, work together constructively, and to take stakeholders' views into account.

In 2019, the Board undertook an assessment to map the existing engagement activities between the Board and its stakeholders and the ways the Directors would meet their obligations under the Code.

The assessment demonstrated that the Board already engaged with key stakeholders through various means and addressed matters which concern them, both within the formal setting of the Boardroom through reports concerning stakeholders, and via the Non-executive Directors' engagement plan. In preparing the annual Board agenda and Non-executive Directors' engagement plan for FY20, the Board sought to replicate the same engagement mix. This plan comprised engagement with our key stakeholders on 'engagement days', which generally precede Board meetings, and other specific engagements. Face to face engagement activities were initially put on pause during the Covid-19 lockdown but were then reinstated through virtual means.

Since 2017, interaction with our colleagues has benefitted from the appointment of our Board Associate which has helped to bring the colleague voice into the Boardroom. Earlier this year, as the incumbent Board Associate's term came to an end, colleagues globally were invited to apply for the third Board Associate role. High numbers of applications were received, with candidates progressing through a series of interviews with People colleagues, Executive Committee and Board members. This culminated in the selection of Pamela Novoa Ralli, who was appointed as our new Board Associate in June this year. Pamela is being mentored by one of our Non-executive Directors, Annette Court. Impressed by the high calibre of colleagues applying, the Board has also formed an Associates' Council comprising certain Board Associate candidates and past and present Board Associates with whom the Board will meet on occasion to canvass a broader range of colleague views. The Board's first meeting with the Associates' Council took place in November 2020.

During FY20, the Board also implemented enhancements intended to ensure that the voice and interests of Sage's stakeholders are brought to the fore during Board discussions. These included:

- weaving consideration of section 172(1) matters into Board papers by requesting authors to identify the interests of our key stakeholders in the topic under discussion
- having appropriate check points for reviewing the success of acquisitions made during the previous 12-24 months
- formalising the reports back from Committee Chairs regarding Committee decisions and strategic direction
- ensuring our list of key stakeholders is included in every Board pack and is evaluated annually

The Board reviewed and re-confirmed the Company's key stakeholder groups during the year. It also added "the Environment" to its list of key stakeholders, reflecting the growing importance for business to take action on environmental issues and the ongoing development of Sage's sustainability strategy. These key stakeholders are set out below along with details of the forms of engagement undertaken by the Board collectively, while continually having in mind the principles underpinning section 172(1). For more information, please refer to our Section 172(1) Statement on page 29.

Engagement with stakeholders

Our investors

Why they matter to us	They are our providers of capital without whom we could not grow and invest for future success
What matters to them	Our investors are concerned with a broad range of issues including, but not limited to, Sage's financial and operational performance, strategic execution, investment plans and capital allocation
Type of engagement	Shareholder engagement is the responsibility of the Executive Directors and the Investor Relations team who develop and manage Sage's external relationships with analysts and investors. They conduct a comprehensive programme of investor meetings, presentations and analyst calls, particularly following the release of final year results, interim results, and trading updates
	Communications such as quarterly trading results, annual reports and notices of general meetings
	Regulatory announcements and press releases
	Up-to-date, detailed information about Sage and matters of interest to investors are made publicly available at sage.com/investors
How the Board engages	Receives feedback from investor meetings and interaction via regular updates from the Investor Relations team
	The Chairman and other Non-executive Directors are also available to attend meetings with major shareholders at the request of either party to gain an understanding of any issues and concerns
	At the AGM, which provides a key opportunity for the Board to engage with shareholders and for shareholders to vote on the resolutions put to them. All resolutions detailed in the AGM Notice are voted on by way of a poll so as to ensure that all votes are counted on the basis of one vote for every share held. The results of the voting on all resolutions are published on Sage's website
How they influenced the Board's decision making in 2020	Investors' opinions were taken into account in the shaping of Sage's strategy and operational performance, executive remuneration and capital structure. This included the decision to pay the interim dividend and to recommend the final dividend, and the decision to launch and subsequently the decision to cancel the Share Buyback Programme, in order to preserve a high level of liquidity in light of the Covid-19 pandemic

Our colleagues

Why they matter to us	They are a key resource, dedicated to creating, selling and supporting solutions that free our customers from administration so that their businesses can thrive
What matters to them	Our colleagues are concerned with opportunities for personal development and career progression; a culture of diversity and inclusion; compensation and benefits; and the ability to make a difference within Sage
Type of engagement	Various activities and forums to foster participation in Group events, invite opinions, questions and ideas
	Regular colleague opinion surveys to canvass views and understand colleague sentiment on issues
	Multimedia channels for sharing information and as a depository of in-house news items of interest

Engagement with stakeholders *continued*

Our colleagues *continued*

How the Board engages	The Chief People Officer reports to the Board on culture, talent and colleague engagement (see pages 30 and 33 of the Strategic Report for further information) to enhance colleague engagement
	Monitors senior leadership capability, development and succession
	Sage TV broadcasts, presentations of strategy and quarterly performance updates by the CEO and CFO
	Representation at Board meetings through the Board Associate and further engagement as part of the Board engagement programme
	'Talent lunches' and 'engagement days' allowing Directors to meet high potential individuals from within the business
	Keen focus on culture 'pulse checks' results, KPIs and whistleblowing reports
	Monitors our progress on achieving greater diversity and inclusion, notably through Sage Belong – Sage's global diversity and inclusion strategy which focuses on areas such as gender equality; wellbeing; removing barriers to an inclusive working environment for all colleagues, notably those with disabilities or from the LGBTQ+ community; and fostering respect of all racial identities and ethnic minorities through understanding the impact that movements such as Black Lives Matter are having on our colleagues
	Reviews our health and safety performance and approach to monitoring and reporting of colleague incidents
	Reviews and approves Sage's core compliance policies (including the Code of Conduct, Anti-Bribery and Corruption Policy and Whistleblowing Policy) on an annual basis. The Board's Audit and Risk Committee receives regular updates on matters relating to risk and compliance
How they influenced the Board's decision-making in 2020	Oversaw the response to the Covid-19 pandemic as it developed, to ensure colleagues were moved safely to a working from home environment, how morale was being maintained and colleagues kept connected
	Spent time understanding the talent pipeline across key areas of the business and the development plans in place for senior executives. The Board continued to encourage leaders to search internally to fill open positions, proactively manage career development for high potential colleagues and enable them to drive their own career paths
	Endorsed the ongoing simplification of processes and investment in systems, the provision of greater support and clarity on career and development opportunities for colleagues, and spent time reviewing the alignment of Sage's reward and recognition arrangements across the colleague population
	The appointment of a new Board Associate along with formation of the Associates' Council (see page 94 for further information)
	Revised Sage's Code of Conduct in order to link it directly to our Values and Behaviours (see page 105 for further information) and our strategic lenses, so that colleagues would find it easier to relate to. All colleagues were required to undertake a refreshed eLearning on the new Code of Conduct this year, which helps to ensure that Sage: (i) promotes ethical business practices and conducts business in accordance with applicable laws and regulations; (ii) behaves fairly with colleagues, customers, partners and suppliers; and (iii) provides a safe route for colleagues to raise concerns either through reporting internally or through an independent and anonymous hotline

Our customers

Why they matter to us	Sage's customers are at the heart of our business and we strive to create enduring subscription relationships and a customer-centric approach in everything we do. They are the small and medium-sized businesses which are the growth engine of the economy, and the professionals who rely on us to help them deliver a great service to their clients, whatever their size
What matters to them	Our customers are concerned with having products that keep their business compliant, improve their efficiency through the use of time-saving software, provide greater visibility into their business and actionable insights from their data, while being assured of great customer service and that the software can adapt with their business needs over time
Type of engagement	As the Covid-19 pandemic developed, the Board has reviewed the impact on small and medium customers and has endorsed the actions taken to support customers with the offer of payment holidays and payment deferrals, the provision of information and support on accessing government assistance, and the application of new government rules across the various countries in which Sage operates
	Board sessions focused on customers' needs and the issues they face and regular reports on performance
	Direct engagement with customers as part of the Board engagement programme
How the Board engages	Reviews strategy and monitors performance during the year with the aim of meeting customers' needs more effectively
	Regards customer success as a core KPI and receives frequent updates on customer feedback. Our Directors also meet with customers as part of Board engagement activities, and participate in sessions listening to customer service and sales calls
	Receives competitor updates to understand Sage's competitive performance and its strengths and weaknesses as regards meeting customer needs
	Benchmarks Sage's performance in relation to customers using research including Net Promoter Scores
	Receives updates on how digital assistance and one-to-many tools such as webinars are being deployed within the business to ensure our customers receive prompt assistance and are kept up to date with relevant product developments and functionality
How they influenced the Board's decision making in 2020	Oversaw and reviewed Sage's strategic priorities of winning with our Small Segment customers in the UK and with our Medium Segment customers in the US, leading with our native cloud solutions
	Where relevant, the Board always seeks to ensure that the customer's viewpoint is taken into account as part of its decision making process, and will frequently consider the impact that a decision will have on customer success

Engagement with stakeholders *continued*

Our partners

Why they matter to us	Sage's partners are crucial to our success. They are an extension of Sage, representing our brand in the market and allowing us to scale our business. They bring our solutions to life, serving our customers locally and creating an ecosystem of complementary solutions and services Please refer to pages 10 and 71 for further information on our partners
What matters to them	Our partners harness Sage's innovative technology to deliver customer success through the creation of unique joint value propositions. They share insights into what our current and prospective customers want, ultimately impacting product strategy and roadmaps and accelerating business growth through Sage-supported sales and marketing programmes, as well as technical training
Type of engagement	Our Partner Code of Conduct defines our expectations of responsible business and behaviour and underlines our strategic focus on customer needs
	Board reports, including updates on performance and key partner issues
How the Board engages	Considers key strategic partnerships and technology, with regard to the future of the accounting and bookkeeping profession and how Sage is adapting its products and services to meet the needs of the digital accounting practice of the future
	Understands our go-to-market approach with partners in relation to the development of a successful ISV ecosystem and the Sage Business Cloud Marketplace, and the steps being taken to develop the on-boarding, enablement and nurturing of both new and existing partners to drive scalable growth
	Receives reports, including updates on performance and key partner issues, partner relationships, development and engagement
How they influenced the Board's decision making in 2020	Routinely considered the interests of our partners in their decision-making, while seeking to ensure that our partners are aligned with Sage's practices, Values and Behaviours
	Endorsed the creation of a Centre of Excellence team within our Partner team to manage, support and grow our key strategic alliance relationships

Our communities and the environment

Why they matter to us	We demonstrate Sage's culture and commitment to doing business the right way through the work of the Sage Foundation, which combines charitable giving and supporting colleague engagement with non-profit organisations delivering change
	We are committed to managing our use of resources proactively to minimise environmental impact
What matters to them	Freeing colleagues to volunteer in our communities, whether for favoured causes or in programmes sponsored by Sage, focusing on helping to build a workforce fit for tomorrow by creating routes into education, work and entrepreneurships for marginalised young people, women and military veterans
	As regards the environment, we continue to review and develop our corporate sustainability strategy and approach to minimising environmental impact, risks and associated emissions

Our communities and the environment *continued*

Type of engagement	We proactively consider and manage the impact we have on our local communities as part of the delivery of long-term sustainable business performance. Launched in 2015, Sage Foundation continues to flourish – in FY20, colleagues spent a total of 24,300 days volunteering and £660,331 was raised for the "$2 Million by 2022" challenge
	We are committed to managing our use of resources and proactively managing our environmental impact. We continue to focus our commitment on areas that are most relevant to Sage, our people and our customers
	For further information about the activities of the Sage Foundation, see pages 40 to 45 of the Strategic Report, and about Sage's strategy and commitment regarding the environment, see pages 46 to 51 of the Strategic Report
How the Board engages	Ensures the Sage Foundation's plans focus on what matters most to Sage's colleagues and communities, and receives regular updates on its activities
	Promotes and endorses a culture where all colleagues are actively encouraged to take volunteer days in order to give back time, skills and technology within the Sage ecosystem of colleagues, customers and partners
	The Board also seeks to participate collectively in an annual Sage Foundation event
	Ensures Sage plays its part in delivering responsible corporate action on environmental issues through the work on the Environmental Strategy and understanding how Sage benchmarks against technology and FTSE peers
How they influenced the Board's decision-making in 2020	Addition of "the Environment" to Sage's list of stakeholders, reflecting the growing importance of environmental considerations. The Board oversaw and approved the development of a new Environmental Strategy during the year; for more information on these initiatives please refer to pages 46 and 47 of the Strategic Report
	The Board oversaw increases over the prior year in non-profits product discounts, with 888 non-profits benefitting from a Sage Business Cloud Product discount in FY20

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

Presenting the new voice of our colleagues... Pamela Novoa Ralli, our recently appointed Board Associate

Pamela Novoa Ralli
Board Associate

With this arrangement of colleague engagement in its third year, the Board decided to open the opportunity to a wider pool of colleagues. The recruitment process was extensive and challenging, and a substantial number of applications was received. The process was managed by a small group of senior leaders comprising the Chairman, the General Counsel and Company Secretary and the Chief People Officer. It lasted from February to June 2020, and the short-listed candidates were interviewed by a panel of three Non-executive Directors, while the Board collectively made the final decision.

The Directors were very much struck during the interview process by the high engagement and passion demonstrated by Sage colleagues. The interview process also provided the Directors with meaningful insight on colleague experience across regions and teams. The Board ultimately chose Pamela Novoa Ralli, VP of Product Management based in Atlanta, to be the new Board Associate and strongly believes that Pamela will continue and strengthen the good work initiated by our past Board Associates, Amy Lawson and Albert Sampietro. Pamela will focus on developing ways to bring the colleague voice into the Boardroom, whilst also increasing the visibility and understanding of the role of the Board among colleagues.

Pamela is thrilled to have embarked upon this journey and shares with us her views and understanding of the role, bringing to life her experience since her appointment in June 2020.

Your outlook to the Board Associate role
I feel privileged to have been appointed Board Associate, particularly while Sage is continuing on its journey to become a great SaaS company. The role of the Board Associate can provide insight to enable Board members to make better informed decisions and drive awareness and engagement among colleagues. As I look to the future and how I can continue to evolve the role based on the foundations that both Albert Sampietro Ventosa and Amy Lawson have built, I would like to first focus on building a two-way channel of communication between colleagues and the Board, tackling critical areas such as culture; through this insight I hope to make targeted contributions to the Board discussions.

How do you think the role has evolved over the years
The colleague understanding of the role and how Non-executive Directors should best engage with the Board Associate has evolved since its inception. As part of my Board Associate induction process, I spent time with members of the Board, our CEO Steve Hare and members of the Executive Committee, gathering feedback and advice. We have a highly engaged colleague community, who are excited and committed to our transformation, and therefore there's an opportunity to better leverage this two-way channel of communication between the Board and Sage colleagues.

I also feel that in this challenging time when our communities are going through so much uncertainty, a role like the Board Associate is fundamental to our success, as it would help enhance the two-way engagement process between our colleagues and the Board on matters including, culture, diversity and colleague wellbeing!

Your experience so far
This was the first year the Board Associate role was opened to applications from all Sage colleagues. Before applying for the role I reached out to Albert Sampietro who, at the time, was our current Board Associate. His feedback was very reflective of my application experience "...even if you are not successful, the interview process alone is worth the effort...", and he was not wrong. The investment that Sage put into this recruitment process was substantial; every step was crafted in a way that further identified strengths and weakness but also provided candidates with a view of what success in this role would require.

Since my appointment in June I have attended three Board meetings and given the Covid-19 restrictions and risks, both meetings have been digital. These have been incredible experiences; I was amazed at the balance and efficiency of the interactions, even when hosted online. I have also started testing different colleague engagement models in partnership with our Internal Communications team, aiming to reach colleagues across regions and gather their feedback. I look forward to receiving feedback on which areas colleagues would like me to focus.

What are your current key areas of focus
As I look forward, I would like to be able to have a consistent engagement with colleagues, by driving a discussion across a few critical areas such as culture, cybersecurity and the Sage Business Cloud vision. Linked to the above, I hope to provide ongoing valuable insight to the Board to further enhance its dynamics.

Activities of the Board

Board activities are structured to develop and support the Group's strategy and to enable the Executive Team to support its delivery within a transparent governance framework. Our effective governance framework is designed to make the delivery of our strategy possible. The table below sets out the key areas of focus in line with the Group strategy and our 11 principal risks.

Key

Strategic lenses	Principal risks
Customer Success	1 Understanding Customer Needs
Colleague Success	2 Execution of Product Strategy
Innovation	3 Innovation
	4 Route to Market
	5 Customer Success
	6 Third-Party Reliance
	7 People and Performance
	8 Culture
	9 Cyber Security and Data Privacy
	10 Data Strategy
	11 Live Services Management

Culture

Matters considered: Understanding the activities undertaken to drive greater colleague engagement, retention and development and how organisational design and ways of working are enabling greater accountability, clarity and decision making

Strategic lenses

Principal risks

7 8

The Board maintained a sustained focus on corporate culture during FY20 and it:

- received regular updates throughout the year from the Chief People Officer
- maintained progress against the Colleague Success KPIs
- oversaw the continued evolution of the Sage operating model and ways of working
- maintained progress on Executive Team development and the development of leadership training for VP and Director level colleagues
- monitored our talent identification, development and succession plans for key roles within Sage
- evolved our Board Associate role and ran a global process to select the new Board Associate, inviting colleagues globally to apply
- oversaw the safe transition of all colleagues to a working from home environment as a result of Covid-19 as well as the reopening of certain offices and monitored colleague engagement and sentiment throughout the period

For more details on the role of the Board during Covid-19, please see page s 106 and 107.

Strategy

Matters considered: Review of strategic execution

Strategic lenses

Principal risks

1 2 3 4 5 7 8 9 10 11

The Board reviewed execution against Sage's strategy during FY20. It also routinely received updates in order to consider the current and future dynamics within Sage's markets, Sage's position within this context, and how Sage is refining and adapting its strategy to meet customer needs particularly as the business environment changes to respond to Covid-19. These updates include 'deep dives' within the strategic lenses and into our Small and Medium Segments and key geographies to monitor progress.

In addition, the Board also met with senior management for a strategy day in January 2020 to consider in-depth presentations on key elements of Sage's strategy and to agree further developments to that strategy.

Leadership

Matters considered: Appointment of Board and Executive Committee members to fill vacancies and obtain additional skills, experience and diversity in our leadership

Strategic lenses

Principal risks

1 2 3 4 5 6 7 8 9 10 11

During the year, Irana Wasti and Sangeeta Anand joined the Board. It was announced that Sir Donald Brydon would retire from his role as Chairman of Sage, and step down from the Board, in September 2021.

Cath Keers, who had previously served as a Non-executive Director on the Board, was appointed with effect from 8 September 2020 as Sage's new Chief Marketing Officer and a member of the Executive Committee. Keith Robinson joined the Executive Committee during the course of the year and Lee Perkins's role has changed to Chief Operating Officer taking on the additional responsibility of overseeing go-to-market in addition to product.

The biographies of all current Board and Executive Committee members are set out on pages 80 to 83.

Activities of the Board *continued*

Customer

Matters considered: Developing enduring subscription relationships and having a customer-centric approach in everything we do

Strategic lenses

Principal risks

1 2 3 5 9 10 11

The Board discussed our strategy for Customer Success and received updates on a regular basis from the CEO and Chief Customer Success Officer on the operational priorities in place to deliver a high-quality customer experience. The Board was updated regularly on trends in our relationship and transactional Net Promoter Scores across segments and key geographies. Operational priorities included the continued roll-out of a number of initiatives:

- assisting customers during Covid-19 through the offering of payment holidays and deferred payment options
- the delivery of one-to-many virtual training seminars on topics of key interest to customers
- creation of the online Sage Coronavirus Hub providing an at-a-glance guide to the latest government advice and support for businesses
- the delivery of improved customer journeys to optimise the customer experience
- the further digitisation of customer service functions to enhance our relationship with customers by providing an enhanced range of contact options to customers to reduce call wait times and improve first contact resolution
- ensure a seamless integration of the end-to-end customer journey through the further digitisation of back office services and systems.

Please see how the Board engages with customers on page 97.

Innovation

Matters considered: Understanding the benefits of and threats posed by technological innovation

Strategic lenses

Principal risks

1 2 3 4 5 8 9 10 11

The Board recognises that rapid advancements in technology offer new opportunities to deliver unique and differentiated customer value. By cultivating a culture of innovation and experimentation, Sage can continuously reinvent and bolster itself against unpredictable future market disruptors. During the year the Board discussed the following:

- continued investment in cloud native and cloud connected solutions
- the development and deployment of several advanced analytic capabilities powered by artificial intelligence and machine learning within the Sage Business Cloud suite of products
- the integration and deployment of CakeHR and AutoEntry across the Sage Business Cloud suite of products
- the development of the Sage Business Cloud vision and its internal and external communication
- how Covid-19 was impacting the pace of Sage's transition to cloud native solutions and technologies (for more information on the impact of Covid-19 on innovation please see page 27)

The Board also attended a technology teach-in, focused on the future of technologies such as AI, ML and blockchain and received demonstrations of AI/ML solutions developed by the Sage AI Labs team.

Finance and risk management

Matters considered: Financial reporting and effectiveness of internal controls

Strategic lenses

Principal risks

6 7 9

The Board closely monitored reports relating to the financial position of Sage and regularly reviewed its risk profile and emerging risk themes, as well as scrutinising regular updates on the internal controls and framework. It received updates from management on the whistleblowing hotline cases and their management during the year. It also approved:

- the FY20 Budget, annual business plan and a three-year financial plan, which included the approval of material investments in the short, medium and long terms
- Sage's quarterly trading reports and interim and final results
- interim and final dividend payments, always ensuring that such dividend declarations, and any key balance sheet-related decisions, are made within Sage's long-term strategy. Given the current economic uncertainty caused by Covid-19, particular care and consideration was given in approving the payment of interim and recommendation of final dividends this year
- significant capital expenditure proposals, also considered within the lens of Sage's long-term strategy
- the entry into the Share Buyback Programme and subsequently the decision to cancel it in light of uncertain market conditions caused by Covid-19
- a two-year cyber security strategy, as well as a cyber risk appetite methodology and a risk appetite statements were approved by the Board during FY20
- during FY20 the Board also received updates on the adoption of technology within Finance such as Einstein Analytics and how this was assisting with the embedding of SaaS measures and metrics within the business

Group structure

Matters considered: Acquisitions and disposals

Strategic lenses

Principal risks

1 2 3 4 5 8

The Board determines Sage's approach to M&A activity and product portfolio management in order to promote the long-term success of the Company, and approves all acquisitions and disposals above a certain materiality.

In November 2019, the Board approved the disposal of Sage Pay, the Group's payment gateway services provider in the UK and Ireland, to Elavon. The transaction completed in March 2020.

In November 2019, the Board approved the acquisition of CakeHR, a native cloud solution that simplifies and automates HR tasks for small businesses.

In March 2020, the Board approved the disposal of the Group's Brazilian business to local management. This divestiture was part of Sage's strategy to focus on subscription software solutions that are in or have a pathway to the Sage Business Cloud.

The Board approved the decision to hold the following assets for sale as at the FY20 year end:

- Sage's businesses in Poland and Switzerland
- Sage's businesses in Asia and Australia
- Sage's South African payroll outsourcing business.

Where applicable, these disposal groups exclude certain global strategic product lines in these countries, such as Sage Intacct, Sage People and Sage X3.

Activities of the Board *continued*

Governance and reporting

Matters considered: Legal and regulatory developments

Strategic lenses

Principal risks

7 8 9

During the year, the Board evaluated how it had discharged its obligations under section 172(1), with reference to its stakeholder engagement and Board decisions during the year.

The Board conducted its annual review of corporate policies and procedures to update them in accordance with legal and regulatory requirements, including the Matters Reserved for the Board and Board Committees' Terms of Reference.

It undertook its annual review of the effectiveness of the Board collectively, its individual Directors, and its main Committees, subsequently agreeing actions to aid development. The evaluation was internally facilitated this year, as described on pages 88 and 89.

Cyber threat

Matters considered: Resilience and reduction of risk

Strategic lenses

Principal risks

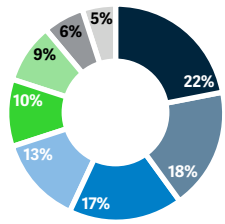
1 2 3 5 6 9 10 11

The Board continued to receive regular updates at each Board meeting from the Chief Information Security Officer on improvements being made to reduce cyber risks across the corporate estate and customer-facing products. These included:

- the development of a two-year cyber security strategy to support the delivery of the Sage vision
- the development of enhanced security standards and the introduction of a continual improvement model to stay ahead of threats
- understanding Sage's cyber crisis preparedness and the development of enhanced plans and playbooks

The Board's key areas of focus

The Board adopts a written set of objectives for each financial year, based on corporate strategy and the key responsibilities of its role. The proportion of time spent on each of the Board's key areas of focus is set out below with further details of its activities set out above and on pages 101 to 103.



- Finance and risk management
- Strategy and Board objectives
- Customer Success and Innovation
- Colleague Success and Culture
- Governance and reporting
- Other
- Group structure, acquisitions and disposals
- Leadership

Looking forward to 2021

In 2021, the Board intends to maintain its focus on Sage's transition to becoming a great SaaS company. In order to do so, the Board will continue to:

- monitor the implementation of the People plan which builds a high performance and nurturing culture, in line with Sage's Values and Behaviours and global diversity and inclusion strategy, and delivers high levels of colleague engagement
- monitor our talent identification and development within Sage
- drive to be customer centric and develop deep and enduring customer and partner relationships
- understand how the investments in Sage Business Cloud solutions in our key geographies are delivering competitive edge and elevating the Sage Business Cloud product portfolio into a digital environment for customers
- understand how our investments in AI and ML technologies, and their integration within our Sage Business Cloud products, are enabling our customers to become more efficient and productive
- maintain focus on understanding defence against cyber-attacks and keep abreast of cyber risks as an integral part of Sage's risk strategy
- support our Board Associate within their role to help the Board make better decisions and enhance colleague engagement
- create a more sustainable future for our colleagues, customers and communities through the implementation of our new Environmental Strategy

Embedding our Values and Behaviours

The Board recognises that our colleagues are critical to Sage's success in becoming a great SaaS company and it is Sage's Values and Behaviours which help to guide our colleagues in delivering on that strategy.

Refreshed Values and Behaviours were launched at the start of FY20. The overarching value of "We do the right thing" is complemented by values of "Start with our customer", "Together we succeed" and "Innovate to win". These values are reinforced by a number of anchor behaviours.

To continue fostering a winning SaaS culture, the Board placed a strong focus on embedding these refreshed Values and Behaviours so that they become part of our DNA, and a key part of this process was demonstrating the desired culture from the top. The Executive Team's cohesive response to Covid-19 exemplified how the Values and Behaviours should shape decisions, with colleague safety and customer care being consistently prioritised and communications to colleagues being frequent, transparent and authentic. The Executive Team also produced a motivational video for colleagues, explaining how living our values will allow colleagues to succeed together and do the right thing for customers.

Leaders across the business were provided with the tools to enable them to become cultural role models for their teams. Using a combination of online learning modules and collaborative training sessions, managers were empowered to train their teams in line with the refreshed Values and Behaviours and these were then integrated into 'Look.Evaluate.Assist.Deliver' (L.E.A.D.), our quarterly performance review programme. A significant proportion of colleagues' quarterly reviews now involve reflecting on behaviours exhibited throughout the year, including asking managers to consider whether their team members have demonstrated the Values and Behaviours. This has served to increase colleagues' awareness of the values and engagement with the behaviours.

Sage's Code of Conduct is one way in which the values are put into practice, setting clear expectations on compliance with legal and ethical standards. In recognition of this, the Code of Conduct was refreshed in FY20 to integrate the new Values and Behaviours, and all colleagues completed mandatory eLearning which was provided as a series of short, easily digestible and interactive "snippets".

The Board monitored the progress of Sage's culture journey throughout FY20 using culture KPIs and Group-wide engagement surveys, including two pulse surveys. Our latest colleague culture pulse survey undertaken in Q3 FY20 received a response rate of 78% of the Sage colleague population and showed an increase in employee NPS of 23 points since November 2019, and an increase of 50 NPS points since November 2018. Sage's ratings and comments on Glassdoor have also reflected this progress, with the business's overall rating increasing to 4.4. Further information is provided in our People section on pages 30 to 35.

Sage's response to Covid-19

Sage has rapidly adapted as a result of the Covid-19 pandemic

The pandemic has been unprecedented in scale, impacting lives and livelihoods. As the outbreak continues to evolve, the Board's key priorities throughout have been to ensure the health and wellbeing of colleagues and to serve and support our customers and partners, whilst remaining focused on our SaaS strategy.

Customer Success

The Board recognises that small and medium businesses are navigating unprecedented challenges, including considerable economic uncertainty. To support these businesses, Sage quickly established online Coronavirus Hubs in all the major regions in which it operates, providing practical information and free support to all businesses, whether customers or not. Webinars and other interactive sessions have also been broadcast to advise small and medium businesses on what government support is available and how it can be accessed.

A strong focus has been placed on gathering external research and listening to customer feedback to ensure Sage continues to understand the changing needs of small and medium businesses and help those businesses most in need.

Colleague Success

Sage rapidly mobilised the workforce to work from home to minimise disruption to colleagues' lives and to ensure business continuity for both Sage and our customers. The transition to homeworking was managed through a range of focused initiatives, including increasing the frequency of communications from the Executive Team to give colleagues greater visibility on Covid-19 related decision making and Sage's strategic direction.

The health of colleagues is a key concern for the Board and results from the 'Always Listening' surveys (further information is provided in our People section on pages 33 and 35) made it clear that working from home was having an impact on some colleagues' mental wellbeing. In recognition of this, Sage provided all colleagues with free access to Headspace, a mindfulness training app, and approximately 32% of the colleague population have downloaded the app. Colleagues were also encouraged to participate in new Colleague Success Networks like Family@Sage. These Colleague Success Networks provide forums for colleagues to share resources, experiences and insights to help them stay healthy and support each other.

Innovation

Sage is working with governments to provide businesses with easier access to financial support, facilitating applications via our software. In the UK, a special software module has been developed to support customers when they apply for government funds, automating key parts of the process to improve application success rates and save customers' time.

Supporting our communities

We recognise that many of our charity partners have found the pandemic to be a particularly difficult time and we have striven to evolve the way that colleagues volunteer so that our communities continue to receive support. Sage Foundation quickly adapted to the new virtual working conditions by providing colleagues with opportunities to volunteer for Sage's charity partners online. Sage Foundation also hosted an internal innovation and collaboration event during which colleagues' coding, design, project management, financial modelling and communication skills were used to support non-profits affected by the pandemic.

Nomination Committee Report

Sir Donald Brydon
Chairman of the Nomination Committee

Dear shareholder

The main focus of the Nomination Committee (the "Committee") during the year was on Board and Board Committee composition. The Committee working with the whole Board also reviewed the Company's succession and talent management plans and was consulted on appointments to, and promotions within, the Executive Committee.

During the year, Blair Crump stepped down as President and Executive Director and Soni Jiandani and Cath Keers stepped down as Non-executive Directors. The Committee continued to review the skills and shape of the Board and decided to decrease the number of Executive Directors, and to bring more SaaS experience into its deliberations. Consequently, the Board appointed two new Non-executive Directors during the year: Sangeeta Anand, whose experience spans a broad range of public and private companies, from the Fortune 100 to a $30m stage start-up; and Irana Wasti, who has extensive experience of driving international growth by enabling everyday entrepreneurs to start, grow and run their businesses online. The Lygon Group was engaged to find and assess suitable candidates. The result is a refreshed Board, diverse in skills, ethnicity and gender.

During the year, the Committee also recommended the re-appointment of Drummond Hall as Non-executive Director and my re-appointment as the Chairman of Sage. Regarding the composition of the Committee, recommendation was made for the appointment of Dr John Bates to replace Soni Jiandani.

The Committee will continue to monitor the composition and balance of the Board to ensure that broad expertise is available from the existing members and will recommend further appointments as and when appropriate to assure the long-term success of the Company. I have expressed my intention to retire from my role as Chairman of Sage and step down from the Board in September 2021, by which time I will have served as Sage Chairman for nine years. The Committee, led by Drummond Hall, Senior Independent Director, has established a process to identify and appoint my successor and we will communicate with you as we make progress.

Looking forward, the Committee will continue its focus on the Board and the Company's succession planning and oversee the development of talent from within Sage and diversity throughout the organisation.

Sir Donald Brydon
Chairman

Nomination Committee governance at a glance

The Committee reviews the leadership and succession needs of the Board and ensures appropriate procedures are in place for nominating, training and evaluating Directors. The purpose is also to review the composition, skills and experience of the Board.

Committee composition and meetings

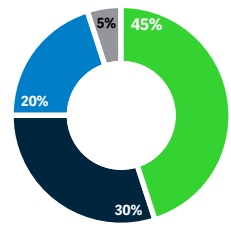
The Committee is composed of two Independent Non-executive Directors, Drummond Hall and Dr John Bates, and is chaired by Sir Donald Brydon. There was a change in Committee membership during the year with Soni Jiandani stepping down and being replaced by Dr John Bates in February 2020.

Details of the skills and experience of the Committee members can be found in their biographies on pages 80 and 81. The Committee held two scheduled meetings during FY20. An additional unscheduled meeting was also held and written Committee resolutions were passed as and when required. Details of individual attendance at scheduled meetings are set out below.

Activities and effectiveness review

During the year, the Committee recommended the appointment of two Non-executive Directors, the re-appointment of the Senior Independent Director and the Chairman and changes to Committee memberships. The Committee also initiated the process for the Chairman's succession. Fuller details of the Committee's activities are set out below.

The Committee's performance was reviewed as part of the 2020 Board effectiveness review. Following consideration of the findings of the 2020 review of the Committee, the Directors were content that it was operating satisfactorily.



- Succession planning
- Board and Committee composition
- Diversity and inclusion
- Corporate governance

Meeting attendance

	Directors	Independent	Attendance at scheduled meetings
Chairman	Sir Donald Brydon	On appointment[1]	2/2
Non-executive Directors	Drummond Hall	Senior Independent Director	2/2
	Dr John Bates[2]	Independent	2/2
	Soni Jiandani[3]	Independent	0/1[4]
Company Secretary	Vicki Bradin		2/2

Notes:

1. As required by the Code, the Chairman was independent on appointment.
2. Dr John Bates was appointed to the Committee as a new member on 6 February 2020.
3. Soni Jiandani stepped down from the Committee and the Board on 25 February 2020.
4. Soni Jiandani was unable to attend a scheduled meeting due to unforeseen circumstances.

Activities of the Committee

During the year, the Committee focused on the matters summarised in the table below.

Key area of activity	Matters considered	Outcome
Board and Board Committee composition	• Leading the selection process to find two new Non-executive Directors during the year • Reviewed the skills, experience, independence and knowledge on the Board and considered changes to bring increased SaaS and other knowledge areas to the Board	The Committee made the below recommendations to the Board during the year: • re-appointment of Drummond Hall • appointment of Dr John Bates to the Nomination Committee • appointment of Sangeeta Anand and Irana Wasti as Non-executive Directors • re-appointment of the Chairman of Sage, Sir Donald Brydon The Board also appointed Dr John Bates to the Remuneration Committee in April 2020, to replace Cath Keers who the Board had determined would no longer be an independent Director (see page 86 for further information)
Succession planning and talent	• Succession planning for the Board and for the Executive Committee, having regard to diversity • Progress made in the development of a diverse senior management succession pipeline	• The Board received regular updates from the Chief People Officer • Consulted on Executive Committee appointments and promotions • Reviewed and approved talent strategy, development priorities and the programmes underpinning them • Reviewed talent profiles for the Executive Committee • Conducted a post year-end talent review of senior executives across the Executive Committee and Executive Team level

Key area of activity	Matters considered	Outcome
Diversity and inclusion	• Reviewing Sage's progress towards building a diverse and inclusive workforce and to further develop a diverse and gender-balanced workplace	• Regularly considered the progress made across diversity and inclusion at Sage and the focus on gender equality, building an inclusive culture and health and wellbeing of our colleagues
Corporate governance	• Considered the outcome of its annual evaluation • Reviewed the Committee's Terms of Reference to ensure they were fit for purpose and addressed legal and regulatory developments since the last review	• Approved revised Terms of Reference for consideration and adoption by the Board

Board composition and succession

The Committee continues to keep under ongoing review the structure, size and composition of the Board and its Committees, making recommendations to the Board as appropriate. Consideration is given to the length of service of the members of the Board as a whole and the need for it to refresh its membership progressively over time.

The process for making new appointments to the Board is usually led by the Chairman. The Chairman will not, however, chair the Committee when it is dealing with the appointment of his successor; this process is led by the Senior Independent Director. The Committee has procedures for appointing a new Non-executive and Executive Director which are clearly set out in its Terms of Reference. The selection and appointment procedure commences with the agreement of a role profile and may include selection of an executive search firm to help identify potential candidates for the role or through open advertising.

When considering appointments to the Board, the Committee evaluates the skills, experience and knowledge required with due regard to diversity, including as to gender. Any candidates who are shortlisted are interviewed by the Chairman and other Directors. The Board is updated on the progress of the selection process and receives recommendations from the Committee for appointment.

Through the course of the year, the Committee has continued to strengthen and further diversify the knowledge and experience on the Board and its Committees, for example when recommending new Board appointments.

New Non-executive Directors

A thorough process was undertaken by the Committee to identify and assess a number of potential candidates. The Lygon Group was instructed to assist with the search for the new appointments. The search firm signed up to the voluntary Code of Conduct and does not have any other connection to Sage or with any individual Directors, other than to provide recruitment services. Open advertising was not used for these positions.

To enhance the Board's collective capability and aid us on our journey to meet our strategic objectives, the Committee recommended the appointment of Sangeeta Anand and Irana Wasti, noting, in particular, that each appointment would bring strong experience of high growth cloud technology. The Committee also noted that these appointments would demonstrate Sage's broader commitment to diversity. In making the recommendations, the Committee also satisfied itself that both Sangeeta Anand and Irana Wasti meet the independence criteria of the Code and took into account their other significant commitments and the time involved, as disclosed to the Committee. The Committee's recommendations resulted in Sangeeta Anand's and Irana Wasti's appointment to the Board as Non-executive Directors with effect from 1 May 2020.

Senior Independent Director

Drummond Hall has been in his role of Non-executive Director since January 2014 and in the capacity of Senior Independent Director since February 2017. Drummond Hall's second three-year term of appointment as Non-executive Director expired end of December 2019 and was considered for renewal. As a result of an ongoing review of skills, experience, knowledge and time commitment, and having considered length of service and independence for the purpose of the Code, the Committee recommended the re-appointment of Drummond Hall as Non-executive Director for a further three-year term until December 2022. The Board accepted this recommendation.

Chair succession

Succession planning continues to be a priority for the Committee in FY21 including consideration given to anticipated retirements from the Board.

Sir Donald Brydon was appointed Board Chairman in September 2012, having joined the Board as a Non-executive Director in July 2012. Sir Donald has indicated that he will retire from the Board in September 2021, by which time he will have served on the Board for just over nine years. His retirement aligns with the Board's succession planning and good corporate governance practice. To ensure an orderly, thorough and effective handover process, in the best interests of all Sage stakeholders, the Committee recommended Sir Donald Brydon's re-appointment as Board Chairman for a further 14 month period, until September 2021. The recommendation was presented by the Senior Independent Director and approved by the Board, without the Chairman's involvement.

Led by the Senior Independent Director, the Committee has initiated a robust process to identify and appoint Sir Donald Brydon's successor. The Committee has begun this process by building a detailed understanding of what is required for the role. The Lygon Group was instructed to assist with the search.

Executive Committee and senior management

When considering succession planning for the Executive Committee and senior management, the Committee focuses on supporting and developing Sage's pipeline of internal talent, and the organisation's ability to attract, retain and develop skilled, high potential individuals. The Committee recognises the importance of such processes and how they benefit Sage, and worked alongside the Executive Team to further develop them throughout the year. This will continue to be an area of focus during FY21 and beyond.

Evaluation

In compliance with the Code, the Board conducts a formal and rigorous evaluation of its performance including the performance of its Committees, individual Directors and the Chairman annually. An externally facilitated evaluation is undertaken at least every three years.

In FY20, the Board carried out an internal evaluation and the resulting report on the outcome of the evaluation of the Committee was received and discussed by the Committee in September 2020.

The overall conclusion from this year's internal evaluation was that the Committee continues to work well and is operating effectively. For further information, including details of the evaluation process, questions raised, participants, outcome and next steps please refer to pages 88 and 89.

Diversity and Inclusion

The Committee, led by the Board, strongly believes that diversity in all its forms, and the promotion of an inclusive culture, are vital to our success and fundamental to achieving our vision of becoming a great SaaS company. A diverse workforce brings a broader range of perspectives, leads to better ideas and in turn to better decision-making. It drives innovation, helps with understanding the needs of our key stakeholders, and reflects our commitment to diversity and inclusion. It further helps to find and retain the best talent, irrespective of nationality, gender, religion, ethnic and social background.

Our people are at the heart of our business and key to our ongoing success. We want our people to thrive in a fair and inclusive environment. At Board level, Sage's approach to the appointment of new Directors and senior management reflects our policy and drive to set the tone from the top on a culture of diversity, inclusion and belonging. The Board places great emphasis on ensuring that its membership reflects diversity in its broadest sense, whilst ensuring that the optimal balance of experience, skills and professional background is retained.

The Board and the Committee remain committed to the targets set by the Hampton Alexander Review and the Parker Review for FTSE 100 companies to have a minimum of 33% female representation on their boards and in their executive committees including direct reports by 2020, and at least one person of colour on their boards by 2021. Sage has met these targets as at the date of this report. We continue on our journey to achieve greater diversity on our Board. With the recent appointments of Sangeeta Anand and Irana Wasti as Non-executive Directors, the female representation on our Board is now 33%, and the overall diversity of the Board is broadened. The recent appointment of Cath Keers to the Executive Committee further demonstrates our commitment to enhance the gender balance of our Executive Committee and their direct reports, which currently stands at 37%. Further information on gender diversity, including in our broader Executive Team, and on ethnic diversity objectives, can be found on pages 31, 34 and 35.

Diversity and inclusion have continued as an area of focus at Sage. In November 2019, we embarked on our global, Group-wide diversity and inclusion strategy called 'Sage Belong'. Sage Belong focuses on diversity and inclusion in a very broad sense, including gender equality; wellbeing; removing barriers to an inclusive working environment for all colleagues, notably those with disabilities or from the LGBTQ+ community; and fostering respect of all racial identities and ethnic minorities through understanding the impact that movements such as Black Lives Matter are having on our colleagues.

Our Group Diversity & Inclusion Policy (the "D&I Policy") forms part of our Sage Belong strategy and continues to enhance our diversity philosophy with particular focus on gender equality, inclusion at Sage and the health and wellbeing of all colleagues.

Along with reviews including talent and succession planning, the Board annually monitors progress against diversity and inclusion objectives, which the Committee also bears in mind in its decision-making process and recommendations to the Board. Through the course of FY20, diversity and inclusion programmes continued to evolve and develop including:

- Our D&I Council, launched in FY19, plays an important role in the implementation of our D&I Policy. The D&I Council consists of colleagues from diverse teams, backgrounds, ages, seniority, and regions across the organisation to ensure differing opinions and ideas are represented. The D&I Council is co-chaired by the CEO and the Chief People Officer. Its purpose is to monitor our progress against goals and targets set by the Sage Belong strategy, provide feedback, raise concerns and ensure alignment with Sage's overall strategy.
- Sage is passionate about building a culture where our colleagues feel they can bring their whole selves to work, where people know they will be judged on their performance and behaviours and not their identity. This is accelerated by providing strong encouragements to participate in Colleague Success Networks ("CSN") with the aim to create a safe environment for colleagues to come together to provide support and education to one another and vital feedback to the business. This all helps us to build tailored programmes which create opportunities and enable success for traditionally underrepresented groups. We have already introduced Pride@Sage for all our LGBTQ+ colleagues and Belong@Sage, focusing on diversity and inclusion globally. We have also recently launched a new equality focused CSN, BUILD (Blacks United in Leadership Development).
- Our Sage Colleague Success Awards celebrate colleague achievements that have been guided by our values and feature six award categories including 'Inclusive Leader' acknowledging leaders at any level within Sage who champion diversity and inclusion.
- Our D&I Champions programme also continues to grow, with approximately 500 colleagues providing on-the-ground support in rolling out our Sage Belong strategy.
- Additionally, we are building a data baseline, both quantitative and qualitative, for all our interventions. By working with multiple partners, including Brightworks Consultancy reviewing our Gender Equality work; Stonewall reviewing our LGBTQ+ activity; and ENEI with oversight for Disability, we will increase our understanding of our colleagues' experience.
- Our Gender Pay Gap reporting also demonstrates the good progress we are making against our Sage Belong strategy and the steps we are taking towards gender equality at Sage. Further details of this report can be found on our website at sage.com.

The Covid-19 pandemic has changed the way people around the world live their lives and brought unprecedented challenges to organisations. It is recognised that remote working could make it harder for organisations to root out any discrimination and, in turn, support those who are falling victim to it. Remote working and in-office diversity and inclusion initiatives should have the same sentiment and motivation behind them, and Sage is committed to adapt to the new environment and ensure an equal workplace for all colleagues.

Audit and Risk Committee Report

Jonathan Bewes
Chairman of the Audit and Risk Committee

We remain firmly focused on ensuring that Sage's risk management procedures and internal controls remain robust and respond effectively to the emerging opportunities and challenges within the Group's revised operating model and the Covid-19 pandemic.

Dear shareholder

I am pleased to present the Annual Report of the Audit and Risk Committee ("the Committee") for 2020. This report explains the Committee's responsibilities and shows how it has delivered on these, whilst also considering and responding to how the business has evolved during the year and in particular how the business has responded to the pandemic. In particular, the Committee has continued to challenge and consider the suitability, assessment of and response to the principal risks in this new environment and considered the impact of external reviews into audit upon the role and responsibilities of the Committee.

Jonathan Bewes
Chairman of the Audit and Risk Committee

Committee composition and meetings

The Committee is composed solely of independent Non-executive Directors. The current members are Drummond Hall and Annette Court, with Committee Chairman Jonathan Bewes. Details of the skills and experience of the Committee members can be found in their biographies on page 80.

During the year, there were four scheduled meetings. Details of individual attendance of meetings are set out on page 115.

Activities and evaluation

During the year, the Committee oversaw the Group's financial reporting, risk management and internal control procedures and the work of its internal and external auditors. Fuller details of the Committee's activities are set out below. The Committee's performance was reviewed as part of the 2020 Board evaluation. Following consideration of the findings of the 2020 review of the Committee, the Directors were satisfied that it was operating effectively.

Allocation of time

Key activities during the year have included assessing the ongoing effectiveness of internal controls, monitoring the business's ongoing application of key accounting policies, the further embedding of the Enterprise Risk Management Framework including risk appetite, tolerance and emerging risks and specifically the approach to cyber risk along with consideration of goodwill impairment. In addition, the Committee has monitored progress on the implementation of IFRS 16 as well as the appropriateness of the Group's revenue recognition, going concern, viability assessment, financial reporting and accounting judgements.

The Committee operated during the year in accordance with the principles of the Financial Reporting Council's ("FRC") UK Corporate Governance Code 2018 (the "Code") and the associated recommendations set out in the FRC's Guidance on Audit Committees.

Role of the Committee

The Committee is an essential part of Sage's overall governance framework. The Board has delegated to the Committee the responsibility to oversee and assess the integrity of the Group's financial reporting, risk management and internal control procedures, and the work of Sage Assurance and the external auditor. These responsibilities are defined in the Committee's Terms of Reference, which were reviewed and approved by the Board and the Committee in February 2020.

Composition

The Code requires that at least one member of the Committee has recent and relevant financial experience. The Disclosure Guidance and Transparency Rules (DTRs) require that at least one member has competence in accounting and / or auditing. The Board is satisfied that the Chairman meets these requirements, being a qualified chartered accountant and experienced Audit Committee Chairman following 25 years in financial services as a corporate finance advisor in the investment banking sector.

In addition, the Board considers that the Committee has the necessary competence and broad experience relevant to the sector in which Sage operates as required by the Code. Annette Court and Drummond Hall are both former Chief Executive Officers with extensive experience of leading complex, customer-focused businesses.

The membership of the Committee has not changed during the year.

Activities during the year

The Committee held four scheduled meetings during FY20 in line with its Terms of Reference. There were no unscheduled meetings during the year. Details of individual attendance at scheduled meetings are set out below. The Chairman of the Board, the Chief Executive Officer and the Chief Financial Officer were present at all four of the scheduled meetings. The General Counsel and Company Secretary, Vice President ("VP") Risk, Business Integrity and Assurance and the Executive Vice President ("EVP") Finance Control and Operations were also present at all four meetings.

The Chairman of the Committee reported to the Board on key matters arising after each of these meetings. At each meeting, the Committee met with the external auditor, and at certain meetings the VP Risk, Business Integrity and Assurance, without management being present.

Outside these formal meetings, the Chairman met regularly with the Chief Financial Officer, the external auditor, the VP Risk, Business Integrity and Assurance, the EVP Finance Control and Operations and the General Counsel and Company Secretary.

Meeting attendance

	Directors	Independent	Attendance at scheduled meetings
Non-executive Directors	Jonathan Bewes	Independent Non-executive Director	4/4
	Annette Court	Independent Non-executive Director	4/4
	Drummond Hall	Senior Independent Director	4/4
Company Secretary	Vicki Bradin		4/4

At each meeting, the Committee received, challenged and considered:

- scheduled finance updates on financial reporting, including significant reporting and accounting matters;
- scheduled risk updates, including risk dashboards outlining both principal and any escalated risks. The Committee also received summary reports and supplementary briefings from Sage Risk and management on selected principal risks and other 'in-focus' reviews;
- the development of Group and principal risk appetites and the assessment of emerging risks;
- summary reports of escalated incidents and instances of whistleblowing, together with status of investigations and, where appropriate, management actions to remediate issues identified;
- the Internal Audit plan;
- progress against the plan and results of Internal Audit activities, including Sage Assurance and management reports on internal control, including financial, compliance and operational matters, and the implementation of management actions to remediate issues identified and make improvements to internal controls;
- the External Audit plan; and
- updates on delivery of the external audit plan and reports from the external auditor on the Group's financial reporting and observations made on the internal financial control environment in the course of their work.

During the year the Committee also received updates on the legal and regulatory frameworks relevant to its areas of responsibility, including the GDPR.

Financial reporting, including significant reporting and accounting matters

The agenda for every Committee meeting includes a formal finance update from the EVP Finance Control and Operations. This informs the Committee about developments in the Group's reporting and accounting environment, and compliance with relevant reporting standards. During the year, the Committee considered how these developments were addressed in preparing the Group's financial statements, ensuring that the requirements were appropriately reflected. The Committee assessed the overall quality of financial reporting through review and discussion of the significant accounting matters and the interim and annual financial statements. The Committee's review included assessing the appropriateness of the Group's accounting policies and practices, confirming their compliance with financial reporting standards and relevant statutory requirements, and reviewing the adequacy of disclosures in the financial statements.

In performing its review of the Group's financial reporting, the Committee considered and challenged the work, judgements and conclusions of management and the Group finance team. The Committee also received reports from the external auditor setting out its view on the accounting treatments included in the financial statements, based on its review of the interim financial statements and its audit of the annual financial statements. The Committee's review included assessing the appropriateness of the Group's accounting policies and practices, confirming their compliance with financial reporting standards and relevant statutory requirements, and reviewing the adequacy of disclosures in the financial statements.

Significant reporting and accounting matters

The Committee considered a number of significant accounting and financial judgements and estimates in relation to the Group's financial statements, which were addressed as described below.

Revenue recognition

Revenue recognition continues to be an important area of focus for the Group. The Group has a detailed policy on revenue recognition for each category of revenue. This includes the application of rules relating to the various ways in which the Group sells its products around the world and recognition policies for critical estimates and judgements including (i) sales to partners versus end users; and (ii) deferral of revenue for on-premise software subscription offerings.

The Committee continues to oversee management's application of the revenue recognition policies and in FY20 has focused on reviewing embedding and appropriate operation of controls. The Committee obtained reports from, and discussed with, the external auditor the nature, extent and findings of its procedures over revenue recognition in the year.

The revenue recognition accounting policy is set out in note 3.1 to the financial statements and is referenced in the Group's significant accounting judgements.

Goodwill impairment testing

Given the Group's goodwill balance of £1,962m and the continuing evolution of Sage's business model, the annual assessment of the recoverability of goodwill is a significant area of focus for the Committee. The Committee reviewed and considered the methodology applied, and the key inputs to the impairment model including forecast cash flows, forecast timeframe, discount rates and long-term growth rates to determine the recoverable amounts on a value in use basis.

Key to the Committee's challenge and evaluation of the recoverability of the goodwill for each CGU was the impact on headroom of downside sensitivity analyses performed separately by both management and the external auditor.

Following the agreement of the Committee and management in FY19 to include an additional sensitivity disclosure in respect of the Asia CGU, impairment of the goodwill balance totalling £19m was recognised in FY20. The Committee enquired and challenged the drivers of impairment, with management concluding that the operational performance is the key driver.

The Committee further enquired as to whether any other reasonable changes in assumptions would result in a material impairment and therefore require sensitivity disclosure in the financial statements. The Committee agreed with management's conclusion that a sensitivity disclosure should be included for the Intacct CGU and Iberia CGU in relation to a reasonably possible change in a combination of revenue growth and discount rate.

Professional services restructuring

As described on page 188 in note 3 the Group announced the restructuring of its professional services division during the second half of the financial year ended 2020. The activity reflected Sage's strategic move away from lower margin professional service with a focus on centre of excellence support provision to business partners. The Committee challenged the treatment of these costs as non-recurring and considered the views of the external auditor in reaching its own conclusion that the approach adopted by management was appropriate.

Property restructuring and office relocation

In FY19, the Group announced the move from its UK headquarter location at North Park to a new site at Cobalt Business Park ("Cobalt"), both in Newcastle. It was originally anticipated that the accounting impact in relation to this move would be contained to FY19 and FY20. However, given the delays in completion of refurbishment and subsequent move to new premises, it is now anticipated that further costs will be recognised in FY21 to reflect the final portion of accelerated depreciation. The Committee enquired as to the appropriateness of this given the time period across which the non-recurring costs have been recognised and was comfortable that given the one off nature and unforeseen circumstances associated with the delay this remained appropriate. The Committee also considered views of the external auditor in reaching this conclusion.

In addition, a programme of property restructuring was announced in FY20 with exit from 13 properties decided reflecting the Group's revised location strategy moving forward. The Committee challenged the treatment of these costs as non-recurring, considering the scale of the programme in particular and considered the views of the external auditor in reaching its own conclusion that the approach adopted by management was appropriate.

Disposal activity

As described on page 18 and in note 15.3, during the course of the year, the Group completed the disposals of Sage Pay and the Brazilian businesses which were announced as held or sale in the prior year. The Committee considered the accounting and reporting for these disposals, with particular focus on the profit / loss on disposals recognised and concluded that the approach adopted by management was appropriate. In addition, as at 30 September the Group announced that a further four assets would be held for sale (as detailed on page 18). The Committee considered the appropriateness of the classification as held for sale specifically considering the likelihood of completion of sale within the timeframe required by IFRS 5 at the November 2020 ARC meeting and concluded agreement with the approach adopted by management.

New IFRS standards

IFRS 16 "Leases" was adopted by the Group in the financial year ending in 2020 with a relatively limited impact for the Group. The Committee reviewed and discussed the transition adjustments at 1 October 2019 as part of its consideration of the interim financial statements.

The Committee considered management's financial statement disclosure of the effects of the new standards and its compliance with accounting standards and related best practice guidance. The Committee was satisfied that the approach taken by management is appropriate and that the disclosures show the impact IFRS 16 has had in its first year of application in 2020. These disclosures are contained in note 1 to the financial statements.

Taxation

The Committee evaluated updates from management in respect of uncertain tax positions, related provisions and the deferred tax position. These reports included consideration of the impact on the Group of the developments with regards to the European Commission's State Aid ruling. The Committee was satisfied that management's approach to accounting for taxation was appropriate and took account of developments during the year. The Committee considered the conclusions of the external auditor and noted its use of tax specialist for certain key matters.

Fair, balanced and understandable

Each year, the Committee advises the Board on whether the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess Sage's position, performance, business model and strategy. In reaching its conclusion, the Committee considered the results of management's assessment of going concern, reviewed the Annual Report and Accounts document as a whole, and assessed the results of processes undertaken by management to provide assurance that the Group's financial statements were fairly presented. These processes included an analysis of how the key events in the year had been described and presented in the Annual Report and Accounts, how alternative performance measures (APMs) had been defined and presented, and the outcome of representations received from country management teams on the application of a range of financial controls. The Committee also considered the perspective of the external auditor.

Viability statement and going concern

The Committee reviewed management's process for assessing the Group's longer-term viability in order to allow the Directors to make the Group's viability statement. The Committee considered and challenged the determination of the period over which viability should be assessed, and which of the Group's principal risks should be reflected in the modelling of sensitivity analysis for liquidity and solvency. It reviewed the results of management's scenario modelling and the reverse stress testing of these models. In addition, the Committee considered additional stress testing over key assumptions to determine the resilience of the business model to specific stresses with additional disclosure being included in FY20 to this effect. The impact of Covid-19 was also considered in the modelling of underlying performance as well as through the introduction of a global economic shock scenario. The Committee's principal review was conducted at the September Committee meeting with all comments and recommendations addressed by management in advance of Committee approval of the viability statement.

At the November 2020 meeting the Committee reviewed management's going concern assessment and approved the continued application of the going concern basis.

The Group's going concern and viability statements can be found on pages 149 and 76 to 77, respectively.

Risk management and internal controls

The Committee assists the Board in its monitoring of the Company's internal control and risk management systems, and in its review of their effectiveness. This monitoring includes oversight of all material controls, including financial, operational, regulatory and compliance controls, and assessing whether the control systems are fit for purpose and whether any corrective action is necessary.

During the year, the Committee:

- reviewed the principal risks, their evolution during the year and the impact of the Covid-19 pandemic, and the associated risk appetites and metrics, challenging and confirming their alignment to the continued achievement of Sage's strategic objectives. At each meeting, the Committee considered and challenged the ongoing overall assessment of each risk, their associated metrics and management actions and mitigations in place and planned. This review was supported through consideration of a revised Enterprise Risk Management Framework, the risk dashboards outlining both principal risks and any escalated or emerging risks;
- received updates from meetings of the Global Risk Committee, including scrutinising its performance in managing risk, and the suitability of its composition;
- undertook detailed in-focus reviews on selected relevant and current issues (see In-focus reviews section);
- reviewed and considered an assessment of the effectiveness of risk management more broadly, and reviewed summary reports from Sage Business Integrity on Group adherence to policies, including Conflicts of Interest, Anti-Money Laundering and Delegation of Authority;
- received reports from Sage Assurance and management on internal control and monitored the implementation of management actions to remediate issues identified and make improvements. The Committee also satisfied itself that management's response to any financial reporting or internal financial control issues identified by the external auditor was appropriate;
- reviewed at each Committee meeting escalated incidents and any instances of whistleblowing and management actions to remediate any issues identified (see Incident management, fraud and whistleblowing section); and
- considered individual incidents and associated actions to assess whether they demonstrated a significant failing or weaknesses in internal controls.

In-focus reviews

The Committee uses in-depth reviews to consider and challenge relevant, current and important issues. During the year the Committee:

- received a summary of the Group's proposed amendments to reporting;
- received briefings and updates on Sage's compliance with GDPR requirements, including post-implementation activities and monitoring;
- reviewed papers on Sage's obligations relating to conflicts of interest and Sage's framework for approving and keeping a record of actual and potential conflicts of interest in order to ensure effective management of those conflicts;
- received a briefing on the Group's approach to stress testing of key assumptions to determine the resilience of the business to downside scenarios;

- reviewed papers on Sage's approach to cyber security risk management;
- reviewed the implications for Sage of external reviews into audit; and
- received briefings on the findings of Sage's annual fraud risk assessment.

Incident management, fraud and whistleblowing

The Committee considered the suitability and alignment of the Incident, Emergency and Crisis Management and Whistleblowing policies and confirmed the effectiveness of these policies in facilitating appropriate disclosure to senior executive management and the Committee. At each meeting, the Committee received a summary report of any escalated incidents and instances of whistleblowing and, together with management, considered whether there were any thematic issues and identified remediating actions. As part of this reporting process, the Committee was notified of all whistleblowing matters raised, including any relating to financial reporting, the integrity of financial management or that included any allegations relating to fraud, bribery or corruption. The Committee was also notified of all non-whistleblowing incidents exceeding an agreed materiality threshold.

Internal Audit

Internal Audit is delivered by the Sage Assurance function. The Internal Audit Charter outlines the objectives, authority, scope and responsibilities of Sage Assurance. The Charter, performance against it, and the effectiveness of Sage Assurance, are reviewed by the Committee on an annual basis. The review of the Charter was undertaken at the Committee's February meeting. The Committee also considers and evaluates the level of Sage Assurance resource and its quality, experience and expertise, supplemented as appropriate by third-party support and subject matter expertise, to ensure it is appropriate to provide the required level of assurance over the principal risks, processes and controls throughout the Group.

The Committee reviewed and approved the nature and scope of the work of Sage Assurance, and the Sage Assurance plan was approved by the Committee at the beginning of the financial year, along with any subsequent quarterly updates, including changes to the plan to reflect the impact of the Covid-19 pandemic.

Progress against the plan and the results of Sage Assurance's activities, including the quality and timeliness of management responses, is monitored at each meeting, with the more significant issues identified within Sage Assurance reports considered by the Committee.

During the year, the annual assessment of Internal Audit was carried out by the VP Risk, Business Integrity and Assurance, evaluating Internal Audit against IIA standards. The review also considered progress against the pillars of the Assurance Strategy, including the development of the approach to Integrated Assurance. The assessment concluded that significant progress continued to be made and that Internal Audit remains effective and meets the needs of the Group. This report was presented to the Committee, its findings discussed, and the Committee endorsed this conclusion.

Following its review of the Company's internal control systems, the Committee considered whether any matter required disclosure as a significant failing or weakness in internal control during the year. No such matters were identified.

External auditor EY

Each year, the Committee makes a recommendation to the Board with regard to whether the external auditor should be re-appointed. In making its recommendation, the Committee considers the auditor's effectiveness, including its independence, objectivity and scepticism. The Committee also reviews the application of, and compliance with, the Group's Auditor Independence Policy, in particular with regard to any non-audit services provided by EY. The Committee also considers business relationships between the Group and EY, which primarily relate to EY's procurement of Sage products and applications.

Further consideration is given to partner rotation and any other factors which may impact the Committee's judgement regarding the external auditor. EY has now been Sage's external auditor for six years since the formal tender process conducted in 2014. As required by the mandatory five-year rotation of audit partners in order to safeguard the external auditor's independence, a new lead partner, Kath Barrow, has taken on overall responsibility for the 2020 audit.

The Committee confirms that Sage has complied with the requirements of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, which relates to the frequency and governance of tenders for the appointment of the external auditor and the role of the audit committee. Under these requirements and the terms of the order Sage must undertake a formal tendering process at least every ten years.

Following the rotation of the lead auditor, the Committee considers a full tender for the Group's external audit services, subject to its annual reviews, likely in the year ending September 2024. This allows for any potential new audit firm to take up the role for the year ending September 2025. The Committee believes this approach is in the best interest of shareholders, as over this period the Group will benefit from an efficient and effective audit, whilst receiving fresh challenge from a new lead auditor.

Consistent with the previous year, the Committee received feedback from the businesses evaluating the performance of each assigned audit team. Management's report to the Audit and Risk Committee included a summary of the findings of a survey of key Sage colleagues on the quality of the auditor's delivery, communication and interaction with the various finance teams across the Group. Management concluded that the working relationship between finance functions and auditors across the Group was effective and the audit had been carried out in an independent, professional, organised and constructive manner. The Committee's assessment of auditor effectiveness is provided below.

The Committee holds private meetings with the external auditor after each Committee meeting to review key issues within their sphere of interest and responsibility and provide an opportunity for open dialogue and feedback from the external auditor without management being present. Also, the Chairman meets regularly with the external auditor outside the formal Committee meeting schedule to facilitate effective and timely communication. Further, the Committee received a report from EY evaluating its independence and a formal statement of EY's independence as the external auditor.

Having considered all of the above, the Committee has recommended to the Board that a resolution to reappoint EY be proposed at the 2020 AGM and the Board has accepted and endorsed this recommendation.

Non-audit services

The Committee is responsible for the development, implementation and monitoring of policies and procedures on the use of the external auditor for non-audit services, in accordance with professional and regulatory requirements. At Sage this is governed by the Auditor Independence Policy (the "Policy"). The Policy has been in place throughout the year. It specifies the role of the Committee in reviewing and approving non-audit services in order to ensure the ongoing independence of the external auditor. A summary of non-audit fees paid to the external auditor is provided to the Committee on a quarterly basis.

The Policy states that Sage will not use the external auditor for non-audit services, except in limited circumstances, and as permitted by the Ethical Standard, where non-audit services may be provided by the external auditor with pre-approval by the Committee unless clearly trivial. This is provided that the approval process set out in the Policy is adhered to and that potential threats to independence and objectivity have been assessed and safeguards applied to eliminate or reduce these threats to an appropriate level.

The Committee considered the application of the Policy with regard to non-audit services and confirms it was properly and consistently applied during the year. The Policy also requires that the ratio of audit fees to non-audit fees must be within Sage's pre-determined ratio, and non-audit fees for the year must not exceed 70% of the average of the external audit fees billed over the previous three years.

In 2020, the ratio of non-audit fees to audit fee was 5%, principally reflecting the fee paid for the half year interim review. A breakdown of total audit and non-audit fees charged by the external auditor for the year under review is shown in note 3.2 to the financial statements.

Oversight and assessment of the external auditor

To fulfil its responsibility for oversight of the external audit process, the Committee reviewed and agreed:

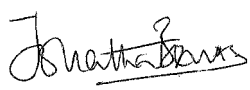
- the terms, areas of responsibility, associated duties and scope of the audit as set out in the external auditor's engagement letter;
- the overall work plan and fee proposal;
- the issues that arose during the course of the audit and their resolution;
- key accounting and audit judgements;
- the level of errors identified during the audit; and
- control recommendations made by the external auditor.

The Committee monitored the effectiveness, objectivity and independence of the external auditor during the year. The Committee based its assessment of EY on its own observations and interactions with the external auditor, and consideration of a number of aspects of the auditor's performance, including:

- the experience and expertise demonstrated by the auditor in its direct communication with, and support to, the Committee;
- the content, quality of insight and added value provided by the auditor's reports;
- the scope of the agreed external audit plan and the external auditor's execution and fulfilment of the plan;
- the robustness and perceptiveness of the auditor in its handling of key accounting and audit judgements; and
- the interaction between management and the auditor.

Evaluation of the performance of the Committee

The evaluation of the Audit and Risk Committee for FY20 was completed as part of the 2020 Board internal evaluation process. An explanation of how this process was conducted, the conclusions arising from it and the action items identified is set out on page 89. The Committee has considered this in the context of the matters that are applicable to the Committee.



Jonathan Bewes
Chairman

Remuneration Committee

Annette Court
Chairman of the Remuneration Committee

"Despite the unusual circumstances we have faced this year we have maintained the integrity of our policy, rewarding the achievement of clearly defined goals driving our business strategy."

Dear shareholder

On behalf of the Remuneration Committee ("the Committee"), it is my pleasure to present the Directors' Remuneration Report for the year ended 30 September 2020.

This Report complies with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013, the provisions of the 2018 UK Corporate Governance Code (the "Code"), the Companies (Miscellaneous Reporting) Regulations 2018, the Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019 and the Listing Rules.

The Report is in two sections:

- **A summary of the Directors' Remuneration Policy ("the Policy") (pages 128 to 132).**
- **The Directors' Remuneration Report (pages 133 to 148).** This section sets out details of how the 2019 Policy was implemented for the year ended 30 September 2020 and how we intend the Policy to apply for the year ending 30 September 2021.

Impact of Covid-19

People's health and wellbeing have been front and centre of the Covid-19 pandemic and we acknowledge its impact on our colleagues, shareholders, customers and suppliers alike.

I am tremendously proud of how Sage has managed to make progress against its strategic lenses of Customer Success, Colleague Success and Innovation during the pandemic. Of particular interest to the Committee was the treatment of colleagues, which provided vivid context for its decisions on executive remuneration in 2020:

- No salary reductions or deferrals were necessary for any colleague, and Sage took no government support for the payment of salaries in any of our geographies;
- 2020 bonuses for colleagues were able to be provisioned for payment at 2019 levels and commissions for our sales teams paid out only 15% lower than 2019;
- There were no cuts to colleague benefits programmes;
- Workforce headcount adjusted for corporate transactions is flat;
- 2021 salary increases for colleagues will go ahead from January, with investment focused on our workforce below senior management level.

For investors in the UK, it has been a difficult year, with capital markets affected not only by Covid but also Brexit uncertainty. For our investors, I am pleased to say that although the Board made the decision to suspend the Share Buyback Programme to preserve cash, we did not need to raise any additional capital and the final dividend was paid as planned.

Against that backdrop, the Committee has decided that for Executive Directors, 2020 bonus and 2018 PSP will be based on the formulaic outcomes, salaries will not be increased in 2021, and there will be no change to the quantum of bonus or PSP potential, or benefits or pension provisions.

Objectives and responsibilities

The Remuneration Committee's main objective is to determine the framework, broad policy and levels of remuneration for the Group's Chief Executive Officer, the Group's Chief Financial Officer, the Chairman of the Company and other executives as deemed appropriate, ensuring compliance with legal and regulatory requirements and striving to enhance Sage's long-term development.

This framework includes, but is not limited to, establishing stretching performance-related elements of reward and is intended to promote the long-term success of the Company. We achieve this through:

- Providing recommendations to the Board, within agreed terms of reference, on Sage's framework of executive remuneration;
- Determining the contract terms, remuneration and other benefits for each of the Executive Directors, including performance share awards, performance-related bonus schemes, pension rights and compensation payments and aligning such to the Company's purpose, values and culture;
- Reviewing workforce remuneration and related policies across the Group and the alignment of incentives and rewards with culture, taking these into account when setting the Policy for Executive Directors;
- Determining remuneration for senior executives below Board level;
- Approving share awards; and
- Ensuring the Policy promotes long-term shareholdings by Executive Directors by ensuring share awards granted are released on a phased basis and subject to a total vesting and holding period of five years.

FY21 remuneration priorities

Sage continues to be focused on our path to becoming a great SaaS company with increased acceleration of our move to a cloud business; with an increased pace of digitisation among small and medium businesses, there is significant potential for Sage. Additionally, Sage has created a compelling portfolio of cloud native solutions, creating a strong platform from which to accelerate growth. Consequently, the Committee is proposing that Cloud Native Annualised Recurring Revenue ("Cloud Native ARR") be incorporated as a measure in both the FY21 bonus and PSP, complementing existing measures at a revised weighting providing close alignment with the evolved strategy. Furthermore, the proposed introduction of a customer-focused Net Promoter Score (NPS) measure in the FY21 bonus reflects the criticality of maintaining and improving the experience for Sage customers. Further details are set out in our statement of implementation of remuneration policy in the following financial year on page 143 of this report.

We will be engaging with shareholders on behalf of the Board in a review of our Policy before it is submitted to a binding shareholder vote at the 2022 AGM, when our current Policy expires.

Our remuneration principles

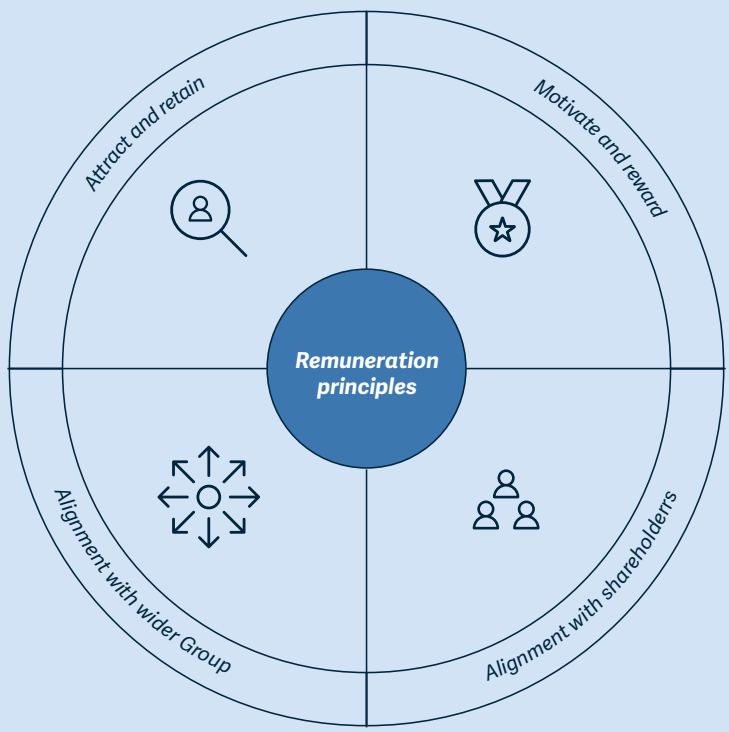
Our remuneration principles apply across our entire workforce and are designed to drive the behaviours and results required to support our short and longer-term business strategy as outlined in the Strategic Report.

Attract and retain

We offer competitive rates of pay and benefits to attract and retain the best people in a competitive international market.

Motivate and reward

Remuneration at Sage is designed to create a strong performance-oriented environment for the taking of appropriate risks and rewards achievement of our Company strategy and business objectives.



Alignment with the wider Group

Pay and employment conditions elsewhere in the Group are considered when determining executive base salary and bonus reviews.

Alignment with shareholders

The interests of our senior management team are aligned with those of shareholders by having a significant proportion of remuneration performance-based and delivered through shares, together with a significant shareholding requirement.

Remuneration at a glance

Delivering our remuneration principles in FY21

The table below summarises the remuneration arrangements for our current Executive Directors in FY21 in accordance with the 2019 Policy approved by shareholders on 27 February 2019.

Element of Policy	Purpose	Implementation in FY21
Base salary	Enables Sage to attract and retain Executive Directors of the calibre required to deliver the Group's strategy.	Steve Hare £785,000 (no increase) Jonathan Howell £545,000 (no increase)
Pension	Provides a competitive post-retirement benefit, in a way that manages the overall cost to the Company.	Steve Hare 15% of base salary Jonathan Howell 10% of base salary
Benefits	Provide a competitive and cost-effective benefits package to Executive Directors to assist them in carrying out their duties effectively.	Standard benefits package plus costs of travel, accommodation and subsistence for the Executive Directors and their partners on Sage-related business.
Annual bonus	Rewards and incentivises the achievement of annual financial and strategic targets. A minimum of one-third deferral into shares for three years is compulsory, with the remainder delivered in cash.	Maximum 175% of base salary 20% based on Annualised Recurring Revenue (ARR) growth, 50% based on Cloud Native ARR growth (with an underlying operating profit margin underpin applying to ARR measures), 10% on customer Net Promoter Score and 20% based on strategic goals.
Performance Share Plan (PSP)	Supports achievement of our strategy by targeting performance under our key financial performance indicators. Vesting is after three years, and awards are subject on vesting to a holding period for two years before being released.	Face value of 200% of base salary 35% based on ARR growth, 35% based on Cloud Native ARR (with ROCE underpin applying to ARR measures) and 30% based on relative Total Shareholder Return performance.
All-employee share plans	Provides an opportunity for Executive Directors to voluntarily invest in the Company.	Eligible to participate up to the tax-efficient limit of £500 per month.
Chairman and Non-executive Director fees	Provide an appropriate reward to attract and retain high-calibre individuals.	See page 144 of this Report for a list of Non-executive Director fees.
Shareholding guideline	The shareholding guideline for Executive Directors is 250% of base salary and achievement of this is expected within a maximum of five years from the time the Executive Director became subject to the guideline. The post-employment shareholding guideline requires Executive Directors to retain shares following cessation of employment as a Director.	Shareholding at 30 September 2020 (inclusive of deferred shares held, net of tax at the current estimated marginal tax withholding rate). Steve Hare 362% of base salary Jonathan Howell 194% of base salary See page 145 for more information on the shareholding guideline.

FY20 single figure for total remuneration summary:

Director	**2020 Total £'000**	2019 (restated) Total £'000[10]
Executive Directors		
S Hare	**1,633**	2,495
J Howell[1]	**1,091**	1,641
B Crump[2]	**620**	1,649
Non-executive Directors		
Sir D Brydon	**436**	434
S Anand[3]	**25**	–
J Bates[4]	**60**	20
J Bewes[5]	**77**	39
A Court[6]	**77**	39
D Hall	**77**	82
J Howell	**–**	14
S Jiandani[7]	**24**	60
C Keers[8]	**45**	60
I Wasti[9]	**25**	–

Notes:

1. Jonathan Howell was Non-executive Director and Chair of the Audit and Risk Committee to 3 December 2018, then Non-executive Director (albeit no longer independent) until 10 December 2018, when he was appointed as Chief Financial Officer for the Group.
2. Blair Crump was based in the USA and paid in US dollars. The single figure value for his remuneration is converted into GBP from US Dollars using the average exchange rate for the year, consistent with the basis of the presentation of financial performance in the financial statements. Blair Crump stepped down from his role as Executive Director on 25 February 2020, his remuneration is reported to this date.
3. Sangeeta Anand was appointed as a Non-executive Director on 1 May 2020.
4. Dr John Bates was appointed as a Non-executive Director on 31 May 2019.
5. Jonathan Bewes was appointed as a Non-executive Director on 1 April 2019.
6. Annette Court was appointed as a Non-executive Director on 1 April 2019.
7. Soni Jiandani stepped down from her role as a Non-Executive Director on 25 February 2020.
8. Cath Keers' status was redefined as non-independent Non-executive Director from 22 April 2020 until 30 June 2020 when she stepped down from this role. She was appointed as Chief Marketing Officer on 8 September 2020.
9. Irana Wasti was appointed as a Non-executive Director on 1 May 2020.
10. 2019 values are restated. Full details are provided in the footnotes to the full single figure for total remuneration table on page 134.

Key remuneration outcomes for FY20

2020 bonus: 14% to 19% of potential payable

The 2020 bonus was aligned to our strategy of accelerating our move to a cloud business and 80% of bonus potential was based on ARR growth, with an underlying operating profit (UOP) margin underpin. Covid affected the economic landscape and consequently our operating performance, so at 4.7% (at budget foreign currency exchange rates) the threshold level of ARR (6.7%) was not achieved even if the UOP underpin was. The remaining 20% is determined by assessments of individual Executive Directors' performance against their goals. In summary:

- For Steve Hare, 18.4% would be payable
- For Jonathan Howell, 19% would be payable
- For Blair Crump, 14% would be payable

Having taken into account the Group's resilient operational and financial performance and achievement of key strategic milestones (discussed on page 5 of the Chairman's statement), as well as the support to colleagues and the responsible approach adopted in relation to shareholders and other stakeholders, customers and colleagues over the period during the Covid-19 pandemic (as discussed on page 120), the Remuneration Committee determined that the formulaic outcome is appropriate and therefore no discretion has been applied, so between 14% and 19% of maximum bonus will be payable. Further detail is set out on page 135.

2018 Performance Share Plan (PSP): 27.4% of the total shares under award vesting

- PSP awards granted in December 2017 were based on recurring revenue growth and relative Total Shareholder Return (TSR) performance measured over the three-year period to 30 September 2020. Reflecting on general business performance, and the experience of shareholders, customers and colleagues over the period, the Remuneration Committee determined that the formulaic outcome is appropriate and therefore no discretion has been applied, so 27.4% of the total number of shares under award will vest in December 2020, subject to a two-year holding period where applicable. Further detail is set out on page 137.

Board changes in FY20

During the past year, the Remuneration Committee has considered remuneration issues arising from Board changes as follows:

- Blair Crump stepped down from the Board following the 2020 Annual General Meeting (AGM) on 25 February 2020. Full details regarding payments made to Blair can be found on page 142.

Engagement with stakeholders

The Committee values input from shareholders and is committed to ensuring open and transparent dialogue between parties. Ahead of the 2020 AGM, the Committee corresponded with shareholders and proxy agencies on the Annual Remuneration Report.

Colleague Success is critical for Sage and engaging with the workforce in meaningful, two-way dialogue underpins this. The CEO hosts frequent 'All-Hands' calls for the whole workforce, during which he provides Company performance updates explaining how this translates to the bonus plan. Colleagues are encouraged to ask questions and the CEO provides open and transparent answers. Additionally, Company performance at a Group and regional/functional level and bonus updates are periodically provided on our Intranet site and by email.

Colleagues have the opportunity to share their thoughts and feedback on all topics, including our remuneration policies and practices, through our 'Always Listening' survey. Launched during 2020 in response to the pandemic, this is a continuous feedback survey which colleagues can access at any time.

A global Reward and Recognition policy available to all colleagues applies across the entire workforce. Furthermore, colleagues are able to access a more detailed explanation of executive pay through this Report.

Revised Corporate Governance Code

The 2018 Code came into effect for Sage's financial year starting 1 October 2019 and we are fully compliant with the revised principles and provisions relating to remuneration, with the exception of CEO pension (Provision 38) which is referenced below. Key elements are:

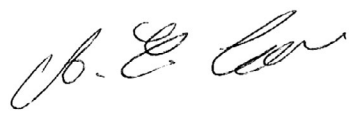
- PSP awards granted to Executive Directors are subject to a minimum release period of five years from grant. This policy was applied for the first time to the PSP awards granted in December 2017.
- Pension provision for any future Executive Director will be aligned with the majority of Sage's workforce (currently this level is 10% of salary). This policy was applied for the first time to the appointment of Jonathan Howell as CFO in December 2018. The pension policy for Steve Hare (currently 15% of salary) will be reviewed as part of our next Policy cycle, which will be subject to approval at the 2022 AGM.
- Executive Directors will be required to build up and maintain a significant holding of Sage shares both whilst an Executive Director (250% of salary) and for a two-year period after stepping down from that position (the lesser of 250% of salary or the Executive Directors' actual shareholding on leaving this position in the first year and reducing to 50% of this requirement in the second year).
- The Remuneration Committee has discretion to override formulaic outcomes of either the annual bonus or the PSP in appropriate circumstances. No discretion has been applied for 2020 outturns.
- The Remuneration Committee in 2020 undertook a review of remuneration and related policies for the wider workforce and deemed that remuneration for Executive Directors is aligned to the wider workforce. This is achieved by consistent performance measures in the annual bonus plan, pay principles that are applicable across the entire workforce and application of the annual pay review process. Additionally, Save and Share, our all colleague Share Plan, generates Colleague Success through fostering colleagues as shareholders at all levels across the business. In 2020, the take-up rate was 32% of eligible colleagues.
- Remuneration arrangements in place for Executive Directors are simple: Executives are eligible for an annual bonus and a long-term incentive award under our Performance Share Plan (PSP), the metrics of which are aligned to the Company's strategy. Salaries are reviewed annually across the whole workforce and benefits are provided in line with local market norms. This Directors' Remuneration Report provides open and transparent disclosure of executive remuneration for our workforce and our shareholders.

- Executive Directors' total remuneration package is designed to ensure that remuneration increases or decreases in line with business performance and aligns the interests of Executive Directors and shareholders. Specifically, annual bonus and PSP provide a fair and proportionate link between performance and reward over the short and long-term. Measures are applicable to the delivery of strategy, one-third of annual bonus is deferred into Sage shares, a holding period of two years is applicable to the Performance Share Plan and a post-employment shareholding requirement is in place, providing a clear link to the ongoing performance of the business and long-term alignment with stakeholders. Additionally, the Committee is able to exercise discretion over the formulaic outcomes of the bonus and PSP to ensure outturns reflect performance of Executive Directors and the business. Malus and clawback provisions are applicable to these plans in the event of a trigger event.
- Incentive schemes are aligned to culture. The bonus plan is split between Company performance and achievement of personal strategic goals; the Company performance measure is central to the strategic progression of Sage and the personal goal assessments are completed taking into account outputs and how they have been delivered in respect of the Company's Values and Behaviours. The Performance Share Plan measures align to the Company's strategic priorities in addition to the wider shareholder experience through Total Shareholder Return (TSR).
- Full details of the work of the Committee is reported on page 127.
- The single figure table shows sub-totals of fixed and variable pay for each Executive Director on page 133.

Additionally, I am pleased to present our CEO pay ratio and a comparison of each of our Executive Directors' pay to the annual change in average colleague pay on page 140.

The Remuneration Committee reviewed the implementation of the Policy over 2020 and judged it to be operating as intended and with no deviation from the approved Policy. It determined this through the periodic review of potential incentive outcomes and their contribution to the single figure of remuneration; a consideration of wider business performance including customer metrics; the experience of shareholders and our Total Shareholder Return; and the experience of our colleagues.

I hope you find this Report to be clear in understanding our remuneration practices and that you will be supportive of the resolutions relating to remuneration at the 2021 AGM. As ever, the Remuneration Committee welcomes any questions or comments from shareholders.



Annette Court
Chairman of the Remuneration Committee

Remuneration Committee governance

Committee composition and meetings

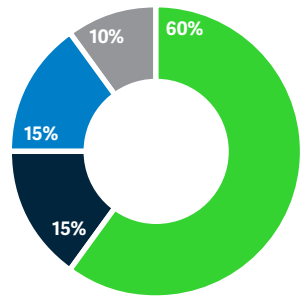
The Remuneration Committee is composed solely of independent Non-executive Directors, Drummond Hall, Dr John Bates and is chaired by Annette Court. Cath Keers' status was redefined as non-independent Non-executive Director from 22 April 2020, accordingly she stepped down as a member of the Remuneration Committee from this date. Details of the skills and experience of the Remuneration Committee members can be found in their biographies on pages 80 to 81.

The Committee held six scheduled meetings during FY20. There were no unscheduled meetings during the year. Details of individual attendance at scheduled meetings are set out below.

Activities and evaluation

Details of the Remuneration Committee's activities are set out on page 127.

Allocation of time



- Determining remuneration policy and its implementation
- Reviewing the effectiveness of the remuneration policy
- Considering the views on remuneration of our shareholders and reviewing trends in executive remuneration
- Other

Meeting attendance

	Directors	Independent	Attendance at scheduled meetings
Non-executive Directors	Annette Court (Chairman)	Independent	6/6
	Drummond Hall	Senior Independent Director	6/6
	Cath Keers[1]	Independent	3/3
	Dr John Bates[2]	Independent	3/3
Company Secretary	Vicki Bradin		6/6

Notes:

1. Cath Keers stepped down from the Committee on 22 April 2020.
2. Dr John Bates was appointed to the Committee as a new member on 22 April 2020.

Activities of the Committee

During the year, the Committee focused on the matters summarised in the table below.

Key area of activity	Matters considered	Outcome
Determining remuneration policy and its implementation	• Determined the remuneration for five new appointments to the Executive Committee. • Blair Crump's retirement arrangements. • Determined bonus targets and outcomes for 2019 and PSP outcomes for the 2017 award.	• President's termination arrangements as disclosed via Regulatory News Service on 7 April 2020. • 2019 bonus determined at 92% to 96% of potential, as disclosed in last year's Directors' Remuneration Report. • 2017 PSP determined at 14.8% of the overall award for vesting, as disclosed in last year's Directors' Remuneration Report.
Reviewing the effectiveness of the Policy	• Considered the impact of Covid-19 on business performance and the consequent effect on Directors and colleagues. • Reviewed performance against in-flight incentive plans and the forecast single figure of remuneration for Executive Directors. • Reviewed remuneration-related risks. • Reviewed the structure of remuneration. • Discussed the bonus and PSP structure for 2021.	• Determined that the Policy was operating as intended.
Considering the views on remuneration of our stakeholders and reviewing trends in executive remuneration	• At least quarterly the Committee's advisors present on market trends, legislative change and corporate governance requirements in executive remuneration.	• Views of shareholders, proxy voting agencies and market insight provided invaluable context for the Committee's deliberations on the implementation of the Policy and its effectiveness.
Other	• Considered the format and content of the Directors' Remuneration Report for 2019. • Reviewed the Code, The Companies (Miscellaneous Reporting) Regulations 2018 and The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019 and determined the appropriate level of disclosure for the 2020 Directors' Remuneration Report. • Reviewed the Committee's Terms of Reference. • Undertook a periodic review of the Committee's advisors. • Reviewed workforce remuneration and related policies.	• 2019 Directors' Remuneration Report approved in November 2019. • Approved updates required to this Report to ensure compliance with the updated Code and Regulations. • Determined no change to the Committee's Terms of Reference. • Incumbent advisor (Deloitte) re-appointed. • Considered the implementation of the 2021 Policy in light of workforce remuneration.

Remuneration Policy

Purpose of this section:

- Provides detail of the key elements of our Policy

The current Policy Report was approved by shareholders at the 2019 AGM and can be found on our website (www.sage.com).

The table below sets out a summary of key elements of the Company's 2019 Policy.

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
Base salary Supports the recruitment and retention of Executive Directors of the calibre required to deliver the Group's strategy. Rewards executives for the performance of their role. Set at a level that allows fully flexible operation of our variable pay plans.	Normally reviewed annually, with any increases applied from January. When determining base salary levels, consideration is given to the following: • Pay increases for other employees in major operating businesses of the Group; • The individual's skills and responsibilities; • Pay at companies of a similar size and international scope to Sage, in particular those within the FTSE 100 (excluding the top 30); • Corporate and individual performance.	Ordinarily, salary increases will be in line with increases awarded to other employees in major operating businesses of the Group. However, increases may be made above this level at the Remuneration Committee's discretion to take account of individual circumstances such as: • Increase in scope and responsibility; • Increase to reflect the individual's development and performance in role (e.g. for a new appointment where base salary may be increased over time rather than set directly at the level of the previous incumbent or market level); • Alignment to market level. Accordingly, no monetary maximum has been set.	None, although overall performance of the individual is considered by the Remuneration Committee when setting and reviewing salaries annually.
Pension Provides a competitive post-retirement benefit, in a way that manages the overall cost to the Company.	Defined contribution plan (with Company contributions set as a percentage of base salary). An individual may elect to receive some or all of their pension contribution as a cash allowance.	Maximum pension provision of 15% of salary. No element other than base salary is pensionable.	None.

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
Benefits Provide a competitive and cost-effective benefits package to executives to assist them to carry out their duties effectively.	The Group provides a range of benefits which may include a car benefit (or cash equivalent), private medical insurance, permanent health insurance, life assurance and financial advice. Additional benefits may also be provided in certain circumstances which may include relocation expenses, housing allowance and school fees. Other benefits may be offered if considered appropriate and reasonable by the Remuneration Committee.	Set at a level which the Remuneration Committee considers: • Appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market; • Provides a sufficient level of benefit based on the role and individual circumstances, such as relocation. As the costs of providing benefits will depend on the Director's individual circumstances, the Remuneration Committee has not set a monetary maximum.	None.
Annual bonus Rewards and incentivises the achievement of annual financial and strategic targets. An element of compulsory deferral provides a link to the creation of sustainable long-term value creation.	Measures and targets are set annually and payout levels are determined by the Remuneration Committee after the year-end based on performance against those targets. The Remuneration Committee may, in exceptional circumstances, amend the bonus payout should this not, in the view of the Remuneration Committee, reflect overall business performance or individual contribution. A minimum of one-third of any annual bonus earned by Executive Directors is delivered in deferred share awards with the remainder delivered in cash. The deferral period will usually be a minimum of three years.	175% of salary. Up to 50% of the bonus can be paid for delivering a target level of performance.	• At least 70% of the bonus will be determined by measure(s) of Group financial performance; • No more than 30% of the bonus will be based on pre-determined financial, strategic or operational measures appropriate to the individual Director. The measures that will apply for the financial year 2021 are described in the Directors' Annual Remuneration Report.

Remuneration Policy table *continued*

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
Performance Share Plan (PSP) Motivates and rewards the achievement of long-term business goals. Supports the creation of shareholder value through the delivery of strong market performance aligned with the long-term business strategy. Supports achievement of our strategy by targeting performance under our key financial performance indicators.	Awards vest dependent upon the achievement of performance conditions measured over a period of at least three years. Following the end of the performance period, the performance conditions will be assessed and the percentage of awards that will vest will be determined. The Remuneration Committee may decide that the shares in respect of which an award vests are delivered to participants at that point or that awards will then be subject to an additional holding period before participants are entitled to receive their shares. A holding period will normally last for two years, unless the Remuneration Committee determines otherwise. The Remuneration Committee has discretion to decide whether and to what extent the performance conditions have been met, and if an event occurs that causes the Remuneration Committee to consider that an amended or substituted performance condition would be more appropriate and not materially less difficult to satisfy, the Remuneration Committee may amend or substitute any performance condition.	Awards vest on the following basis: • Target performance: 20% of the maximum shares awarded; • Stretch performance: 80% of the maximum shares awarded; • Exceptional performance: 100% of the shares awarded with straight-line vesting between each level of performance; • Current annual award levels (in respect of a financial year of the Company) are 200% of salary for the Executive Directors. Overall individual limit of 300% of base salary under the rules of the plan. The Remuneration Committee retains the discretion to make awards up to the individual limit under the PSP and, as stated in previous remuneration reports, would expect to consult with significant investors if awards were to be made routinely above current levels.	Vesting will be subject to performance conditions as determined by the Remuneration Committee on an annual basis. The performance conditions will initially be Annualised Recurring Revenue growth (with a ROCE underpin) and relative TSR although the Remuneration Committee will retain discretion to include additional or alternative performance measures which are aligned to the corporate strategy. At its discretion, the Remuneration Committee may elect to add additional underpin performance conditions. Details of the targets that will apply for awards granted in 2021 are set out in the Directors' Annual Remuneration Report.
All-employee share plans Provide an opportunity for Directors to voluntarily invest in the Company.	UK-based Executive Directors are entitled to participate in the Save and Share Plan, under which they make monthly savings over a period of three or five years linked to the grant of an option over Sage shares with an option price which can be at a discount of up to 20% of the market value of shares on grant. Options may be adjusted to reflect the impact of any variation of share capital. Overseas-based Executive Directors are entitled to participate in any similar all-employee scheme operated by Sage in their jurisdiction.	UK participation limits are those set by the UK tax authorities from time to time. Currently this is £500 per month (or US Dollar equivalent). Limits for participants in overseas schemes are determined in line with any local legislation.	None.

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
Chairman and Non-executive Director fees Provide an appropriate reward to attract and retain high-calibre individuals. Non-executive Directors do not participate in any incentive scheme.	Fees are reviewed periodically. The fee structure is as follows: • The Chairman is paid a single, consolidated fee; • The Non-executive Directors are paid a basic fee, plus additional fees for chairmanship (and, where appropriate, membership) of Board Committees and to the Senior Independent Director; • Fees are currently paid in cash but the Company may choose to provide some of the fees in shares. The Chairman has the use of a car and driver. Non-executive Directors may be eligible for benefits such as company car, use of secretarial support, healthcare or other benefits that may be appropriate including where travel to the Company's registered office is recognised as a taxable benefit in which case a Non-executive Director may receive the grossed-up costs of travel as a benefit.	Set at a level which: • Reflects the commitment and contribution that is expected from the Chairman and Non-executive Directors; • Is appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market, particularly companies of a similar size and international scope to Sage, in particular those within the FTSE 100 (excluding the top 30). Overall fees paid to Directors will remain within the limit stated in our articles of association, currently £1m. Actual fee levels are disclosed in the Directors' Annual Remuneration Report for the relevant financial year.	None.
Shareholding guideline Aligns the interests of Executive Directors and shareholders and encourages a focus on long-term performance.	The shareholding guideline is expected to be built up over five years from the Director becoming subject to the guideline. The Remuneration Committee will review progress towards the guideline on an annual basis, and has the discretion to adjust the guideline in what it feels are appropriate circumstances.	The guideline for Executive Directors is a minimum shareholding worth 250% of salary.	None.

Notes:

- Annual bonus and PSP performance measures and targets are selected each year so as to align with key financial and operational objectives.
- Awards granted under the deferred bonus plan and the PSP may:

  (a) be made in the form of conditional awards or nil-cost options and may be settled in cash;
  (b) incorporate the right to receive an amount (in cash or shares) equal to the dividends which would have been paid or payable on the shares that vest in the period up to vesting (or, where PSP awards are made subject to a holding period, the end of the holding period). This amount may be calculated assuming the dividends were reinvested in the Company's shares on a cumulative basis; and
  (c) be adjusted in the event of any variation of the Company's share capital, demerger, delisting, special dividend, rights issue or other event which may, in the opinion of the Remuneration Committee, affect the current or future value of the Company's shares.

Provisions to withhold (malus) or recover (clawback) sums paid under the annual bonus and PSP in the event of material negative circumstances, such as a material misstatement in the Company's audited results, serious reputational damage or significant financial loss to the Company (as a result of the participant's conduct), an error in assessing the performance metrics relating to the award or the participant's gross misconduct are incorporated into both the PSP and deferred bonus plan. These provisions may apply up to three years from the release date of a PSP award or three years from the date a cash bonus is paid or a deferred share award is granted. Details of the proposed implementation of those provisions in the forthcoming year are set out in the Directors' Remuneration Report.

All Directors submit themselves for re-election annually.

The Remuneration Committee intends to honour any commitments entered into with current or former Directors on their original terms, including outstanding incentive awards, which have been disclosed in previous remuneration reports and, where relevant, are consistent with a previous policy approved by shareholders. Any such payments to former Directors will be set out in the Remuneration Report as and when they occur.

The Remuneration Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed: (i) before the date the Company's first remuneration policy approved by shareholders in accordance with section 439A of the Companies Act came into effect; (ii) before the Policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved remuneration policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Remuneration Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes "payments" includes the Remuneration Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

The Remuneration Committee may make minor amendments to the Policy (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

Directors' Annual Remuneration Report

Purpose of this section:

- Provides remuneration disclosures for Executive and Non-executive Directors
- Details financial measures for bonus and PSP
- Illustrates Company performance and how this compares to the pay of Executive Directors
- Outlines proposed implementation of the 2019 Policy for Executive and Non-executive Directors for 2021

Single figure for total remuneration (audited information)

The following table sets out the single figure for total remuneration for Executive Directors for the financial years ended 30 September 2019 and 2020.

	(a) Salary/fees[11] £'000		(b) Benefits[12] £'000		(c) Bonus[13] £'000		(d) Pension[14] £'000		(e) PSP awards[15] £'000		(f) Other[16] £'000		Total Fixed Remuneration[17] £'000		Total Variable Remuneration[18] £'000		Total[19] £'000	
Director	**2020**	2019	**2020**	2019 (restated)	**2020**	2019	**2020**	2019	**2020**	2019 (restated)	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019 (restated)
Executive Directors																		
S Hare	**781**	765	**119**	105	**252**	1,258	**117**	117	**364**	246	**–**	4	**1,017**	987	**616**	1,508	**1,633**	2,495
J Howell[1]	**543**	435	**6**	4	**180**	726	**47**	38	**315**	438	**–**	–	**596**	477	**495**	1,164	**1,091**	1,641
B Crump[2]	**222**	549	**122**	59	**54**	883	**5**	7	**217**	151	**–**	–	**349**	615	**271**	1,034	**620**	1,649
Non-executive Directors																		
Sir D Brydon	**400**	400	**36**	34	**–**	–	**–**	–	**–**	–	**–**	–	**436**	434	**–**	–	**436**	434
S Anand[3]	**25**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**25**	–	**–**	–	**25**	–
J Bates[4]	**60**	20	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**60**	20	**–**	–	**60**	20
J Bewes[5]	**77**	39	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**77**	39	**–**	–	**77**	39
A Court[6]	**77**	39	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**77**	39	**–**	–	**77**	39
D Hall[7]	**77**	82	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**77**	82	**–**	–	**77**	82
J Howell	**–**	14	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	14	**–**	–	**–**	14
S Jiandani[8]	**24**	60	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**24**	60	**–**	–	**24**	60
C Keers[9]	**45**	60	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**45**	60	**–**	–	**45**	60
I Wasti[10]	**25**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**25**	–	**–**	–	**25**	–

Notes:

1. Jonathan Howell was appointed as an Executive Director on 10 December 2018. Previously, he was a Non-executive Director and, to 3 December 2018, Chairman of the Audit and Risk Committee.
2. Blair Crump was based in the USA and paid in US dollars. His remuneration has been converted to GBP at the average exchange rate for the relevant financial year, consistent with the basis of the presentation of financial performance in the financial statements. Blair Crump stepped down from his role as Executive Director on 25 February 2020, his remuneration is reported to this date.
3. Sangeeta Anand was appointed as a Non-executive Director on 1 May 2020.
4. Dr John Bates was appointed as a Non-executive Director on 31 May 2019.
5. Jonathan Bewes was appointed as a Non-executive Director on 1 April 2019.
6. Annette Court was appointed as a Non-executive Director on 1 April 2019.
7. Drummond Hall stepped down as Chairman of the Remuneration Committee on 31 March 2019 and from this date he no longer received the Remuneration Committee Chairman fee. He remains a Senior Independent Director and his fee for this role increased to £17,000 from 1 April 2019.
8. Soni Jiandani stepped down from her role as a Non-executive Director on 25 February 2020.
9. Cath Keers' status was redefined as non-independent Non-executive Director from 22 April 2020 until 30 June 2020 when she stepped down from this role. She was appointed as Chief Marketing Officer on 8 September 2020.
10. Irana Wasti was appointed as a Non-executive Director on 1 May 2020.
11. Details of salary progression since 2018 for the current Executive Directors are summarised in the "Statement of implementation of the remuneration policy in the following financial year" on page 143 of this Report.
12. Benefits provided to the Executive Directors included: car benefits or cash equivalent (Steve Hare only), private medical insurance, permanent health insurance, life assurance, financial advice and, where deemed to be a taxable benefit, the grossed-up costs of travel, accommodation and subsistence for the Directors and their partners on Sage-related business if required. Benefits excludes items subject to tax where they are in the nature of business expenses. Certain items in 2019 have been restated accordingly.
    A portion of Steve Hare's benefits related to the grossed-up cost of his travel to Sage's London office which, since 1 April 2015, has been deemed a taxable benefit as a result of the enhanced amount of time he has been required to spend in London attending to Sage matters. In addition, £61,533 of Steve Hare's benefits value related to the grossed-up cost of travel, accommodation and subsistence for his hosting Platinum Elite, a major internal event for high-performing colleagues, which is deemed by HMRC to be a taxable benefit.
    A portion of Blair Crump's benefits related to the payment of UK tax on his US income, which is payable under UK tax law for the days on which he is attending to Sage matters in the UK. Blair's permanent workplace was in the US. He received assistance in the preparation of his tax returns. The 2019 benefit value for Blair Crump has been updated for values that previously were estimated as a result of the timing of the US tax year in relation to Sage's financial reporting year. The 2020 value contains estimates which are valid at the publication of this Report but which are subject to revision once the 2020 US tax year is concluded.
    Sir Donald Brydon receives a company car benefit. The change in value in 2020 is due to an increase in the tax rate.
13. Steve Hare's 2019 bonus value was based on his salary inclusive of his step-up allowance for the period he was interim COO and CFO. Further information about how the level of FY20 bonus award was determined is provided in the additional disclosures below.
14. Pension emoluments for Steve Hare from his appointment as CEO on 2 November 2018 were equal to 15% of base salary. Pension emoluments for Jonathan Howell were equal to 10% of base salary (less a deduction for Employer National Insurance Contributions). Both elected to receive them as a cash allowance. Pension emoluments for Blair Crump were 2.3% of base salary, which were paid into a 401 (k) retirement account. Maximum pension contribution levels for the wider workforce in the UK is 10% of salary and in the US 3.5% of salary, subject to contributions from the colleagues themselves in both regions.
15. The 2020 PSP value for Steve Hare and Blair Crump is based on the PSP award granted in financial year 2018 which is due to vest in December 2020. The performance conditions applicable to the awards are outlined on page 137 of this Report. The value is based on the number of shares vesting under the 2018 PSP award multiplied by the average price of a Sage share between 1 July and 30 September 2020, which was £7.204, plus dividend equivalents accrued. For Steve Hare, -£20,238 of the value is attributable to movement in the share price between grant and vesting and for Blair Crump -£12,087.92 of the value is attributable to movement in the share price between grant and vesting. No discretion has been exercised by the Remuneration Committee in respect of share price appreciation. Further detail is set out below in the notes to the table.
    The 2020 PSP value for Jonathan Howell is based on elements of his Replacement Award that are vesting in respect of the year ended 30 September 2020, plus dividend equivalents accrued. £62,369 of the value is attributable to movement in the share price between grant and vesting. Further detail is set out below in the notes to the table.
    The value of Steve Hare and Blair Crump's 2017 PSP for 2019 has been updated. The change in value is as a result of changes in the share price reported in 2019 in line with the methodology set out in the 2013 Reporting Regulations (£7.286) and the share price actually achieved at vesting (£7.4485).
16. The 2019 value for Steve Hare's award under the Save and Share Plan was valued as the number of options multiplied by the difference on the grant date (14 June 2019) between the share price £7.55 and the option price £6.04. Further details are set out on page 121 of the 2019 Annual Report.
17. Total fixed remuneration has been added to the table for 2020 and calculated for 2019 and is inclusive of salary/fees, benefits and pension.
18. Total variable remuneration has been added to the table for 2020 and calculated for 2019 and is inclusive of bonus, PSP awards and other.
19. Total remuneration for Directors in 2020 was £4,190,000 compared to £6,569,000 in 2019 (updated from the 2019 Directors' Remuneration Report).

Additional disclosures for single figure for total remuneration table (audited information)

Annual bonus 2020

The bonus targets for FY20 were set by reference to the strategy for FY20, in particular the achievement of ARR growth, taking into account the Company's annual budget and historical performance in determining the payout curve.

Bonus measure	% weighting	Threshold performance	Target performance	Stretch performance	Actual performance (at budget foreign currency exchange rates)	% of maximum bonus payable
ARR growth	80%	6.7% (24% of bonus payable)	8.6% (40% of bonus payable)	10.0% (80% of bonus payable)	4.7%	0%
Strategic measures	20%	The assessment of strategic measures is set out below this table (between 0% and 20% of bonus payable)				Steve Hare (CEO): 18.4% of maximum Jonathan Howell (CFO): 19% of maximum Blair Crump (President of Sage): 14% of maximum
Total						Steve Hare: 18.4% of maximum bonus (32.2% of salary) Jonathan Howell: 19% of maximum bonus (33.3% of salary) Blair Crump: 14% of maximum bonus (24.5% of salary)

Inevitably, ARR growth was negatively impacted by the Covid-19 related economic slowdown and this resulted in zero payout against the ARR measure. No discretion was applied by the Remuneration Committee in relation to the formulaic outcome.

In light of the ARR outturn, the Remuneration Committee discussed the appropriateness of making bonus payouts under the strategic element of the plan. The Committee concluded that it remained appropriate to do so having taken into particular consideration:

- the Group's resilient operational and financial performance as the business continues to transition to cloud-based software services through a subscription revenue model – subscription revenues grew by 21%, 65% of Group revenue is now from subscription and Sage Business Cloud penetration is now 61%;
- achievement of key strategic milestones – Sage Intacct is now live in five markets while Sage Accounting Plus was launched as the cloud native solution for small business accounting in the UK;
- the supportive treatment of colleagues during the Covid-19 pandemic – no salary reductions or deferrals were necessary for any colleague; 2020 bonuses for colleagues were able to be provisioned for payment at 2019 levels; workforce headcount adjusted for corporate transactions is flat; 2021 salary increases for colleagues will go ahead from January, with investment focused on our workforce below senior management level; and
- the responsible approach adopted in relation to shareholders and other stakeholders – Sage did not need to raise any additional capital from shareholders and the final dividend was paid as planned; Sage took no government support for the payment of salaries in any of our geographies.

Notes:

- For the ARR growth measure, 72% of the overall bonus would pay out for the achievement of 9.5% ARR growth. Payout is on a straight line between threshold and target, target and 9.5% and 9.5% and stretch.
- Payment of a bonus for ARR growth was subject to the achievement of an underpin condition of Group underlying operating profit margin. Group underlying operating profit margin was 21.6%, which exceeded the underpin target of 20%.
- ARR growth and underlying operating profit margin are defined on pages 20 and 241. Actuals have been retranslated at budgeted foreign currency exchange rates consistent with the basis on which the targets were set. The Remuneration Committee considered the movement of foreign currency exchange rates over the year and determined that the effect was immaterial and that the use of like-for-like exchange rates was appropriate.
- One-third of bonus is deferred into Sage shares for three years.

Executive Directors' personal strategic objectives

Executive Directors' personal strategic objectives were set by the Remuneration Committee at the beginning of the financial year, consistent with the key deliverables within the annual budget. Targets for strategic objectives are considered to be commercially sensitive and are not disclosed. However, details of performance achievements that were taken into account by the Remuneration Committee in coming to its assessment of this measure are set out below:

Steve Hare, CEO

Steve Hare was set a range of goals under five key headings linked to the execution of the 2020 budget and long-term strategy plan. These were: 1. Becoming a great SaaS company (30% weighting); 2. Increase operational effectiveness (20% weighting); 3. Manage the portfolio (20% weighting); 4. Achieve balanced growth (20% weighting); and 5. Manage cyber security risk (10% weighting).

The Committee took into account the following performance against those goals:

1. Becoming a great SaaS company: customer NPS improved by 1 point, employee NPS improved by 23 points; rollouts achieved as planned for Sage Accounting professional in the UK and Sage Intacct in South Africa; product road maps are in place with further work to be completed on the use of Sage Business Cloud as a collaboration platform. Overall, the targets were exceeded.
2. Increase operational effectiveness: the new operating model drove clarity of outcomes, as demonstrated in the way the Company has operated during the Covid pandemic; succession plans were put in place and delivered through the expansion of Lee Perkins's role, new memberships to the ExCo and creation of the Executive Leadership Team. The targets were therefore exceeded.
3. Manage the portfolio: assets with no pathway to Sage Business Cloud representing £98m in revenue were held for sale, meeting the targets set.
4. Achieve balanced growth: ARR generated from Sage Business Cloud and Sage Intacct outside the US in line with plan, therefore the target was met.
5. Manage cyber security risk: risk appetite agreed with the Board and crisis management procedures strengthened, which met the targets set.

In consideration of these factors and overall performance of the business, allied to Steve's exceptional performance in the most challenging environment (as recognised by Glassdoor who named him as the highest rated CEO in the UK during the Covid crisis), the Committee determined that a bonus of 18.4% of the maximum 20% for this element was an appropriate award.

Jonathan Howell, CFO

Jonathan Howell was set a range of goals under five key headings linked to the execution of the 2020 budget and long-term strategy plan. These were: 1. Increase operational effectiveness in Finance (25% weighting); 2. Together we succeed (25% weighting); 3. Sustainable investment for growth (25% weighting); 4. Relationship with the market (12.5% weighting); and 5. Achieve balanced growth (12.5% weighting).

1. Increase operational effectiveness in Finance: operationalised key financial analytics suite in key markets including US, UK and Canada for improved data analytics to drive high-quality decision-making in a cloud environment. Overall, the targets were met.
2. Together we succeed: employee NPS improved 23 points; 44% of positions in Finance, Procurement and Investor Relations were filled through internal hires and 24,309 volunteer days were given in our communities. Overall, the targets were exceeded.
3. Sustainable investment for growth: effective balance sheet management with free cash flow of £382m, net debt to EBITDA ratio 0.3x, improved cash/liquidity of £1.2bn, second year of cash conversion greater than 100% and CAC/LTV embedded across segments and territories. Overall, the targets were exceeded.
4. Relationship with the market: reporting to the market is clear, consistent and transparent, with strong support from major shareholders and minimum change in composition and holdings of top 20 shareholders; two roadshows were held in the US to raise the profile of Sage with US investors, which increased by circa 5% in FY20. Additionally, conversion of the sell-side to a "buy" rating was 20%. Overall, the targets were met.
5. Achieve balanced growth: ARR generated from Sage Business Cloud and Sage Intacct outside the US in line with plan, therefore the target was met.

In addition to the above goals which were set at the start of the financial year, Jonathan also successfully helped to steer the business through the considerable challenges presented by the Covid pandemic. This success is reflected in the Group remaining strongly cash generative which will enable us to increase the full year dividend by 2% in FY20. In consideration of these factors and overall performance of the business, the Committee determined that a bonus of 19% of the maximum 20% for this element was an appropriate award.

Blair Crump, President of Sage (to 31 March 2020)

Blair Crump was set a range of goals under four key headings linked to the execution of the 2020 budget and long-term strategy plan and taking into account his cessation of employment on 31 March 2020. These were: 1. Customer Success (25% weighting); 2. Together we succeed (25% weighting); 3. Increase go-to-market operational effectiveness (40% weighting); and 4. Cloud-based growth (10% weighting).

1. Customer Success: renewal Rate by Value increased to 101% and customer NPS improved by 1 point. Overall, the targets were met.
2. Together we succeed: employee NPS improved 23 points; 35% of positions in go-to-market were filled through internal hires and 24,309 volunteer days were given in our communities. Overall, the targets were met.
3. Increase go-to-market operational effectiveness: Customer Core fully implemented in the UK and partially implemented in the US. Overall, the targets were partially met.
4. Cloud-based growth: one quarter of double-digit ARR growth was achieved in the portfolio in, or with pathway to, Sage Business Cloud; ARR generated from Sage Business Cloud and Sage Intacct outside the US in line with plan. The targets were therefore partially met.

In addition to the above goals which were set at the start of the financial year, Blair also provided an efficient and successful transition to his successor. In consideration of these factors and overall performance of the business, the Committee determined that a bonus of 14% of the maximum 20% for this element was an appropriate award.

PSP awards

Awards granted under the PSP to Steve Hare and Blair Crump in December 2017 vest depending on performance against two equally weighted measures, measured over three years, from 1 October 2017 to 30 September 2020:

- 50% recurring revenue growth with underpins for earnings per share (EPS) growth and organic revenue growth.
- 50% relative TSR performance against the FTSE 100 (excluding financial services and extracting companies).

For each measure, three levels of performance are defined below, with straight-line vesting between each level of performance: target, stretch and exceptional.

Measure	Between target (20% vests) and stretch (80% vests)	Between stretch (80% vests) and exceptional (100% vests)
Recurring revenue growth (Compound Annual Growth Rate ("CAGR"))	Between 9% and 11% (with EPS growth CAGR of 8% p.a. and organic revenue growth CAGR of 7% p.a.)	Between 11% and 13% (or above) (with EPS growth CAGR of 8% p.a. and organic revenue growth CAGR of 7% p.a.)
Relative TSR	Between median and upper quartile	Between upper quartile and upper decile (or above)

Measure	Achieved	Vesting
Recurring revenue growth (CAGR)	8.6%	0%
Relative TSR	64.5th percentile	27.4%
Total		27.4%

The definition of organic revenue was updated for FY18 to include Intacct and Fairsail (Sage People), as outlined on page 95 of the 2017 Annual Report. For the purposes of assessing performance under the 2018 PSP, recurring revenue includes "processing revenue". Processing revenue is defined on page 181 of this Report.

The organic revenue growth was 5.4% p.a. (compared to 7% p.a.) and EPS was -0.4% p.a. (compared to 8.0% p.a.), meaning that the underpin condition was not achieved.

The Remuneration Committee determined, after careful consideration of business performance and the interests of Sage's stakeholders such as shareholders, customers and colleagues, that the formulaic outcome was appropriate. Consequently, 27.4% of the total award will vest.

Awards are scheduled to vest on 7 December 2020, and for Steve Hare, be subject to a two-year holding period and released on 7 December 2022.

Jonathan Howell PSP award

As outlined on page 113 of the 2019 Directors' Remuneration Report, Jonathan Howell was awarded a conditional award over 312,698 Sage shares on 11 December 2018 with a face value of £1,807,398 (based on the Sage share price of £5.78 on 10 December 2018) to replace share awards that he forfeited at Close Brothers. This Replacement Award was structured so as to mirror the forfeited award to the extent that the original Close Brothers performance conditions, vesting schedule, holding periods and malus and clawback provisions applied. Other terms of the Replacement Award, principally relating to dividend equivalents and treatment upon ceasing employment or on a change of control, are consistent with the Sage PSP rules.

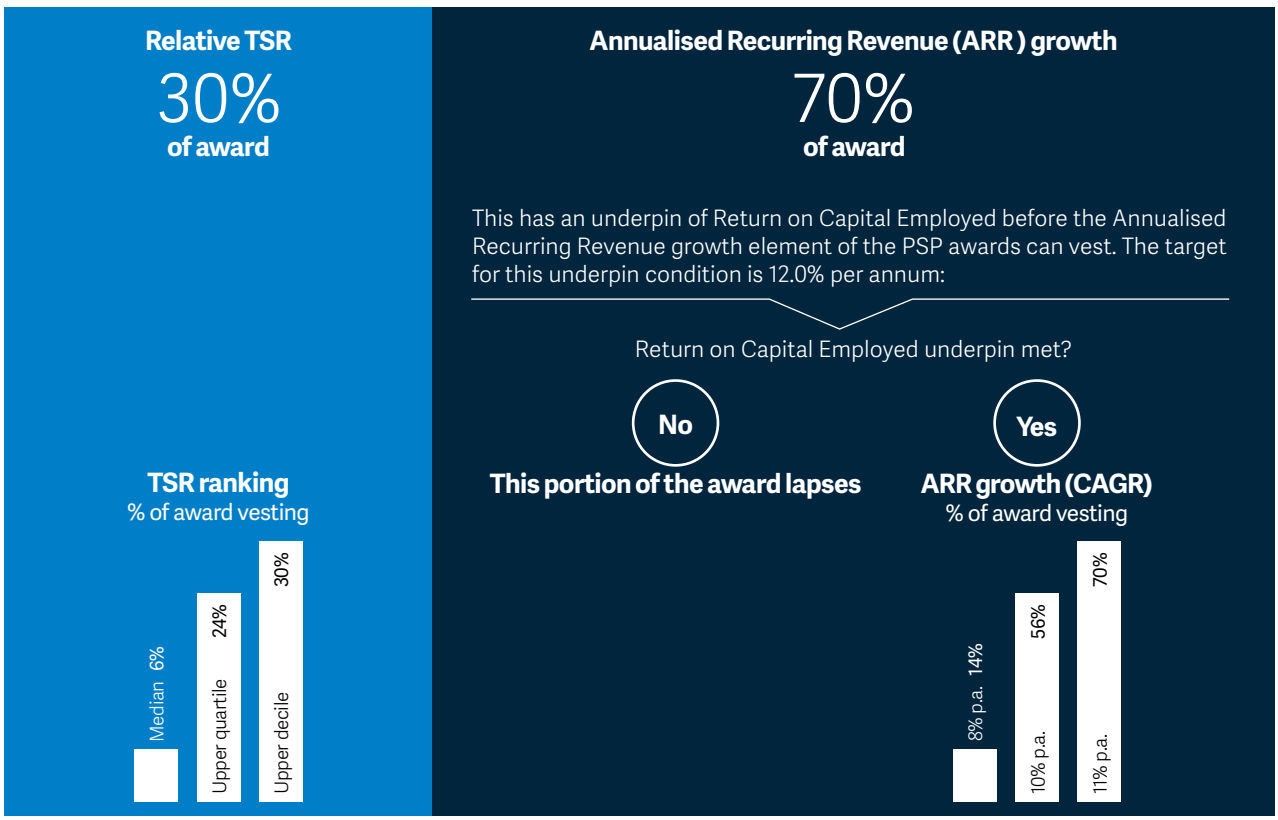
Up to 213,779 shares of the Replacement Award (plus dividend equivalent shares) could have vested and been released on 4 October 2019 based on the vesting of the performance conditions applying to Close Brothers' LTIP and Share Matching Plan over the three-year period to July 2019. As disclosed on page 88 of the Close Brothers Group 2019 Annual Report, the performance conditions vested at 29.9%. Accordingly, 63,919 shares (plus 1,596 dividend equivalent shares) vested on 4 October 2019. Due to dealing restrictions in place at the time of vest, these shares were released to Jonathan Howell once the dealing restrictions had been lifted on 20 November 2019.

Up to 98,919 shares of the Replacement Award (plus dividend equivalent shares) could have vested on 3 October 2020 and be released on 3 October 2022 based on the vesting of the performance conditions applying to Close Brothers' LTIP over the three-year period to July 2020. As disclosed on page 107 of the Close Brothers Group 2020 Annual Report, the performance conditions vested at 42.1%. Accordingly, 41,644 shares (plus 2,032 dividend equivalent shares) vested on 3 October 2020 and will be released on 3 October 2022. Those vested shares are included in the single figure table on page 133 at a value of £314,817, based on the share price at vesting of £7.208.

The Remuneration Committee determined, after careful consideration of business performance and the interests of Sage's stakeholders such as shareholders, customers and colleagues, that vesting the award in line with the formulaic outcome was appropriate.

PSP awards granted in FY20 (audited information)

Awards were granted under the PSP on 2 December 2019 at a market value of £7.538 to selected senior colleagues in the form of conditional share awards. In alignment with our business strategy for FY20, performance conditions for awards granted in FY20 are:



Vesting is on a straight line between the points. The following key areas are highlighted in relation to the performance measures:

- ARR growth as a medium-term performance condition provides close alignment with our medium-term strategic priorities to grow our subscription-based services and acquire new customers.
- Continued focus on overall Group growth and delivery of shareholder value is achieved by:
  - Requiring the achievement of a Return on Capital Employed (ROCE) underpin before the ARR growth element of the PSP awards can vest. The target for this underpin condition is 12.0% p.a. The Remuneration Committee will exclude from the ROCE calculation, where appropriate, any write down that arises from an asset that was acquired prior to the appointment of the current Executive Directors.
  - 30% of the awards being determined by relative TSR performance.

Awards will vest, subject to satisfaction of those performance conditions, in December 2022. A holding period for the PSPs will apply for two years from the vesting date. No further performance conditions attach to the awards during the holding period.

	Type of award	Maximum number of shares	Face value (£)[1]	Face value (% of salary)	Threshold vesting (% of award)	End of performance period
Steve Hare	Performance shares	208,278	1,570,000	200%	20%	30 September 2022
Jonathan Howell		144,600	1,090,000	200%	20%	30 September 2022
Blair Crump		143,694	1,098,000	200%	20%	30 September 2022

Note:

1. The face value of the PSP awards has been calculated using the market value (middle market quotation) of a Sage share on 29 November 2019 (the trading day prior to the grant for all eligible colleagues) of £7.538. The award granted to Blair Crump lapsed on cessation of his employment.

Change in remuneration of Directors compared to colleagues

The table below shows the annual percentage change in total remuneration of Directors with colleagues employed by the Sage Group plc. who are not also Directors of the Group.

	2020		
	Salary/fees[1]	Taxable benefits[2]	Annual incentive[3]
Executive Directors			
CEO	**2%**	**14%**	**-80%**
CFO	**25%**	**37%**	**-75%**
President	**-60%**	**106%**	**-94%**
Non-executive Directors			
D Brydon	**0%**	**7%**	**-%**
S Anand	**-%**	**-%**	**-%**
J Bates	**197%**	**-%**	**-%**
J Bewes	**100%**	**-%**	**-%**
A Court	**100%**	**-%**	**-%**
D Hall	**-6%**	**-%**	**-%**
J Howell	**-%**	**-%**	**-%**
S Jiandani	**-60%**	**-%**	**-%**
C Keers	**-25%**	**-%**	**-%**
I Wasti	**-%**	**-%**	**-%**
Colleagues of the Company	**9%**	**37%**	**-10%**

Notes:

- This is the first year under which this reporting requirement is applicable for the Company. Over subsequent years this will build up to a rolling five-year period.
- Average colleague pay is based on the data set used for the CEO pay ratio as set out immediately below this section. It excludes colleagues that joined within the reporting period, as the dataset for the Company is so small that to leave them in provides a skewed result, making meaningful judgements difficult. The salary, taxable benefits and annual incentive are the respective median values in the dataset and may relate to different incumbents.

1. Salaries and fees for Directors are as set out on page 133 of this Report. Salaries for colleagues employed by The Sage Group plc. are based on the data set used for the CEO pay ratio as set out immediately below this section.
2. Steve Hare, Jonathan Howell, Blair Crump and Sir Donald Brydon's taxable benefits are as set out on page 133 of this Report. Taxable benefits for colleagues employed by The Sage Group plc. are based on the data set used for the CEO pay ratio as set out immediately below this section.
3. The annual incentive value for Steve Hare, Jonathan Howell and Blair Crump are as set out on page 133 of this Report. Annual incentives for colleagues employed by The Sage Group plc. are inclusive of bonus and commission and are based on the data set used for the CEO pay ratio as set out immediately below this section. Non executive Directors are not eligible for annual incentives.

Ratio of the pay of the CEO to that of the UK lower quartile, median and upper quartile colleagues

The table below shows the ratio of the pay of the CEO to that of the UK lower quartile, median and upper quartile colleagues in 2020, consistent with The Companies (Miscellaneous Reporting) Regulations 2018. As outlined in the Remuneration Committee Chairman's letter, the treatment of colleagues has provided important context for the Committee's decisions on executive remuneration in 2020 and the Committee is consequently satisfied that the median pay ratio for 2020 is consistent with the pay and progression policies for Sage's UK employees as a whole.

		Pay ratio				Remuneration values		
Year	Method	25th percentile (lower quartile)	50th percentile (median)	75th percentile (upper quartile)		Y25 (25th percentile)	Y50 (50th percentile)	Y75 (75th percentile)
2020	A	55 : 1	36 : 1	23 : 1	Total remuneration	£29,865	£45,942	£71,524
					Salary only	£27,955	£36,116	£56,983
2019	A	95 : 1	62 : 1	38 : 1	Total remuneration	£26,463	£40,385	£66,095
					Salary only	£20,281	£34,184	£51,087

The change in the pay ratio in 2020 is driven largely by a reduction in the CEO's annual bonus.

Notes:

- Under method A, colleague data is based on full-time equivalent pay for UK colleagues as at 30 September 2020. Pay for each colleague is calculated in accordance with the single figure of remuneration. All components of remuneration except long-term incentives are presented on a full-time equivalent basis by dividing sums by the average working hours divided by full-time equivalent hours for the portion of the year worked. Colleagues who worked no hours during the year are excluded from the dataset.

- Method A has been selected as the basis of the disclosure as it is the best reflection of the underlying colleague data required by The Companies (Miscellaneous Reporting) Regulations 2018.
- Certain benefits have been omitted from the remuneration of colleagues except the CEO. These principally comprise sums paid by way of expenses allowance chargeable to UK income tax and not paid through the payroll. Such expenses are typically irregular and generally immaterial to remuneration and are excluded to enable more meaningful comparison of the ratio of underlying colleague remuneration over time.
- The CEO's pay is based on the single figure of remuneration set out on page 133 of this Report. Because a large portion of the CEO's pay is variable, the pay ratio is heavily dependent on the outcomes of variable pay plans and, in the case of long-term share-based awards, share price movements. Further information on these outcomes for the CEO in FY20 is set out on pages 135-138 of this Report.

Historical executive pay and Company performance

The table below summarises the Chief Executive Officer's single figure for total remuneration, annual bonus payout and PSP vesting as a percentage of maximum opportunity for the current year and previous nine years.

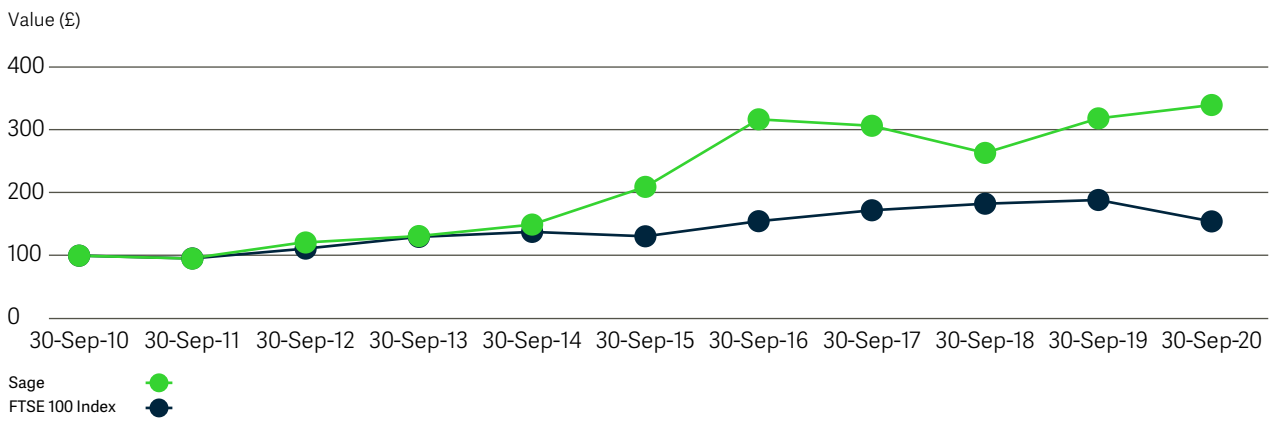
	CEO	2011	2012	2013	2014	2015	2016	2017	2018	2019	**2020**
CEO single figure of remuneration (in £'000)	Steve Hare[1]	–	–	–	–	–	–	–	98	2,495	**1,633**
	Stephen Kelly[2]	–	–	–	–	1,521	1,723	3,547	1,690	–	**–**
	Guy Berruyer[3]	2,935	1,196	1,670	1,616	108	–	–	–	–	**–**
		–	–	–	–	–	–	–	–	–	**–**
Annual bonus payout (as % maximum opportunity)	Steve Hare	–	–	–	–	–	–	–	0%[4]	94%	**18%**
	Stephen Kelly	–	–	–	–	67%	69%	19%	0%	–	**–**
	Guy Berruyer	66%	21%	72%	55%	0%	–	–	–	–	**–**
		–	–	–	–	–	–	–	–	–	**–**
PSP vesting (as % of maximum opportunity)	Steve Hare	–	–	–	–	–	–	–	29%	15%	**27%**
	Stephen Kelly	–	–	–	–	–	–	66%	29%	–	**–**
	Guy Berruyer	61%	0%	0%	0%	64%	–	–	–	–	**–**
		–	–	–	–	–	–	–	–	–	**–**

Notes:

1. Steve Hare was appointed Interim COO & CFO on 31 August 2018. Whilst Steve Hare's job title at 30 September 2018 was Interim COO & CFO, not CEO, he is regarded as being the equivalent of CEO for the purposes of the disclosure.
2. Stephen Kelly stepped down from the position of CEO on 31 August 2018.
3. Guy Berruyer stepped down from the position of CEO on 5 November 2014.
4. Steve Hare waived his entitlement to a bonus in respect of 2018.

Historical Group performance against FTSE 100

The graph below shows the Total Shareholder Return of the Group and the FTSE 100 over the last ten years. The FTSE 100 index is the index against which the TSR of the Group should be measured because of the comparable size of the companies which comprise that index.



Note:

- This graph shows the value, by 30 September 2020, of £100 invested in The Sage Group plc. on 30 September 2010 compared with the value of £100 invested in the FTSE 100 index. The other points plotted are the values at intervening financial year ends.

Payments to past Directors (audited information)

In FY20, Stephen Kelly's PSP award granted on 14 December 2016 vested on 14 December 2019. Additionally, his Deferred Share Bonus Plan ("DSBP") award granted on 7 December 2017 vested on 7 December 2019 on the same basis as other Executive Directors as outlined on page 112 of the 2019 Annual Report.

Blair Crump stepped down from the Board on 25 February 2020 and ceased to be an employee of Sage by reason of retirement on 31 March 2020, as was published in the RNS announcement on 17 January 2020. Following his retirement date, Blair Crump continued to receive a sum equal to his monthly base salary for a period of six months, in line with his contractual entitlements. These payments were made in biweekly instalments and were subject to deductions for mitigation. As Blair Crump met certain eligibility requirements under US law, the Company paid him a lump sum equal to six months of Company contributions under the Company's health plan. The Company has also paid the professional advisor costs incurred by Blair Crump in connection with statutory tax filings for the tax years in which he has tax liabilities on Company-related income. These costs were only covered by the Company to the extent that they related to Company-related tax liabilities. Additionally, the Company continued to tax-equalise the portion of Blair Crump's Company-related remuneration that was subject to UK tax for days on which he attended to Company matters from the Company's UK offices.

Following careful consideration of the Remuneration Committee it was agreed that Blair Crump would remain eligible to receive a bonus in respect of the 2020 financial year, subject to the Remuneration Committee's determination as to the achievement of any applicable financial and personal performance conditions. His bonus has been pro-rated by reference to the period of the bonus year which had elapsed by 31 March 2020 and will be paid in cash. The bonus value to be paid is detailed in the single figure table of remuneration on page 133 and further details on the Remuneration Committee's assessment of the applicable financial and personal performance conditions can be found on pages 135 and 137 respectively.

Blair Crump retains interests in the Company's PSP and DSBP. He will be eligible to receive a pro-rated proportion of the PSP awards granted during the 2018 and 2019 financial years that remained unvested at 31 March 2020. His PSP award granted in December 2019 will lapse given the short period between its grant and his departure. The PSP awards will be based on the number of days that he was employed by the Company during the relevant performance period. The DSBP award will not be subject to time pro-rating. The awards will vest on their normal vesting dates subject to the PSP and DSBP plan rules and compliance with certain post-termination covenants, including the post-cessation shareholding requirement set out on page 145 of this Report.

Blair Crump also received £4,430 as contributions towards legal fees incurred in connection with the arrangements relating to his departure. Blair Crump received no other termination-related payments.

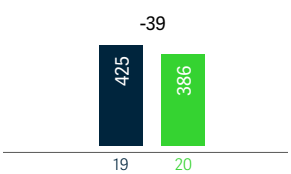
Relative importance of spend on pay

The charts below show the all-employee pay cost (as stated in the notes to the accounts), profit before tax (PBT) and returns to shareholders by way of dividends and share buybacks for 2019 and 2020.

The information shown in this chart is based on the following:

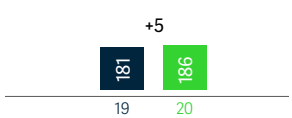
- Underlying PBT – Underlying profit before income tax taken from the consolidated income statement on page 166. Underlying PBT has been chosen as a measure of our operational profitability;
- Returns to shareholders – Total dividends taken from note 14.5 on page 222; share buyback taken from consolidated statement of changes in equity on page 169;
- Total colleague pay – Total staff costs from note 3.3 on page 184, including wages and salaries, social security costs, pension and share-based payments.

Underlying PBT (£m)

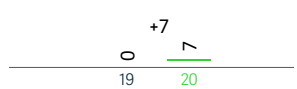


Returns to shareholders (£m)

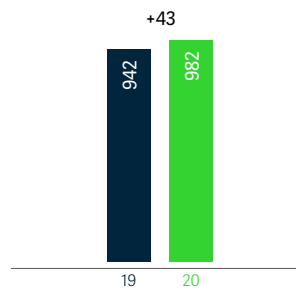
Ordinary dividends



Shares repurchased for discretionary share plans



Total colleague pay (£m)



Statement of implementation of remuneration policy in the following financial year

This section provides an overview of how the Remuneration Committee is proposing to implement the Policy in 2021.

As noted in the Committee Chairman's statement on page 121, Sage's strategic focus is evolving so as to embrace the Cloud Native opportunity. Consequently, the Committee is proposing that Cloud Native be incorporated as a measure in both the FY21 bonus and PSP, complementing existing measures at a revised weighting. All other aspects of the Policy remain unchanged for FY21.

Base salary

An annual salary review was carried out by the Remuneration Committee in November 2020. Following that review, the Remuneration Committee approved the following:

	Salary 1 January 2021	Salary 1 January 2020	Salary 1 January 2019	Salary 1 January 2018
Steve Hare[1]	£785,000 (no increase)	£785,000 (1.9% increase)	£770,000 (appointed CEO 2 Nov 2018)	£522,000 (0% increase)
Jonathan Howell[2]	£545,000 (no increase)	£545,000 (1.9% increase)	£535,000 (appointed CFO 10 Dec 2018)	N/A

Notes:

1. Steve Hare was appointed CEO on 2 November 2018. His 2018 salary reflected his prior role as CFO.
2. Jonathan Howell was appointed CFO on 10 December 2018.

Executive Directors will receive no salary increases for 2021. The equivalent average increase for colleagues eligible for an annual pay award is 2.5% (in respect of colleagues based in the United Kingdom).

Pension and benefits

The CEO and Chief Financial Officer will continue to receive a pension provision worth 15% of salary and 10% of salary respectively, as a contribution to a defined contribution plan and/or as a cash allowance. The pension for the wider workforce is 10% of salary. Pension provisions for Executive Directors will be reviewed as part of the Policy review during FY21. Executive Directors will also receive a standard package of other benefits and where deemed necessary the costs of travel, accommodation and subsistence for the Directors and their partners on Sage-related business, consistent with that in FY20. The Company previously covered the cost of Steve Hare's travel and accommodation for days on which he attended to Sage matters in the Company's London offices; this arrangement ceased on 30 September 2020.

Annual bonus

Key features of the Executive Directors' annual bonus plan for 2021 are as follows:

- The maximum annual bonus potential is 175% of salary;
- One-third of any bonus earned will be deferred into shares for three years under The Sage Group Deferred Bonus Plan;
- Annual bonuses awarded in respect of performance in 2021 will be subject to potential withholding (malus) or recovery (clawback) if specified "trigger events" occur within three years of the payment/award of the annual bonus. "Trigger events" will include a material misstatement of the audited results, error in calculation of the bonus payout, serious reputational damage or significant financial loss as a result of an individual's conduct or gross misconduct which could have warranted an individual's summary dismissal.

The annual bonus for 2021 for Executive Directors will be determined as detailed below:

As a percentage of maximum bonus opportunity:

Measure	
Cloud Native ARR growth[1]	50%
ARR growth[1]	20%
Net Promoter Score	10%
Strategic goals	20%

Note:

1. Payout is dependent upon the satisfaction of the underpin condition of underlying operating profit margin.

The selection of measures and targets takes into account the Company's strategic priorities, its internal budgeting and, where relevant, consensus. The ARR growth measure is based on the definition of ARR set out on page 241. Cloud Native ARR growth is ARR from Cloud Native products. Cloud Native products are defined on page 52. Targets are not disclosed because they are considered by the Board to be commercially sensitive. Many of the Company's competitors are unlisted companies and not required to disclose their targets; the Company's disclosure could provide its competitors with a considerable advantage. It is intended for retrospective disclosure to be made in next year's Directors' Remuneration Report.

Performance Share Plan (PSP)

The CEO and Chief Financial Officer will be granted PSP awards in December 2020. Awards will be of shares worth 200% of salary at the date of grant.

Vesting of these awards will be subject to satisfaction of the following performance conditions measured over the three financial years to 30 September 2023. Having taken into account business plan and market forecasts, the Remuneration Committee has set challenging ARR and Cloud Native ARR target ranges that are intended to offer an equivalent level of stretch to prior awards. A holding period to the PSPs granted for the financial year FY21 will apply for two years from the vesting date. No further performance conditions attach to the awards during the holding period.

ARR performance condition (35% of award)

	ARR growth (CAGR)	% of award vesting[1]
Below target	Less than 6.0% p.a.	0%
Target	6.0% p.a.	7%
Stretch	8.5% p.a.	28%
Exceptional	10.0% p.a.	35%

Cloud Native ARR performance condition (35% of award)

	CNARR	% of award vesting[1]
Below target	Less than £600m	0%
Target	£600m	7%
Stretch	£750m	28%
Exceptional	£900m	35%

Note:

1. For any of this portion of the PSP awards to vest, an underpin condition must be met: Return on Capital Employed (ROCE) of 12.0% p.a. ROCE is defined on page 242. Vesting is on a straight line between the points.

Relative TSR performance condition (30% of award)

	TSR ranking	% of award vesting
Below target	Below median	0%
Target	Median	6%
Stretch	Upper quartile	24%
Exceptional	Upper decile	30%

TSR performance comprises share price growth and dividends paid. Vesting is on a straight line between the points.

Sage's TSR performance will be measured relative to the TSR of the constituents of the FTSE 100, excluding financial services and extracting companies. PSP awards granted in FY21 will be subject to potential withholding (malus) or recovery (clawback) if specified trigger events occur prior to the third anniversary of the release date of an award. "Trigger events" in respect of PSP awards will comprise a material misstatement of the audited results, error in calculation of the extent of PSP vesting, serious reputational damage or significant financial loss as a result of an individual's conduct or gross misconduct which could have warranted an individual's summary dismissal or a material failure of risk management.

Non-executive Director remuneration

The table below shows the fee structure for Non-executive Directors for 2021. Non-executive fees, except for the fee for the Chairman, are determined by the executive members of the Board plus the Chairman. The fee for the Chairman of the Board is determined by the Remuneration Committee.

	2021 fees
Chairman of the Board all-inclusive fee	£400,000
Basic Non-executive Director fee	£60,000
Senior Independent Director additional fee	£17,000
Audit and Risk Committee Chairman additional fee	£17,000
Remuneration Committee Chairman additional fee	£17,000

Directors' shareholdings and share interests (audited information)

The shareholding guideline for Executive Directors is 250% of salary. Executive Directors are expected to build up the required shareholding within a five-year period of the Executive Director becoming subject to the guideline. As at 30 September 2020, Steve Hare held shares worth 362% of salary and Jonathan Howell held shares worth 194% of salary. Values include unvested deferred shares net of tax at the estimated marginal withholding rates. The values for Executive Directors are derived from interests in shares valued using the average market price of a share in the three months to 30 September 2020 (the last trading day of the financial year), which was £7.204, and the Executive Director's basic salary over the same period.

Additionally, from 11 September 2019 the Remuneration Committee introduced a requirement for Executive Directors to hold Sage shares for a two-year period after stepping down from that position, being in the first year the lesser of 250% of salary (the shareholding guideline prior to cessation as an Executive Director) or the Executive Director's actual shareholding on leaving this position and reducing to 50% of this requirement in the second year. The Executive Director's actual shareholding will include any shares acquired through the vesting or release of shares from share incentive plans (net of tax, where applicable) after the date the policy was adopted and unvested shares granted under the Deferred Bonus Plan (net of tax) but excludes shares acquired through purchase and the release of shares under share incentive plans where the release occurred prior to the Remuneration Committee's adoption of the policy. Additionally, PSP shares vesting after cessation are subject to a two-year holding period at vesting.

Interests in shares

The interests as at 30 September 2020 of each person who was a Director of the Company during the year (together with interests held by his or her connected persons) were:

Director	**Ordinary shares at 30 September 2020 number**	Ordinary shares at 30 September 2019 number
S Anand[1]	**–**	–
J Bates	**–**	–
J Bewes	**10,000**	10,000
D Brydon	**100,024**	100,024
A Court	**1,350**	1,350
B Crump[2]	**63,475**	35,692
D Hall	**10,000**	10,000
S Hare[3]	**372,464**	333,206
J Howell	**129,660**	75,000
S Jiandani[4]	**–**	–
C Keers[5]	**–**	–
I Wasti[6]	**–**	–
Total	**686,973**	565,272

Notes:

1. Sangeeta Anand was appointed as a Non-executive Director on 1 May 2020.
2. Blair Crump stepped down from his role as Executive Director on 25 February 2020.
3. Steve Hare's total as at 30 September 2019 has been restated to include 2,000 shares held by Lucinda Cowley, a person closely associated to Mr Hare. The total for 30 September 2020 includes 7,000 shares also held by Lucinda Cowley.
4. Soni Jiandani stepped down from her role as Non-executive Director on 25 February 2020.
5. Cath Keers stepped down from her role as non-independent Non-executive Director on 30 June 2020.
6. Irana Wasti was appointed as a Non-executive Director on 1 May 2020.

- There have been no changes in the Directors' holdings in the share capital of the Company, as set out in the table above, between 30 September 2020 and the date of this Report.
- Details of the Executive Directors' interests in outstanding share awards under the PSP, Deferred Bonus and all-employee share option plans are set out below.

All-employee share options (audited information)

All Executive Directors are eligible to join the all-employee share plan, the Sage Save and Share Plan, on the same terms as all colleagues based in their respective local jurisdiction. See note 14.2 on page 221 for more detail of this plan. In the year under review, Steve Hare participated in this scheme. The outstanding all-employee share options granted to each Director of the Company are as follows:

Director	Exercise price per share	Shares under option at 1 October 2019 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	**Shares under option at 30 September 2020 number**	Date exercisable
S Hare	604p	2,980	–	–	–	**2.980**	1 August 2022-31 January 2023
Total		2,980	–	–	–	**2,980**	

Notes:

- Steve Hare participated in the 2019 Save and Share Plan. Under the UK Save and Share Plan rules, the scheme has a three-year saving period. No performance conditions apply to options granted under this plan. For the 2019 UK Save and Share grant, the exercise price was set at £6.04, a 20% discount on the average share price on 20, 21 and 22 May 2019 of £7.546.
- Jonathan Howell did not participate in the 2019 Save and Share Plan.
- The market price of a share of the Company at 30 September 2020 (the last trading day of the financial year) was £7.208 (mid-market average) and the lowest and highest market prices during the year were £5.348 and £7.946 respectively.

Performance Share Plan (audited information)

The outstanding awards granted to each Executive Director of the Company under the Performance Share Plan are as follows:

Director	Grant date	Under award 1 October 2019 number	Awarded during the year number	Vested during the year number	Lapsed during the year number	**Under award 30 September 2020 number**	Vesting date
S Hare	2 December 2019	–	208,278	–	–	**208,278**	2 December 2022
	28 February 2019	265,975	–	–	–	**265,975**	4 December 2021
	7 December 2017	171,597	–	–	–	**171,597**	7 December 2020
	14 December 2016	208,300	–	(30,828)	(177,472)	**–**	14 December 2019
		645,872	**208,278**	**(30,828)**	**(177,472)**	**645,850**	
J Howell	2 December 2019	–	144,600	–	–	**144,600**	2 December 2022
	28 February 2019	184,801	–	–	–	**184,801**	4 December 2021
	11 December 2018	98,919	–	–	–	**98,919**	3 October 2020
	11 December 2018	213,779	–	(63,919)	(149,860)	**–**	4 October 2019
		497,499	**144,600**	**(63,919)**	**(149,860)**	**428,320**	
B Crump	2 December 2019	–	143,694	–	(143,694)	**–**	2 December 2022
	28 February 2019	190,027	–	–	(95,101)	**94,926**	4 December 2021
	7 December 2017	171,814	–	–	(28,715)	**143,099**	7 December 2020
	14 December 2016	196,379	–	(29,064)	(167,315)	**–**	14 December 2019
		558,220	**143,694**	**(29,064)**	**(434,825)**	**238,025**	
Total		**1,701,591**	**496,572**	**(123,811)**	**(762,157)**	**1,312,195**	

Notes:

- No variations were made in the terms of the awards in the year.
- PSP awards for 2020 were granted to Executive Directors on 2 December 2019. The market price of the award was £7.538.
- The performance conditions for awards granted in December 2016, December 2017 and February 2019 are set out in the respective Annual Reports for the year of grant and for awards granted in December 2019 on page 139.
- The performance conditions for Steve Hare's award that vested during 2020 are set out on page 112 of the 2019 Annual Report.
- Awards for Steve Hare granted in December 2017 and after are subject to a holding period of two years on vesting. Awards for Jonathan Howell vesting in 2020 and after are subject to a holding period of two years on vesting.
- Blair Crump's PSP awards for 2018 and 2019 were pro-rated to the date of cessation of his employment which was 31 March 2020. His PSP award for 2020 lapsed in full on this date.

Deferred shares (audited information)

The outstanding awards granted to each Executive Director of the Company under The Sage Group Deferred Bonus Plan are as follows:

Director	Grant date	Under award at 1 October 2019 number	Awarded during the year number	Vested during the year number	Lapsed during the year number	**Under award at 30 September 2020 number**	Vesting date
S Hare	2 December 2019	–	55,620	–	–	**55,620**	2 December 2022
	7 December 2017	5,491	–	5,491	–	**–**	7 December 2019
J Howell	2 December 2019	–	32,102	–	–	**32,102**	2 December 2022
B Crump	2 December 2019	–	38,558	–	–	**38,558**	2 December 2022
	7 December 2017	8,488	–	8,488	–	**–**	7 December 2019
Total		**13,979**	**126,280**	**13,979**	**–**	**126,280**	

Notes:

- Awards are not subject to further performance conditions once granted. The market price of a share on 29 November 2019, the trading day prior to the date of the awards made in the year ended 30 September 2020, was £7.538.
- No variations were made in the terms of the awards in the year.

There are limits on the number of newly issued and treasury shares that can be used to satisfy awards under the Group's colleague share schemes in any ten-year period. The limits and the Group's current position against those limits as at 30 September 2020 (the last practicable date prior to publication of this Report) are set out below:

Limit	Current position
5% of Group's share capital can be used for discretionary share schemes	2.92%
10% of Group's share capital can be used for all share schemes	3.80%

The current position consists of shares released during the period plus committed shares inclusive of dividend equivalents accrued, with the total adjusted for forfeitures and, where applicable, performance expectations. The Company has previously satisfied all awards through the market purchase of shares or transfer of treasury shares and will continue to consider the most appropriate approach, based on the relevant factors at the time.

External appointments

Executive Directors are permitted, where appropriate and with Board approval, to take non-executive directorships with other organisations in order to broaden their knowledge and experience in other markets and countries. Fees received by the Directors in their capacity as directors of these companies are retained, reflecting the personal responsibility they undertake in these roles. The Board recognises the significant demands that are made on Executive and Non-executive Directors and has therefore adopted a policy that no Executive Director should hold more than one directorship of other listed companies. Except in exceptional circumstances, where approved in advance by the Chairman of the Remuneration Committee, if an Executive Director holds non-executive positions at more than one listed company then only the fees from one such company will be retained by the Director. The Executive Directors do not currently hold any appointments of this nature.

No formal limit on other board appointments applies to Non-executive Directors under the Policy but prior approval (not to be unreasonably withheld) from the Board is required in the case of any new appointment.

Unexpired term of contract table

Director	Date of contract	Unexpired term of contract on 30 September 2020, or on date of contract if later	Notice period under contract
Executive Directors			
S Hare	3 January 2014	12 months	12 months from the Company and/or individual
J Howell	10 December 2018	12 months	12 months from the Company and/or individual
Non-executive Directors			
S Anand	1 May 2020	2 years 7 months	1 month from the Company or 1 month from the individual
J Bates	31 May 2019	1 year 8 months	1 month from the Company or 1 month from the individual
J Bewes	1 April 2019	1 year 6 months	1 month from the Company or 1 month from the individual
D Brydon	6 July 2020	12 months	6 months from the Company and/or individual
A Court	1 April 2019	1 year 6 months	1 month from the Company or 1 month from the individual
D Hall	1 January 2020	2 years 3 months	1 month from the Company or 1 month from the individual
I Wasti	1 May 2020	2 years 7 months	1 month from the Company or 1 month from the individual

Consideration by the Directors of matters relating to Directors' remuneration

The following Directors were members of the Remuneration Committee when matters relating to the Directors' remuneration for the year were being considered:

- Annette Court (Chair);
- Drummond Hall;
- Cath Keers (to 22 April 2020);
- Dr John Bates (from 22 April 2020).

The Remuneration Committee received assistance from Amanda Cusdin (Chief People Officer), Tina Clayton (Executive Vice President, Reward & Recognition) and Vicki Bradin (General Counsel and Company Secretary) and other members of management (including the CEO and CFO), who may attend meetings by invitation, except when matters relating to their own remuneration are being discussed.

External advisors

This year the Remuneration Committee undertook a periodic review of its advisors and, after considering proposals from a number of relevant firms, agreed to re-appoint Deloitte LLP, an independent firm of remuneration consultants. During the year, Deloitte's executive compensation advisory practice advised the Remuneration Committee on developments in market practice, corporate governance, institutional investor views, the development of the Company's incentive arrangements and the review of the Policy. Total fees for advice provided to the Remuneration Committee during the year were £78,420.

The Remuneration Committee is satisfied that the advice it has received has been objective and independent.

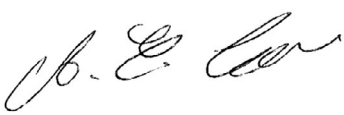
Deloitte is a founding member of the Remuneration Consultants Group and adheres to its code in relation to executive remuneration consulting in the UK. Other parts of Deloitte have provided tax advice, specific corporate finance support in the context of merger and acquisition activity and unrelated corporate advisory services.

Stitch, a Deloitte business, provided the Sage reward team with communication support on colleague reward and share plan communications during 2020.

Statement of shareholding voting

The table below sets out the results of the vote on the 2019 Policy at the 2019 AGM and Directors' Remuneration Report at the 2020 AGM:

	Votes for		Votes against		Votes cast	Votes withheld
	Number	%	Number	%		
Remuneration Policy	747,391,904	96.23	29,250,695	3.77	776,642,599	97,632,667
Remuneration Report	833,078,963	98.30	14,432,659	1.70	847,511,622	63,771,140



Annette Court
Chairman of the Remuneration Committee

19 November 2020

Directors' Report

The Directors present their report together with the audited consolidated financial statements for the financial year ended 30 September 2020 (the "Annual Report and Accounts"). The Annual Report and Accounts contains statements that are not based on current or historical fact and are forward-looking in nature. Please refer to the "Disclaimer" on page 153.

Information included in the Strategic Report

The Directors' Report, together with the Strategic Report on pages 2 to 77, represent the management report for the purpose of compliance with The Disclosure Guidance and Transparency Rules (the "DTRs") 4.1.R.

As permitted by legislation, some of the matters required to be included in the Directors' Report have instead been included in the Strategic Report as the Board considers them to be of strategic importance. Specifically, these are:

Subject matter	Page reference
Future business developments	16 to 19 – Chief Executive's review (Relevant information is also in the Corporate Governance Report on page 104)
Greenhouse gas emissions, energy consumption and energy efficiency action	46 to 51 – Environment section
Employment of disabled persons Engagement with colleagues Engagement with suppliers, customers and others	35 – People section 29 – Section 172(1) Statement and 30 to 35 – People section and 36 to 38 – Customers section (Relevant information is also in the Corporate Governance Report on pages 94 to 99)

Corporate governance statement

The DTRs require certain information to be included in a corporate governance statement in the Directors' Report. This information can be found in the Corporate Governance Report on pages 78 to 148, which is incorporated into this Directors' Report by reference and, in the case of the information referred to in DTR 7.2.6, in this Directors' Report.

Disclosure of information under Listing Rule 9.8.4

Sub-section of Listing Rule 9.8.4R	Detail	Page reference
7	Allotments of shares for cash pursuant to the Group employee share schemes	217
12, 13	Shareholder waiver of dividend	152

Results and dividends

The results for the financial year are set out from page 155 to 242. Full details of the proposed final dividend payment for the year ended 30 September 2020 are set out on page 222. The Board is proposing a final dividend of 11.32p per share following the payment of an interim dividend of 5.93p per share on 12 June 2020. The proposed total dividend for the year is therefore 17.25p per share.

Going concern

After making enquiries, the Directors have a reasonable expectation that Sage has adequate resources to continue in operational existence for at least 12 months from the date of signing these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. In reaching this conclusion, the Directors have had due regard to the following:

- The Group has a robust balance sheet with £1.2bn of cash and available liquidity as at 30 September 2020 and a greater than 100% conversion rate of operating profit to cash. Further information on the available cash resources and committed bank facilities is provided in note 12 to the financial statements on pages 208 to 211
- The financial position of Sage, its cash flows, financial risk management policies and available debt facilities, which are described in the financial statements, and Sage's business activities, together with the factors likely to impact its future growth and operating performance, which are set out in the Strategic Report on pages 52 to 59
- The Directors have reviewed liquidity and covenant forecasts for the Group for the period to 31 March 2022, which reflect the expected impact of Covid-19 on trading. In addition to the global economic shock severe but plausible scenario (as described within the Viability Statement on pages 76 and 77), further stress testing has been performed with the impact of more severe increases in churn and significantly reduced levels of new customer acquisition being considered. In these severe stress scenarios, the Group continues to have sufficient resources to continue in operational existence

Viability statement

The full viability statement and the associated explanations made in accordance with provision 31 of the Code can be found on pages 76 and 77.

Research and development

During the year, we incurred a cost of £252m (2019: £220m) in respect of research and development. Please see page 183 (note 3.2 in the Financial Statements) for further details.

Political donations

No political donations were made in the year.

Directors and their interests

A list of Directors, their interests in the ordinary share capital of Sage, their interests in its long-term Performance Share Plan and details of their options over the ordinary share capital of Sage are given in the Directors' Remuneration Report on pages 133 to 148. No Director had a material interest in any significant contract, other than a service contract or contract for services, with Sage or any of its operating companies at any time during the year.

The names of all persons who, at any time during the year, were Directors of Sage can be found on pages 80 and 81.

Sage maintains directors' and officers' liability insurance which provides appropriate cover for legal action brought against our Directors. Sage has also granted indemnities (which are qualifying third-party indemnity provisions under the Companies Act 2006) to each member of the Board, under which it has agreed to indemnify the Directors to the extent permitted by law and by Sage's articles of association, in respect of all liabilities incurred in connection with the performance of their duties as a Director of Sage or any of its subsidiaries. These indemnities are currently in force. Neither these indemnities nor the insurance provides cover in the event that an indemnified individual is proven to have acted fraudulently or dishonestly.

Employment policy

The Group continues to give full and fair consideration to applications for employment made by disabled persons, having regard to their respective aptitudes and abilities. This includes, where practicable, the continued employment of those who may become disabled during their employment, and the provision of training and career development and promotion opportunities, where appropriate. Please refer to pages 30 to 35 for further details.

Engagement with colleagues

The Group has continued its policy of colleague involvement by making information available and consulting, where appropriate, with colleagues on matters of concern to them. Colleagues regularly receive updates on the financial and economic factors affecting the Group, and conversely the Group regularly seeks feedback from colleagues, including through pulse surveys. Many colleagues participate in Sage's share option schemes and a long-term Performance Share Plan. Further details of colleague engagement and how the Directors have had regard to employee interests and the effect of that regard on principal decisions taken by the Board during the year including the role of our Board Associate are provided on pages 94 to 96.

Engagement with other stakeholders

Details of engagement with stakeholders including suppliers, customers and others in a business relationship with Sage and information on how the Directors have had regard to their interests and the effect of that regard on principal decisions taken by the Board during the year are provided on pages 97 to 99.

Major shareholdings

As at 30 September 2020, Sage had been notified, in accordance with the DTRs, of the following interests in its ordinary share capital:

Name	Ordinary shares	% of capital[1]	Nature of holding
BlackRock, Inc.	64,021,267	5.90	Direct and Indirect
Lindsell Train Limited	54,140,022	5.01	Direct
Fundsmith LLP	53,635,451	5.00	Direct
Aviva plc & its subsidiaries	32,702,797	2.998	Direct and Indirect

Notes:

1. % as at date of notification. The DTRs require notification when the % voting rights (through shares and financial instruments) held by a person reaches, exceeds or falls below an applicable threshold specified in the DTRs.
2. In the period from 30 September 2020 to the date of this report, we received the following further notification:

Name	Ordinary shares	% of capital[1]	Nature of holding
Aviva plc & its subsidiaries	37,536,359	3.43	Direct and Indirect

Information provided to Sage under the DTRs is publicly available via the regulatory information service and on the Sage's website.

Share capital

Sage's share capital is as set out on page 217. Sage has a single class of share capital which is divided into ordinary shares of $1^{4/77}$ pence each.

Rights and obligations attaching to shares

Voting

In a general meeting of Sage, subject to the provisions of the articles of association and to any special rights or restrictions as to voting attached to any class of shares in Sage (of which there are none):

- On a show of hands, a qualifying person (being an individual who is a member of Sage, a person authorised to act as the representative of a corporation or a person appointed as a proxy of a member) shall have one vote, except that a proxy has one vote for and one vote against a resolution if the proxy has been appointed by more than one member and has been given conflicting voting instructions by those members, or has been given discretion as to how to vote; and
- On a poll, every member who is present in person or by proxy shall have one vote for every share of which he or she is the holder.

No member shall be entitled to vote at any general meeting or class meeting in respect of any shares held by them if any call or other sum then payable by them in respect of that share remains unpaid. Currently, all issued shares are fully paid.

Deadlines for voting rights

Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the Annual General Meeting to be held on 4 February 2021 will be set out in the Notice of Annual General Meeting.

Dividends and distributions

Subject to the provisions of the Companies Act 2006, Sage may, by ordinary resolution, declare a dividend to be paid to the members, but no dividend shall exceed the amount recommended by the Board.

The Board may pay interim dividends, and also any fixed rate dividend, whenever the financial position of Sage, in the opinion of the Board, justifies its payment. All dividends shall be apportioned and paid pro-rata according to the amounts paid up on the shares.

Liquidation

If Sage is in liquidation, the liquidator may, with the authority of a special resolution of Sage and any other authority required by the statutes (as defined in the articles of association):

- Divide among the members in specie the whole or any part of the assets of Sage; or
- Vest the whole or any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit.

Transfer of shares

Subject to the articles of association, any member may transfer all or any of his or her certificated shares by an instrument of transfer in any usual form or in any other form which the Board may approve. The Board may, in its absolute discretion, decline to register any instrument of transfer of a certificated share which is not a fully paid share (although not so as to prevent dealings in shares taking place on an open and proper basis) or on which Sage has a lien.

The Board may also decline to register a transfer of a certificated share unless the instrument of transfer is: (i) left at Sage's registered office, or at such other place as the Board may decide, for registration; and (ii) accompanied by the certificate for the shares to be transferred and such other evidence (if any) as the Board may reasonably require to prove the title of the intending transferor or his or her right to transfer the shares.

The Board may permit any class of shares in Sage to be held in uncertificated form and, subject to the articles of association, title to uncertificated shares to be transferred by means of a relevant system and may revoke any such permission. Registration of a transfer of an uncertificated share may be refused where permitted by the statutes (as provided in the articles of association).

Repurchase of shares

Sage obtained shareholder authority at the last Annual General Meeting held on 25 February 2020 to buy back up to 109,137,735 ordinary shares. The minimum price which must be paid for each ordinary share is its nominal value and the maximum price set out in the resolution is the higher of an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately before the purchase is made and an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for ordinary shares on the trading venue where the purchase is carried out (in each case exclusive of expenses). Share repurchases are used from time to time as a method to control the Group's leverage and decisions are made against strict price, volume and returns criteria that are agreed by the Board and regularly reviewed.

On 11 March 2020 Sage confirmed that a £250m capital return, announced on 20 November 2019 and reflecting the sale proceeds from the Sage Pay disposal, would be executed via a share buyback programme (the "Share Buyback Programme"). The Share Buyback Programme commenced on 12 March 2020. On 18 March 2020 Sage suspended the Share Buyback Programme and on 6 April 2020 Sage announced that it had cancelled the Share Buyback Programme in order to preserve a high level of liquidity in light of the Covid-19 pandemic.

All repurchases of ordinary shares under the Share Buyback Programme were carried out in accordance with Sage's general authority to repurchase up to 109,137,735 ordinary shares, Chapter 12 of the Listing Rules and those provisions of Market Abuse Regulation 596/2014/EU dealing with buy-back programmes.

A total number of 1,101,918 ordinary shares of $1^{4/77}$ pence each in Sage were repurchased as part of the Share Buyback Programme as follows. The shares purchased represent approximately 0.1% of the total issued share capital of the Company, as at 30 September 2020. The aggregate amount of the consideration paid by Sage was £6,432,838.

Date of repurchase of ordinary shares	Number of ordinary shares repurchased and held in treasury	Average price paid per ordinary share
12 March 2020	256,000	£5.7829
13 March 2020	252,000	£5.8270
16 March 2020	255,037	£5.7334
17 March 2020	232,000	£5.9950
18 March 2020	106,881	£5.9031

Amendment of Sage's articles of association

Any amendments to Sage's articles of association may be made in accordance with the provisions of the Companies Act 2006 by way of special resolution.

Appointment and replacement of Directors

Directors shall be not less than two and no more than 15 in number. Directors may be appointed by Sage by ordinary resolution or by the Board. A Director appointed by the Board holds office only until the next Annual General Meeting and is then eligible for election by the shareholders.

The Board may from time to time appoint one or more Directors to hold employment or executive office for such period (subject to the provisions of the Companies Act 2006) and on such terms as they may determine and may revoke or terminate any such appointment.

Under the articles of association, at every Annual General Meeting of Sage, every Director shall retire from office (but shall be eligible for election or re-election by the shareholders). Sage may by special resolution (or by ordinary resolution of which special notice has been given) remove, and the Board may by unanimous decision remove, any Director before the expiration of his or her term of office. The office of Director shall be vacated if: (i) he or she resigns; (ii) he or she has become physically or mentally incapable of acting as a director and may remain so for more than three months and the Board resolves that his or her office is vacated; (iii) he or she is absent without permission of the Board from meetings of the Board for six consecutive months and the Board resolves that his or her office is vacated; (iv) he or she becomes bankrupt or makes an arrangement or composition with his or her creditors generally; (v) he or she is prohibited by law from being a director; or (vi) he or she is removed from office pursuant to the articles of association.

Powers of the Directors

The business of Sage will be managed by the Board which may exercise all the powers of Sage, subject to the provisions of Sage's articles of association, the Companies Act 2006 and any ordinary resolution of Sage.

Shares held in the Employee Benefit Trust

The trustee of The Sage Group plc. Employee Benefit Trust has agreed not to vote any shares held in the Employee Benefit Trust at any general meeting. If any offer is made to shareholders to acquire their shares the trustee will not be obliged to accept or reject the offer in respect of any shares which are at that time subject to subsisting awards, but will have regard to the interests of the award holders and will have power to consult them to obtain their views on the offer. Subject to the above the trustee may take action with respect to any offer it thinks fair. The trustee has waived its right to dividends on the shares held in the trust.

Significant agreements

The following significant agreements contain provisions entitling the counterparties to exercise termination or other rights in the event of a change of control of Sage:

- Under a note purchase agreement dated 20 May 2013 relating to US$150m senior notes, Series F, due 20 May 2023 and US$50m senior notes, Series G, due 20 May 2025 between Sage Treasury Company Limited and the note holders and guaranteed by the Company, on a change of control of the Company, the Company will not take any action that consummates or finalises a change of control unless at least 15 business days prior to such action it shall have given to each holder of notes written notice containing and constituting an offer to prepay all notes on a date specified in such offer which shall be a business day occurring subsequent to the effective date of the change of control which is not less than 30 days or more than 60 days after the date of the notice of prepayments. Where a holder of notes accepts the offer to prepay, the prepayment shall be 100% of the principal amount of the notes together with accrued and unpaid interest thereon and shall be made on the proposed prepayment date. No prepayment under a change of control shall include any premium of any kind;
- Under a note purchase agreement dated 26 January 2015 relating to €55m senior notes, Series H, due 26 January 2022, €30m senior notes, Series I, due 26 January 2023 and US$200m senior notes, Series J, due 26 January 2025 between Sage Treasury Company Limited and the note holders and guaranteed by the Company, on a change of control of the Company, the Company will not take any action that consummates or finalises a change of control

unless at least 15 business days prior to such action it shall have given to each holder of notes written notice containing and constituting an offer to prepay all notes on the date specified in such offer which shall be a business day occurring subsequent to the effective date of the change of control which is not less than 30 days or more than 60 days after the date of notice of prepayments. Where a holder of notes accepts the offer to prepay, the prepayment shall be 100% of the principal amount of the notes together with accrued and unpaid interest thereon and any applicable net loss and, in each case, including the deduction of any applicable net gain and shall still be made on the proposed payment date. No prepayment under a change of control shall include any premium of any kind;

- Under the terms of the purchase agreements above, "control" is defined as per section 450 of the Corporation Tax Act 2010, and a "change of control" occurs if any person or group of persons acting in concert gains control of the Company;
- Under a dual tranche US$719m and £135m five-year multi-currency revolving credit facility agreement dated 7 February 2018 between, amongst others, Sage Treasury Company Limited and the facility agent, and guaranteed by the Company, on a change of control, if any individual lender so requires and after having consulted with Sage Treasury Company Limited in good faith for not less than 30 days following the change of control, the facility agent shall, by not less than 10 business days' notice to Sage Treasury Company Limited, cancel the commitment of that lender and declare the participation of that lender in all outstanding loans, together with accrued interest and all other amounts accrued under the finance documents, immediately due and payable, whereupon the commitment of that lender will be cancelled and all such outstanding amounts will become immediately due and payable;
- Under a £200m two-year term loan credit facility agreement dated 10 September 2019 and extended for a further 12 months on 29 September 2020 between, amongst others, Sage Treasury Company Limited and Lloyds Bank plc (as facility agent) and guaranteed by the Company, on a change of control, if any individual lender so requires and after having consulted with Sage Treasury Company Limited in good faith for not less than 30 days following the change of control, the facility agent shall, by not less than 10 business days' notice to Sage Treasury Company Limited, cancel the commitment of that lender and declare the participation of that lender in all outstanding loans, together with accrued interest and all other amounts accrued under the finance documents, immediately due and payable, whereupon the commitment of that lender will be cancelled and all such outstanding amounts will become immediately due and payable;
- Under the terms of the bank debt facilities above, "control" is defined as per section 840 of the Income and Corporation Taxes Act 1998;
- The platform reseller agreement dated 31 January 2015 relating to the Company's strategic arrangements with Salesforce.com EMEA Limited contains a change of control right enabling Salesforce to terminate the agreement in the event there is a change of control in favour of a direct competitor of Salesforce.com EMEA Limited. The agreement contains post termination requirements upon Salesforce to support a transition for up to a specified period. In respect of the platform reseller agreement with Salesforce.com EMEA Limited, "change of control" occurs where a corporate transaction results in the owners of the subject entity owning less than 50% of the voting interests in that entity as a result of the corporate transaction; and
- All of Sage's employee share plans contain provisions relating to a change of control of The Sage Group plc. Outstanding awards and options may vest and become exercisable on a change of control, subject, where applicable, to the satisfaction of any applicable performance conditions and time pro-rating.

Branch

The Group, through various subsidiaries, has a branch in France. Further details are included in note 18 on pages 230 to 232.

Financial risk management

The Group's exposure to and management of capital, liquidity, credit, interest rate and foreign currency risk are shown in note 13.6 to the financial statements. Our approach to risk management generally and our principal risks can be found in note 13.6 and on pages 60 to 77.

Disclaimer

The purpose of this Annual Report and Accounts is to provide information to the members of Sage. The Annual Report and Accounts has been prepared for, and only for, the members of Sage, as a body, and no other persons. Sage, its Directors and employees, agents or advisors do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. The Annual Report and Accounts contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and Accounts and Sage undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report and Accounts should be construed as a profit forecast.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Accounts, including the Directors' Remuneration Report and the financial statements of the Group and Sage, in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and IFRS as issued by the International Accounting Standards Board ("IASB"), and Sage's financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of Sage and the Group and of the profit or loss of the Group and Sage for that period.

In preparing these financial statements the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether IFRS as adopted by the EU, IFRS as issued by the IASB and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements of the Group and Sage respectively; and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that Sage will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain Sage's transactions and disclose with reasonable accuracy at any time the financial position of Sage and the Group and to enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group's financial statements, Article 4 of the International Accounting Standards Regulation. They are also responsible for safeguarding the assets of Sage and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' statement

The Directors as at the date of this report, whose names and functions are listed in the Board of Directors' section on pages 80 to 81, confirm that:

- To the best of their knowledge, the Group's financial statements, which have been prepared in accordance with IFRS as adopted by the EU and IFRS issued by the IASB, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; 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, together with a description of the principal risks and uncertainties that it faces.

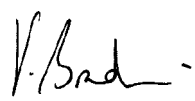
Each Director as at the date of this report further confirms that:

- So far as the Director is aware, there is no relevant audit information of which Sage's auditors are unaware; and
- The Director has taken all the steps that he or she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Sage's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

In addition, the Directors as at the date of this report consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess Sage's and the Group's position, performance, business model and strategy.

By Order of the Board



Vicki Bradin
Company Secretary

19 November 2020

The Sage Group plc.
Company number 02231246

Contents

Group financial statements

Independent Auditor's Report to the members of The Sage Group plc.

Opinion

In our opinion:

- The Sage Group plc's consolidated financial statements and parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 September 2020 and of the Group's profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the consolidated financial statements, Article 4 of the IAS Regulation.

Separate opinion in relation to IFRS as issued by the International Accounting Standards Board

- As explained in note 1 to the consolidated financial statements, the Group, in addition to applying IFRS as adopted by the European Union, has also applied IFRS as issued by the International Accounting Standards Board (IASB). In our opinion, the consolidated financial statements also comply with IFRS as issued by the IASB.

We have audited the financial statements of The Sage Group plc. which comprise:

Group	Parent Company
Consolidated balance sheet as at 30 September 2020	Company balance sheet as at 30 September 2020
Consolidated income statement for the year then ended	Company statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Related notes 1 to 7 to the financial statements including a summary of significant accounting policies
Consolidated statement of changes in equity for the year then ended	
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 18 to the financial statements, including a summary of significant accounting policies	

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on pages 66 to 75 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 66 in the Annual Report that they have carried out a robust assessment of the emerging and principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 149 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on pages 76 to 77 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Revenue recognition • Recoverability of goodwill and other intangible assets allocated to the Intacct and Iberia cash generating units ('CGU')
Audit scope	• We performed an audit of the complete financial information of 6 components and audit procedures on specific balances for a further 5 components. • The components where we performed full or specific audit procedures accounted for 91% of adjusted Profit before tax, 91% of Revenue and 95% of Total assets.
Materiality	• Overall Group materiality of £16.3m which represents 5% of adjusted Profit before tax*.

Note:

* Profit before tax and non-recurring items as defined in the 'Our application of materiality' section of this report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee

Revenue recognition
Refer to the Audit and Risk Committee Report (page 115); Accounting policies (page 173); and notes 2.1 and 3.1 of the consolidated financial statements (pages 177 to 178 and 181 to 182)
 	
The Group has reported revenues of £1,903m (FY19: £1,936m) with deferred income at 30 September 2020 of £600m (FY19: £645m).
 	
We assessed revenue recognition as a fraud risk as revenue forms the basis for certain of the Group's key performance indicators, both in external communications and for management incentives.
 	
We identified two specific risks of fraud and error in respect of inappropriate revenue recognition given the nature of the Group's products and services as follows:
• Inappropriate timing of revenue recognition, including cut-off and deferral; and;
• Inappropriate measurement of revenue attributed to products and services provided when sold together as a bundle.
 	
Our judgement is that the level of risk in this area remains consistent with the prior year.
	Walkthroughs and controls
	• We performed walkthroughs of each significant class of revenue transactions and assessed the design effectiveness of key controls.
	• For one component, we tested the operating effectiveness of certain internal controls as this was identified as the most efficient audit approach.
	
	Timing of revenue recognition, including cut-off and deferral
	• We evaluated management's determination of whether the nature of the Group's products and services results in the provision of a good or service at a point in time or over a contractual term., by reviewing a sample of customer contracts against the requirements of IFRS 15. This included the assessment of new or one-off transactions, by comparing the accounting treatment adopted by management to the Group accounting policy and IFRS 15.
	• At all revenue generating full and specific scope components (excluding Brazil due to the disposal) we adopted a data analysis approach in relation to revenue and receivables. Our procedures involved testing full populations of transaction data and included correlation analysis between invoiced revenue, receivables and cash, as well as analysis of credit notes.
	• In respect of deferred income, for products and services where revenue is earned over a contractual term, we:
	  • tested a sample of transactions to determine that the amount of revenue recognised in the year and the amount deferred at the balance sheet date were accurately calculated based on progress of the contract, and/or
	  • at certain components, with support from EY IT team members, we utilised bespoke data analysis to facilitate independent reperformance of certain management calculations, including deferred income. This included testing a sample of the data inputs against third party evidence, such as the contract with the customer.
	• We have performed cut-off testing around for a sample of revenue items/ credit notes booked either side of the year-end to determine that revenue was recognised in the period in which the contract was agreed by both Sage and the customer and the software has been made available to the customer.
	
	Measurement of revenue attributed to products and services provided in accordance with IFRS 15
	• For bundled products, we tested on a sample basis, that (1) the calculation of the fair value attributed to each element of the bundle was reasonable based upon the Standalone Selling Price (SSP) guidance under IFRS 15, and (2) that the allocation of the discount was consistent with the relative fair value of each element of the bundle.
	
	Management override
	• Audit teams at full and specific scope components with significant revenue streams performed certain specific procedures to address the risk of management override, including testing to identify unusual, new or significant transactions or contractual terms and targeted journal entry testing over manual journal entries.
	
	Disclosures
	• We also considered the adequacy of the Group's disclosures relating to revenue recognition in note 1 (Critical accounting estimates and judgements) and note 3.1 (Revenue).
		Based on the procedures performed, we consider the recognition of revenue to be appropriate for the year ended 30 September 2020. We did not identify:
		• Evidence of material misstatement as a result of inappropriate timing of revenue recognition, cut-off or deferral; or
		• Inappropriate measurement of revenue attributed to products and services provided when sold together as a bundle.
		
		Furthermore, we consider the disclosures appropriate.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Recoverability of goodwill and other intangible assets allocated to the Intacct and Iberia cash generating units ('CGU') *Refer to the Audit and Risk Committee Report (page 116); Accounting policies (page 173); and note 6.1 of the consolidated financial statements (pages 194 to 195)* Goodwill and other intangible assets of £1,962m and £212m are recognised in the Group's consolidated balance sheet at 30 September 2020. Included in these balances are: • North America Intacct Cash Generating Unit ('CGU') – goodwill of £491m and other intangible assets of £120m. • Iberia CGU – goodwill of £137m and other intangible assets of £4m. We continue to include the Intacct CGU within our Key Audit Matters due to the estimation involved in determining the future performance of the business to be included within the 'Value in Use' model. The 'Value in Use' model forecasts for a four-year period to reflect the ongoing investment in new customer acquisition in 2017. As a result of this investment Intacct is currently loss making but seeing significant growth in revenues. We have included the Iberia CGU as management have identified that a reasonably possible change in the average medium-term revenue growth rate could give rise to an impairment adjustment. The estimation uncertainty increased for both the Intacct and Iberia CGUs as a result of the effects of Covid-19 on the macroeconomic factors used in developing the assumptions.	**Valuation model** Management performed its annual impairment assessment as at 30 June 2020. • We tested the methodology applied in the value in use calculations for the Intacct and Iberia CGUs as compared to the requirements of IAS 36, Impairment of Assets, including the appropriateness of the forecast periods, and the mathematical accuracy of management's model. We considered any further impairment triggers between management's assessment date and the year end. No such triggers were identified. **Key assumptions in the valuation** We evaluated the key underlying assumptions used in the valuations including growth rates, margin and the discount rates applied. • We assessed the appropriateness of the key assumptions used in the FY21 forecasts including new customer acquisition, upsell/add-ons and level of churn by assessing these against the results achieved in FY20 and the prior track record of growth. • For forecasts for FY21-FY23 (Iberia) and FY21-FY24 (Intacct), we considered the latest market trends to evaluate whether there is evidence that the forecast growth rates assumed for this period should be lower than the FY20 current growth rate. • We tested the reasonableness of long-term growth rates applied after the forecast period by comparing the rates used by management to macroeconomic forecasts. • We tested the discount rates, with the involvement of our internal valuation specialists, by reference to comparable market data and the specific risk profile relevant to each respective CGU, compared to the rates used by management. • For the Intacct CGU, we evaluated if and why the forecasts differed from the original acquisition plan used in the purchase price allocation at the date of acquisition and evaluated management's track record of delivering against budget since acquisition. • For the Iberia CGU, we evaluated the reasons the forecasts differed from the prior year impairment model and evaluated management's track record of delivering against budget. • We performed downside sensitivity analysis on key assumptions in the models, including combinations thereof, to understand the parameters that, should they arise, cause an impairment of goodwill. **Disclosures** • We considered the appropriateness of the related disclosures provided in note 6.1 in the consolidated financial statements, in particular, the disclosure of the forecast period used in the value in use calculation and sensitivity disclosures.	We agree with management's conclusion that no impairment of Intacct or Iberia goodwill is required in the current year. We have concluded that the methodology applied is reasonable, that the forecast period is appropriate and that management's models are mathematically accurate. Management have also established a reliable methodology for determining the underlying assumptions, including forecast growth rates, margin and discount rates. The additional sensitivity disclosures in note 6.1 of the Group financial statements adequately reflect that a reasonably possible change in certain key assumptions could lead to a different conclusion in respect of the recoverability of goodwill.

In the prior year, our auditor's report included a key audit matter in relation to the first time application of IFRS 15. In the current year, IFRS 15 has been embedded within the standard accounting processes of the Group hence is included within our revenue recognition Key Audit Matter, as opposed to being reported separately.

An overview of the scope of our audit

Tailoring the scope

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

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 23 reporting components of the Group, we selected 11 components which represent the principal business units within the Group. These include entities within the United Kingdom and Ireland, France, North America, Spain, Germany, South Africa and Brazil (disposed of part way through the period).

Of the 11 components selected, we performed an audit of the complete financial information of 6 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 5 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The charts below illustrate the coverage obtained from the work performed by our audit teams.

	2020				2019		
Reporting components	**Number**	**% Group adjusted Profit before tax***	**% Group Revenue**	**Note**	Number	% Group adjusted Profit before tax*	% Group Revenue
Full scope	6	76%	63%	1,2	6	77%	61%
Specific scope	5	15%	28%	2,3	5	18%	28%
Full and specific scope coverage	11	91%	91%		11	95%	89%
Remaining components	12	9%	9%	4	9	5%	11%
Total Reporting components	**23**	**100%**	**100%**		**20**	**100%**	**100%**

Notes:

1. 3 of the 6 full scope components relate to the Parent Company and other corporate entities whose activities include the Group's treasury management and consolidation adjustments. The other 3 full scope components are UKI, France, and North America Sage Business Solutions Division.
2. The Group audit risk in relation to revenue recognition was subject to audit procedures at each of the full and specific scope locations with significant revenue streams (being 3 full scope components and 5 specific scope components). The Group audit risk in relation to the recoverability of goodwill and other intangible assets allocated to the Intacct and Iberia CGUs were subject to audit procedures by the Primary audit team on the entire balance, with support from the Intacct and Iberia component audit teams on certain procedures.
3. Specific scope components are Brazil (disposed of part way through the period), Germany, North America Intacct, Spain, and South Africa. The audit scope of these specific scope components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts selected for testing by the Primary audit team.
4. In the current year, the remaining 11 components contributed a net 9% of adjusted Profit before tax* and the individual contribution of these components ranged from (1)% to 3% of the Group's adjusted Profit before tax*. For 5 components, being Sage People, Asia, Australia, Portugal and Switzerland, the Primary audit team performed review scope procedures, including analytical review and inquiries of component management (FY19: 5 components being Asia, Australia, Middle East, Switzerland and Sage People). For the remaining 6 components, the Primary audit team performed other procedures, including overall analytical review procedures and testing of consolidation journals, intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

* Profit before tax and non-recurring items as defined in the 'Our application of materiality' section of this report.

Changes from the prior year

The change in the total number of reporting components from 20 to 23 was as a result of acquisitions and disposals made in the year.

Impact of the Covid-19 pandemic

As a result of the Covid-19 outbreak and resulting lockdown restrictions we have modified our audit strategy to allow for the year end audit to be performed remotely at both the component and Group locations. This approach was supported through remote user access to the Group's financial systems and the use of EY software collaboration platforms for the secure and timely delivery of requested audit evidence.

We have also revisited our procedures in respect of the Directors' going concern assessment, taking into account the nature of the Group, its business model and related risks. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including the consistency of the cash flow forecasts, the key assumptions within the scenarios modelled and the available sources of liquidity with the findings from other areas of the audit. We assessed both the impact of additional stress testing and the availability of controllable mitigating future actions on the going concern assessment. We have also reviewed the disclosures contained within the Annual Report and consolidated financial statements in relation to this issue and consider them to describe adequately the impact of Covid-19 on the Group as at 30 September 2020.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the Primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the 6 full scope components, audit procedures were performed on 3 of these directly by the Primary audit team, with the remaining 3 being performed by component audit teams. For the 3 full scope and 5 specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole. The Primary audit team also performed review procedures directly on a further 5 components.

Kathryn Barrow has become Senior Statutory Auditor in the current year, following Alison Duncan completing her 5-year rotation. As part of the transition, Kathryn performed a series of virtual site visits and video/teleconferences with key audit locations (see below for further Covid-19 impacts and response). These visits included discussions with the component teams on audit strategy, risk identification, as well as meeting with the respective local management teams. Separate audit planning sessions were held with key members of the Group finance team and Audit and Risk Committee Chair, in which Kathryn communicated the audit plan and the approach to key judgements and estimates. We have continued our established approach to involvement in component teams through the review of planning and conclusion deliverables. Kathryn also participated in all component teams' closing meeting calls in which key conclusions were discussed.

The Primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed relevant, selected working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Impact of the Covid-19 pandemic

The Covid-19 outbreak and lockdown restrictions have been in place for a significant portion of the Group's financial year. As a result of these measures, the site visits were held virtually through the use of video or teleconferencing facilities, including meetings with local Sage management. Close meetings for all component teams were held via video conference in October 2020 with attendance from the Primary team, including the senior statutory auditor.

For all components, the year-end review of relevant audit work papers was facilitated by the EY electronic audit file platform, screen sharing or the provision of copies of work papers direct to the Group audit team.

Based upon the above approach we are satisfied that we have been able to perform sufficient and appropriate oversight of our component teams.

Our application of materiality

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

Materiality

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

We determined materiality for the Group to be £16.3m (2019: £18.8m), which is 5% (2019: 5%) of Profit before tax adjusted for non-recurring items reported by the Group. We believe that Profit before tax adjusted for non-recurring items provides us with the most relevant performance measure to the stakeholders of the entity. Non-recurring items are set out in note 3.6 of the Group's financial statements and are summarised in the graphic below.

We determined materiality for the Parent Company to be £41.4m (2019: £27.9m), which is 1% (2019: 1%) of equity. We believe that equity is an appropriate basis to determine materiality given the nature of the Parent Company as the holding company of the Group. Any balances in the Parent Company financial statements that were relevant to our audit of the consolidated Group were audited using an allocation of Group performance materiality.

Starting basis	• Total profit before tax of £373m
Adjustments	• Adjustments for non-recurring items • Net gain on disposal of subsidiaries – (£141m) • Restructuring costs – £22m • Impairment of goodwill – £19m • Property restructuring costs – £21m • Office relocation – £33m
Materiality	• Totals £327m • Materiality of £16.3m (5% of Profit before tax adjusted for non-recurring items)

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

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2019: 50%) of our planning materiality, namely £12.2m (2019: £9.4m). We have set performance materiality at this percentage due to improvements in the control environment and a lower likelihood of misstatements.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £1.1m to £6.9m (2019: £0.9m to £6.3m).

Reporting threshold

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

We agreed with the Audit and Risk Committee that we would report to them all uncorrected audit differences in excess of £0.8m (2019: £0.9m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

The other information comprises the information included in the Annual Report set out on pages 1 to 154, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 154** – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on page 113** – the section describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 79** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 154, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- The Primary team obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those that relate to the reporting framework (IFRS, FRS 102, the Companies Act 2006 and UK Corporate Governance Code), the relevant tax compliance regulations in the jurisdictions in which the Group operates and the EU General Data Protection Regulation (GDPR).
- We understood how the Group is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of Board minutes and papers provided to the Audit and Risk Committee and attendance at all meetings of the Audit and Risk Committee, as well as consideration of the results of our audit procedures across the Group to either corroborate or provide contrary evidence which was then followed up.

- Based on our understanding we designed our audit procedures to identify non-compliance with laws and regulations, including instructions to full and specific scope component audit teams. At a Group level our procedures involved: enquiries of Group management and those charged with governance, legal counsel and internal audit; and journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business. At a component level, our full and specific scope component audit team's procedures included enquiries of component management; journal entry testing; and focused testing, including as referred to in the key audit matters section above.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by: meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud; and assessing whistleblowing incidences for those with a potential financial reporting impact. We also considered performance targets and their propensity to influence efforts made by management to manage revenue and earnings. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, including areas impacting Group key performance indicators or management remuneration, we performed audit procedures to address each identified fraud risk or other risk of material misstatement. These procedures included those on revenue recognition detailed above, the assessment of items identified by management as non-recurring and testing manual journals and were designed to provide reasonable assurance that the financial statements were free from material fraud or error.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the Company at the AGM on 25 February 2020 to audit the financial statements for the year ending 30 September 2020 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 6 years, covering the years ending 30 September 2015 to 30 September 2020.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent Company and we remain independent of the Group and the parent Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit and Risk Committee.

Use of our report

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

Ernst + Young LLP

Kathryn Barrow (Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
London
20 November 2020

Notes:

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

Consolidated income statement

For the year ended 30 September 2020

	Note	**Underlying 2020 £m**	**Adjustments (note 3.6) 2020 £m**	**Statutory 2020 £m**	Underlying as reported* 2019 £m	Adjustments (note 3.6) 2019 £m	Statutory 2019 £m
Revenue	2.1, 3.1	**1,903**	**–**	**1,903**	1,936	–	1,936
Cost of sales		**(126)**	**–**	**(126)**	(138)	–	(138)
Gross profit		**1,777**	**–**	**1,777**	1,798	–	1,798
Selling and administrative expenses		**(1,366)**	**(7)**	**(1,373)**	(1,350)	(66)	(1,416)
Operating profit	2.2, 3.2, 3.3, 3.6	**411**	**(7)**	**404**	448	(66)	382
Finance income	3.5	**3**	**–**	**3**	6	2	8
Finance costs	3.5	**(28)**	**(6)**	**(34)**	(29)	–	(29)
Profit before income tax		**386**	**(13)**	**373**	425	(64)	361
Income tax expense	4	**(87)**	**24**	**(63)**	(116)	21	(95)
Profit for the year		**299**	**11**	**310**	309	(43)	266
Profit attributable to:							
Owners of the parent		**299**	**11**	**310**	309	(43)	266
Earnings per share attributable to the owners of the parent (pence)							
• Basic	5	**27.43p**		**28.38p**	28.40p		24.49p
• Diluted	5	**27.21p**		**28.15p**	28.17p		24.29p

All operations in the year relate to continuing operations.

Note:

* Underlying as reported is at 2019 reported exchange rates.

Consolidated statement of comprehensive income

For the year ended 30 September 2020

	Note	2020 £m	2019 £m
Profit for the year		**310**	266
Other comprehensive (expense)/income:			
Items that will not be reclassified to profit or loss:			
Actuarial loss on post-employment benefit obligations	10, 14.4	**–**	(1)
		–	(1)
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations	14.3	**(43)**	42
Exchange differences recycled through income statement on sale of foreign operations	14.3	**43**	(4)
		–	38
Other comprehensive income for the year, net of tax		**–**	37
Total comprehensive income for the year		**310**	303
Total comprehensive income for the year attributable to:			
Owners of the parent		**310**	303

Consolidated balance sheet

As at 30 September 2020

	Note	2020 £m	2019 Restated* £m
Non-current assets			
Goodwill	6.1	**1,962**	2,083
Other intangible assets	6.2	**212**	245
Property, plant and equipment	7	**173**	117
Other financial assets		**1**	4
Trade and other receivables	8.1	**86**	73
Deferred income tax assets	11	**35**	31
		2,469	2,553
Current assets			
Trade and other receivables	8.1	**302**	364
Current income tax asset		**5**	3
Cash and cash equivalents (excluding bank overdrafts)	12.3	**831**	371
Assets classified as held for sale	15.3	**108**	63
		1,246	801
Total assets		**3,715**	3,354
Current liabilities			
Trade and other payables	8.2	**(297)**	(291)
Current income tax liabilities		**(13)**	(32)
Borrowings	12.4	**(20)**	(122)
Provisions	9	**(19)**	(11)
Deferred income	8.3	**(593)**	(637)
Liabilities classified as held for sale	15.3	**(73)**	(33)
		(1,015)	(1,126)
Non-current liabilities			
Borrowings	12.4	**(970)**	(643)
Post-employment benefits	10	**(23)**	(25)
Deferred income tax liabilities	11	**(14)**	(26)
Provisions	9	**(31)**	(15)
Trade and other payables		**(3)**	(7)
Deferred income	8.3	**(7)**	(8)
		(1,048)	(724)
Total liabilities		**(2,063)**	(1,850)
Net assets		**1,652**	1,504
Equity attributable to owners of the parent			
Ordinary shares	14.1	**12**	12
Share premium		**548**	548
Translation reserve	14.3	**123**	123
Merger reserve	14.3	**61**	61
Retained earnings		**908**	760
Total equity		**1,652**	1,504

* 2019 restated for finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Ocrex Limited, completed in 2019 (see notes 1 and 15.1).

The consolidated financial statements on pages 166 to 232 were approved by the Board of Directors on 19 November 2020 and are signed on their behalf by:

Jonathan Howell
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 30 September 2020

	Note	Attributable to owners of the parent					
		Ordinary shares £m	**Share premium £m**	**Translation reserve £m**	**Merger reserve £m**	**Retained earnings £m**	**Total equity £m**
At 1 October 2019 as originally presented		**12**	**548**	**123**	**61**	**760**	**1,504**
Adjustment on initial application of IFRS 16 net of tax	17	**–**	**–**	**–**	**–**	**(7)**	**(7)**
At 1 October as adjusted		**12**	**548**	**123**	**61**	**753**	**1,497**
Profit for the year		**–**	**–**	**–**	**–**	**310**	**310**
Other comprehensive income/(expense):							
Exchange differences on translating foreign operations	14.3	**–**	**–**	**(43)**	**–**	**–**	**(43)**
Exchange differences recycled through income statement on sale of foreign operations	14.3	**–**	**–**	**43**	**–**	**–**	**43**
Total comprehensive income for the year ended 30 September 2020		**–**	**–**	**–**	**–**	**–**	**–**
Transactions with owners:							
Employee share option scheme:							
• Value of employee services including deferred tax	14.4	**–**	**–**	**–**	**–**	**29**	**29**
Proceeds from issuance of treasury shares	14.4	**–**	**–**	**–**	**–**	**9**	**9**
Share Buyback Programme		**–**	**–**	**–**	**–**	**(7)**	**(7)**
Dividends paid to owners of the parent	14.4, 14.5	**–**	**–**	**–**	**–**	**(186)**	**(186)**
Total transactions with owners for the year ended 30 September 2020		**–**	**–**	**–**	**–**	**(155)**	**(155)**
At 30 September 2020		**12**	**548**	**123**	**61**	**908**	**1,652**

Consolidated statement of changes in equity

For the year ended 30 September 2019

	Note	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 2018 as originally presented		12	548	85	61	621	1,327
Adjustment on initial application of IFRS 15 net of tax		–	–	–	–	24	24
Adjustment on initial application of IFRS 9 net of tax		–	–	–	–	(5)	(5)
At 1 October as adjusted		12	548	85	61	640	1,346
Profit for the year		–	–	–	–	266	266
Other comprehensive income/(expense):							
Exchange differences on translating foreign operations	14.3	–	–	42	–	–	42
Exchange differences recycled through income statement on sale of foreign operations	14.3	–	–	(4)	–	–	(4)
Actuarial loss on post-employment benefit obligations	14.4	–	–		–	(1)	(1)
Total comprehensive income for the year ended 30 September 2019		–	–	38	–	(1)	37
Transactions with owners:							
Employee share option scheme:							
• Value of employee services including deferred tax	14.4	–	–	–	–	33	33
Proceeds from issuance of treasury shares	14.4	–	–	–	–	3	3
Dividends paid to owners of the parent	14.4, 14.5	–	–	–	–	(181)	(181)
Total transactions with owners for the year ended 30 September 2019		–	–	–	–	(145)	(145)
At 30 September 2019		12	548	123	61	760	1,504

Consolidated statement of cash flows

For the year ended 30 September 2020

	Note	2020 £m	2019 £m
Cash flows from operating activities			
Cash generated from continuing operations	12.1	**527**	586
Interest paid		**(28)**	(26)
Income tax paid		**(93)**	(88)
Net cash generated from operating activities		**406**	472
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash acquired	15.1	**–**	(41)
Investment in non-current asset		**–**	(3)
Disposal of subsidiaries, net of cash disposed	15.3	**216**	70
Proceeds on settlement of equity investment		**–**	17
Purchases of intangible assets	6.2	**(16)**	(15)
Purchases of property, plant and equipment	7	**(24)**	(27)
Interest received	3.5	**3**	6
Net cash generated from investing activities		**179**	7
Cash flows from financing activities			
Proceeds from issuance of treasury shares		**9**	3
Proceeds from borrowings		**302**	414
Repayments of borrowings		**(167)**	(594)
Capital element of lease payments		**(38)**	–
Movements in cash held on behalf of customers		**–**	(78)
Borrowing costs		**(1)**	(1)
Share Buyback Programme		**(7)**	–
Dividends paid to owners of the parent	14.5	**(186)**	(181)
Net cash used in financing activities		**(88)**	(437)
Net increase in cash, cash equivalents and bank overdrafts (before exchange rate movement)		**497**	42
Effects of exchange rate movement	12.2	**(21)**	8
Net increase in cash, cash equivalents and bank overdrafts		**476**	50
Cash, cash equivalents and bank overdrafts at 1 October	12.2	**372**	322
Cash, cash equivalents and bank overdrafts at 30 September	12.2	**848**	372

1 Basis of preparation and critical accounting estimates and judgements

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

Basis of preparation

The consolidated financial statements of The Sage Group plc. have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and IFRS as issued by the International Accounting Standards Board ("IASB"). IFRS as adopted by the EU differ in certain respects from IFRS as issued by the IASB. The differences have no impact on the Group's consolidated financial statements for the years presented. The consolidated financial statements have been prepared under the historical cost convention, except where adopted IFRS require an alternative treatment. The principal variations from the historical cost convention relate to derivative financial instruments which are measured at fair value through profit or loss. The financial statements of the Group comprise the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared at the end of the reporting period. The accounting policies have been consistently applied across the Group. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity, which is usually from date of acquisition.

The prior year consolidated balance sheet and related notes have been restated for the finalisation of provisional amounts recognised in respect of the fair value of assets acquired and liabilities assumed related to the acquisition of Ocrex Limited that completed on 27 September 2019. Details are set out in note 15.1.

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

New or amended accounting standards.

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

IFRS 16

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

Information on the changes resulting from the adoption of IFRS 16 and quantitative information on their impact at 1 October 2019 are set out in note 17.

Amendments to IFRS 3

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

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

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

1 Basis of preparation and critical accounting estimates and judgements *continued*

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 2 to 77.

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

The Directors have reviewed liquidity and covenant forecasts for the Group for the period to 31 March 2022, which reflect the expected impact of Covid-19 on trading. In addition to the global economic shock severe but plausible scenario (as described within the Viability Statement on pages 76 and 77), further stress testing has been performed with the impact of more severe increases in churn and significantly reduced levels of new customer acquisitions being considered. In these severe stress scenarios, the Group continues to have sufficient resources to continue in operational existence. In the event that more severe impacts occur, controllable mitigating actions are available to the Group should they be required.

The Directors also reviewed the results of reverse stress testing performed to provide an illustration of the level of churn and deterioration in new customer acquisition which would be required to trigger a breach in the Group's covenants or exhaust cash down to minimum working capital requirements. The probability of these factors occurring is deemed to be remote given the resilient nature of the subscription-based business model, robust balance sheet and continued strong cash conversion of the Group.

After making enquiries, the Directors have a reasonable expectation that Sage has adequate resources to continue in operational existence for at least 12 months from the date of signing these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements, in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Further details for adopting the going concern basis are set out in the Directors' Report on page 149.

Foreign currencies

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

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

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

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

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

Critical accounting estimates and judgements

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

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

Revenue recognition

Approximately 35% of the Company's revenue is generated from sales to partners rather than end users. The key judgement is determining whether the business partner is a customer of the Group. The key criteria in this determination is whether the business partner has taken control of the product. Considering the nature of Sage's subscription products and support services, this is usually assessed based on whether the business partner has responsibility for payment, has discretion to set prices, and takes on the risks and rewards of the product from Sage.

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

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

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

Goodwill impairment

A key judgement is the ongoing appropriateness of the cash-generating units ("CGUs") for the purpose of impairment testing. 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 monitor goodwill at a regional level, thus it was determined that the use of CGUs based on geographical area of operation remains appropriate.

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

These key assumptions used in performing the impairment assessment, and further information on the level at which goodwill is monitored, are disclosed in note 6.1.

Trade receivables

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

Classification and measurement of businesses held for sale

As detailed in note 15.3, certain of the Group's businesses have been classified as businesses held for sale. Classification as held for sale requires judgements to be made on whether the qualifying criteria have been met. The Group considers these businesses to meet the criteria to be classified as held for sale for the following reasons:

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

1 Basis of preparation and critical accounting estimates and judgements *continued*

The assets of businesses held for sale are measured at the lower of their carrying amount and their fair value less costs to sell. Determination of fair value less costs to sell requires estimates to be made of the selling price that might be obtained for the business and the costs to be incurred on completing the transaction. Management has reached this conclusion based upon its experience of similar transactions in the past and bids received from potential buyers to date.

Leases

Key judgements made in calculating the transition impact on the initial application of IFRS 16 include determining the lease term for property leases with extension or termination options and determining the incremental borrowing rates used as discount rates for property leases. For further information on the judgements made on the initial application of IFRS 16 to the Group's accounting for leases, see note 17.

Future accounting standards

The Directors also considered the impact on the Group of new and revised accounting standards, interpretations or amendments which have been issued but were not effective for the Group for the year ended 30 September 2020. None are expected to have a material impact on the consolidated financial statements when first applied.

2 Segment information

This note shows how Group revenue and Group operating profit are generated across the three reportable segments in which we operate, being Northern Europe, Central and Southern Europe and North America. The Group's operations in Africa and the Middle East, Asia (including Australia) and Latin America do not meet the quantitative thresholds for disclosure as reportable segments under IFRS 8, and so are presented together in the analyses and described as International. This is explained further below. The Group's Latin America operations were sold during the current year.

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

- Statutory results reflect the Group's results prepared in accordance with the requirements of IFRS.
- "Underlying" and "underlying as reported" are non-GAAP measures. Underlying measures are adjusted to exclude items which would distort the understanding of the performance for the year or comparability between periods: a) Recurring items include purchase price adjustments including amortisation of acquired intangible assets and adjustments made to reduce deferred income arising on acquisitions, acquisition-related items, FX on intercompany balances and fair value adjustments; and b) 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. Management applies judgement in determining which items should be excluded from underlying performance. See note 3.6 for details of these adjustments.

In addition, the prior year underlying amounts are translated at current year exchange rates, so that exchange rate impacts do not distort comparisons. Prior year underlying amounts at prior year exchange rates are "underlying as reported"; prior year and current year amounts at current year exchange rates are "underlying".

- Organic is a non-GAAP measure. In addition to the adjustments made to the Underlying measures, the contributions from discontinued operations, disposals and assets held for sale of standalone businesses in the current and prior period are removed so that results can be compared to the prior year on a like-for-like basis. Results from acquired businesses are excluded in the year of acquisition. Adjustments are made to the comparative period to present prior period acquired businesses as if these had been part of the Group throughout the prior period. Acquisitions and disposals which occurred close to the start of the opening comparative period where the contribution impact would be immaterial are not adjusted.

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

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

2 Segment information *continued*

Accounting policy

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

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

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

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

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

Segment reporting

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

The revenue analysis in the table overleaf is based on the location of the customer which is not materially different from the location where the order is received and where the assets are located.

Revenue categories are defined in note 3.1.

2.1 Revenue by segment

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

	Year ended 30 September 2020			Change		
	Statutory and Underlying £m	Organic adjustments* £m	Organic £m	Statutory	Underlying	Organic
Total recurring revenue by type						
Software Subscription Revenue	**1,210**	**(69)**	**1,141**	16.0%	18.3%	20.5%
Other Recurring Revenue	**484**	**(33)**	**451**	(15.0%)	(14.1%)	(13.4%)
Recurring revenue	**1,694**	**(102)**	**1,592**	5.1%	6.8%	8.5%

2 Segment information *continued*

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

	Year ended 30 September 2019				
	Statutory and Underlying as reported £m	Impact on foreign exchange £m	Underlying £m	Organic adjustments* £m	Organic £m
Total recurring revenue by type					
Software Subscription Revenue	1,043	(20)	1,023	(76)	947
Other Recurring Revenue	569	(6)	563	(42)	521
Recurring revenue	1,612	(26)	1,586	(118)	1,468

Notes:

* Adjustments relate to the disposal of Sage Pay and the Group's Brazilian business and assets held for sale in the current year (note 15.3) and the acquisition of Ocrex Limited and disposal of Sage Payroll Solutions in the prior year.

** Previously reported as Software and software-related services and Processing revenue categories.

2.2 Operating profit by segment

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

	Year ended 30 September 2019						
	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	128	5	133	(1)	132	–	132
Northern Europe	134	23	157	–	157	(15)	142
Central and Southern Europe	120	9	129	(1)	128	(12)	116
International	–	29	29	(5)	24	(8)	16
Total operating profit	382	66	448	(7)	441	(35)	406

The results by segment from continuing operations were as follows:

Year ended 30 September 2020	Note	**North America £m**	**Northern Europe £m**	**Central and Southern Europe £m**	**Total reportable segments £m**	**International £m**	**Group £m**
Revenue		**692**	**412**	**590**	**1,694**	**209**	**1,903**
Segment statutory operating profit		**127**	**266**	**65**	**458**	**(54)**	**404**
Finance income	3.5						**3**
Finance costs	3.5						**(34)**
Profit before income tax							**373**
Income tax expense	4						**(63)**
Profit for the year – continuing operations							**310**

Reconciliation of underlying operating profit to statutory operating profit:

	North America £m	**Northern Europe £m**	**Central and Southern Europe £m**	**Total reportable segments £m**	**International £m**	**Group £m**
Underlying operating profit	**155**	**128**	**99**	**382**	**29**	**411**
Amortisation of acquired intangible assets (note 3.6)	**(21)**	**(8)**	**(4)**	**(33)**	**–**	**(33)**
Other acquisition-related items (note 3.6)	**(7)**	**(7)**	**(4)**	**(18)**	**(2)**	**(20)**
Non-recurring items (note 3.6)	**–**	**153**	**(26)**	**127**	**(81)**	**46**
Statutory operating profit	**127**	**266**	**65**	**458**	**(54)**	**404**

The results by segment from continuing operations were as follows:

Year ended 30 September 2019	Note	North America £m	Northern Europe £m	Central and Southern Europe £m	Total reportable segments £m	International £m	Group £m
Revenue		657	406	608	1,671	265	1,936
Segment statutory operating profit		128	134	120	382	–	382
Finance income	3.5						8
Finance costs	3.5						(29)
Profit before income tax							361
Income tax expense	4						(95)
Profit for the year – continuing operations							266

2 Segment information *continued*

2.2 Operating profit by segment *continued*

Reconciliation of underlying operating profit to statutory operating profit:

	North America £m	Northern Europe £m	Central and Southern Europe £m	Total reportable segments £m	International £m	Group £m
Underlying operating profit as reported	133	157	129	419	29	448
Amortisation of acquired intangible assets (note 3.6)	(19)	(6)	(5)	(30)	(1)	(31)
Other acquisition-related items (note 3.6)	(9)	(5)	–	(14)	(7)	(21)
Non-recurring items (note 3.6)	23	(12)	(4)	7	(21)	(14)
Statutory operating profit	128	134	120	382	–	382

Impairment losses of £19m reported by the Group relate to Asia goodwill included within International in the results (2019: £nil).

2.3 Analysis by geographic location

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

Revenue by individually significant countries	**2020 £m**	2019 £m
USA	**593**	561
UK	**383**	380
France	**273**	277
Other individually immaterial countries	**654**	718
	1,903	1,936

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

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

Non-current assets by geographical location	**2020 £m**	2019 Restated* £m
USA	**1,369**	1,425
UK	**424**	371
France	**250**	237
Other individually immaterial countries	**304**	412
	2,347	2,445

Note:

* Restated for finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Ocrex Limited, completed in 2019 (see notes 1 and 15.1) and to present Intacct goodwill within the USA category (£495m).

3 Profit before income tax

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

In addition, this note explains the accounting applied to leases entered into by the Group as a lessee and analyses the amounts recognised for leases on the balance sheet and in the income statement. For 2019 (prior to the adoption of IFRS 16), this note analyses the future amounts payable under operating lease agreements, which the Group had entered into as at the year end. These commitments are not included as liabilities in the 2019 consolidated balance sheet.

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

3.1 Revenue

Accounting policy

With effect from 1 October 2019, the Group reports revenue under two revenue categories and the basis of recognition for each category is described below:

Category and examples	Accounting treatment
Recurring revenue Subscription contracts Maintenance and support contracts	Recurring revenue is revenue earned from customers for the provision of a good or service over a contractual term, with the customer being unable to continue to benefit from the full functionality of the good or service without ongoing payments. Subscription revenue is recurring revenue earned from customers for the provision of a good or service over a contractual term. In the event that the customer stops paying, they lose the legal right to use the software and the Group has the ability to restrict the use of the product or service. Subscription revenue and maintenance and support revenue are usually recognised on a straight-line basis over the term of the contract as control is transferred to the customer (including non-specified upgrades, when included). An exception is revenue from term licences embedded within a subscription contract for software with significant standalone functionality which are expected to recur upon renewal of the subscription offering. Revenue for these term licences is recognised when control is transferred at inception of each subscription contract period.
Other revenue *Software and software-related services* • Perpetual software licences • Upgrades to perpetual licences • Professional services • Training • Hardware and stationery	Perpetual software licences with significant standalone functionality and specified upgrades revenue are recognised when the control relating to the licence has been transferred. This is when the goods have left the warehouse to be shipped to the customer or when electronic delivery has taken place. Other product revenue (which includes hardware and stationery) is recognised as the products are shipped to the customer. Other services revenue (which includes the sale of professional services and training) is recognised when delivered, or by reference to the stage of completion of the transaction at the end of the reporting period. This assessment is made by comparing the proportion of contract costs incurred to date to the total expected costs to completion.
Processing revenue • Payment processing services • Payroll processing services	Processing revenue is revenue earned from customers for the processing of payments or where Sage colleagues process our customers' payroll. Processing revenue is recognised at the point that the service is rendered on a per transaction basis.

Prior to 1 October 2019, the Group reported three revenue categories: Recurring revenue, Software and software-related services and Processing revenue. The aggregation of Software and software-related services and Processing revenue into the Other revenue category reflects the focus on recurring revenue and the divestment of certain processing businesses. There has been no change to the revenue recognition policy compared to the year ended 30 September 2019.

Identification of performance obligations

When the Group enters into an agreement with a customer, goods and services deliverable under the contract are identified as separate performance obligations ("obligations") to the extent that the customer can benefit from the goods or services on their own and that the separate goods and services are considered distinct from other goods and services in the agreement. Where individual goods and services do not meet the criteria to be identified as separate obligations they are aggregated with other goods and/or services in the agreement until a separate obligation is identified.

Typically, the products and services outlined in the categories of revenue section qualify as separate performance obligations and the portion of the contractual fee allocated to them is recognised separately. However, certain on-premise subscription contracts, which combine the delivery of on-premise software and maintenance and support services, require unbundling. Sage cloud native services usually do not require unbundling as the terms usually do not provide the customer with a right to terminate the hosting contract and take possession of the software.

When selling goods or services, in certain instances, customers pay a non-refundable contract sign-up fee when they enter into a new initial contract for a software product, and no equivalent fee is payable on subsequent renewals. The Group applies judgement in determining whether such sign-up fees provide a material right to the customer that the customer would not receive without entering into that contract. In applying this judgement, the Group considers whether the options entitle the customer to a discount that exceeds the discount that would normally be granted for the respective goods or services if they were to be sold without the option. Where this is the case, the non-refundable contract sign-up fee is treated as a separate performance obligation.

3 Profit before income tax *continued*

3.1 Revenue *continued*

Determination of transaction price and standalone selling prices

The Group determines the transaction price it is entitled to in return for providing the promised obligations to the customer based on the committed contractual amounts, net of sales taxes and discounts. Contract terms generally are monthly or annual and customers either pay up-front or over the term of the related service agreement.

The transaction price is allocated between the identified obligations according to the relative standalone selling prices (SSPs) of the obligations. The SSP of each obligation deliverable in the contract is determined according to the prices that the Group would obtain by selling the same goods and/or services included in the obligation to a similar customer on a standalone basis. See "Critical accounting estimates and judgements" in note 1 for details.

Timing of recognition

Revenue is recognised when the respective obligations in the contract are delivered to the customer and payment remains probable.

- Licences for standard on-premise software products are typically delivered by providing the customer with access to download the software. The licence period starts when such access is granted. Licence revenue is recognised at a point in time or over time depending on whether the Group delivers software with significant standalone functionality or software which is dependent on updates for ongoing functionality. The Group recognises revenue for these licences which have significant standalone functionality at the point in time when the customer has access to and control over the software. For licences which are dependent on updates for ongoing functionality, the Group recognises revenue based on time elapsed and thus rateably over the term of the contract. Typically, this includes our payroll and tax compliance software.
- Where the Group's performance obligation is the grant of a right to continuously access a cloud offering for a certain term, revenue is recognised based on time elapsed and thus rateably over the term.
- Maintenance and support revenue is typically recognised based on time elapsed and thus rateably over the term of the support arrangement. Under the standardised maintenance and support services, the Group's performance obligation is to stand ready to provide technical product support and unspecified updates, upgrades and enhancements on a when-and-if-available basis. The customers simultaneously receive and consume the benefits of these services.
- Professional services and training revenue are typically recognised over time. Where the Group stands ready to provide the service (such as access to learning content), revenue is recognised based on time elapsed and thus rateably over the service period. Consumption-based services (such as separately identifiable professional services and premium support services, messaging services, and classroom training services) are recognised over time as the services are utilised, typically following the percentage-of-completion method or rateably.
- Non-refundable contract sign-up fees that qualify as separate performance obligations are recognised as revenue over the anticipated period of benefit to the customer, which takes account of the likelihood of the customer renewing the contract.

Identification of contract with the customer

When the Group sells goods or services through a business partner, a key consideration is determining whether the business partner or the end user is Sage's customer. The key criteria in this determination is whether the business partner has taken control of the product. Considering the nature of Sage's subscription products and support services, this is usually assessed based on whether the business partner has responsibility for payment, has discretion to set prices, and takes on the risks and rewards of the product from Sage. See "Critical accounting estimates and judgements" in note 1 for details.

Principal versus agent considerations

When the Group has control of third-party goods or services prior to delivery to a customer, then the Group is the principal in the sale to the customer. As a principal, receipts from customers and payments to suppliers are reported on a gross basis in revenue and cost of sales. If the Group does not have control of third-party goods or services prior to transfer to a customer, then the Group is acting as an agent for the other party and revenue in respect of the relevant obligations is recognised net of any related payments to the supplier and reported revenue represents the margin earned by the Group. Whether the Group is considered to be the principal or an agent in the transaction depends on analysis by management of both the legal form and substance of the agreement between the Group and its supplier. This takes into account whether Sage bears the price, inventory and performance risks associated with the transaction.

Practical expedients

As the majority of contracts have a term of one year or less, the Group has applied the following practical expedients.

- The aggregate transaction price allocated to the unsatisfied or partially unsatisfied performance obligations at the end of the reporting period is not disclosed.
- Any financing component is not considered when determining the transaction price.

3.2 Operating profit

Accounting policy

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

The following items have been included in arriving at operating profit from continuing operations	Note	2020 £m	2019 £m
Staff costs		**928**	885
Depreciation of property, plant and equipment	7	**79**	34
Amortisation of intangible assets	6.2	**45**	44
Customer acquisition amortisation expense	8.1	**99**	76
Impairment of goodwill	3.6	**19**	–
Impairment of property, plant and equipment	7	**14**	3
Net gain on disposal of subsidiaries	3.6	**(141)**	(28)
Other operating lease rentals payable (applicable only for 2019 under IAS 17)		**–**	30
Other acquisition-related items	3.6	**20**	21

The Group incurred £252m (2019: £220m) of research and development expenditure in the year, of which £218m (2019: £194m) relates to total Group staff costs included above. See note 6.2 for the research and development accounting policy.

Depreciation of property, plant and equipment includes £33m of accelerated depreciation charge relating to the Group's UK flagship office move from North Park to Cobalt Business Park, announced on 1 July 2019 (2019: £12m). As a result, the Group has reviewed its estimates of the useful lives and residual values of the assets relating to the existing site. These assets are presented in the balance sheet within property, plant and equipment. The effect of these changes in estimates is to depreciate the remaining carrying amounts of these assets down to their revised residual values over the period July 2019 to the date at which the relocation is expected to be complete and the existing property vacated. Currently the relocation date is expected to be complete by 30 June 2021. This reflects a delay compared to the original estimate of 30 September 2020 as a result of Covid-19. This has resulted in a decrease of £15m in the amount of depreciation charged in the income statement in the year ended 30 September 2020 compared to the charge that would have been recognised if there was no delay and a corresponding increase in the depreciation charge for the year ending 30 September 2021. These accelerated depreciation charges are classified as non-recurring adjustments between underlying and statutory results as explained in note 3.6. Expenses incurred whilst preparing the new property for occupation, including related lease costs, are capitalised as leasehold improvement assets within property, plant and equipment. Expenses incurred during the period of inactivity while the project was delayed have not been capitalised.

Services provided by the Group's auditor and network firms

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

	2020 £m	2019 £m
Fees payable to the Group's auditor for the audit of the Company and the consolidated accounts	**2**	2
Fees payable to the Group's auditor for the audit of the Company's subsidiaries	**3**	3
Fees payable to the Group's auditor for audit-related assurance services*	**–**	–
Total audit and audit related services	**5**	5
Other non-audit services	**–**	–
Total fees	**5**	5

Note:

* Includes costs relating to half year review.

A summary of the Board's policy in respect of the procurement of non-audit services for the Group's auditor is set out on page 119.

3 Profit before income tax *continued*

3.3 Employees and Directors

Average monthly number of people employed (including Directors)	2020 number	2019 number
By segment:		
North America	**2,592**	2,551
Northern Europe	**3,279**	2,865
Central and Southern Europe	**4,407**	4,334
International	**2,228**	3,005
	12,506	12,755

Staff costs (including Directors on service contracts)	Note	2020 £m	2019 £m
Wages and salaries		**827**	788
Social security costs		**104**	104
Post-employment benefits	10	**22**	18
Share-based payments	14.2	**29**	32
		982	942

Staff costs include a total of £54m of capitalised commission costs which are amortised over the expected contract life including probable contract renewals (2019: £57m).

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

Key management personnel are deemed to be members of the Group's Executive Committee and the Non-executive Directors as shown on pages 80 to 83. The key management figures given above include the Executive Directors of the Group.

3.4 Leases

Accounting policy

The Group's new IFRS 16 accounting policy is disclosed below. This policy has been applied with effect from 1 October 2019. Comparative information for 2019 has not been restated and is presented in accordance with the Group's previous policy. Differences between IFRS 16 and the policy applied to the 2019 comparatives and quantification of the impact of implementing the new standard are disclosed in note 17.

3.4 Leases

The Group as lessee

The Group recognises lease assets and lease liabilities on the balance sheet for most of its leases to account for the right to use leased items and the obligation to make future lease payments. Lease liabilities are measured at the present value of future lease payments over the lease term. The lease term is determined as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if the option is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if the option is reasonably certain not to be exercised. Lease payments normally include fixed payments (including in substance fixed payments), a deduction for any lease incentives receivable and variable lease payments that depend on an index or a rate. In the event that a lease includes an exercise price for a purchase option that is reasonably certain to be exercised, or a termination penalty that is reasonably certain to be incurred, these too are included in lease payments as are any amounts expected to be paid under any residual value guarantees. Variable lease payments that do not depend on an index or a rate are not included in the lease liability but are recognised as an expense when incurred.

Lease payments are discounted using the incremental borrowing rate applicable to the lease at the lease commencement date, as the rate implicit in the lease cannot normally be readily determined. Lease assets are recognised at the amount of the lease liability, adjusted where applicable for any lease payments made or lease incentives received before commencement of the lease, direct costs incurred at the commencement of the lease and estimated restoration costs to be incurred at the end of the lease. When IFRS 16 is applied for the first time, the standard permits certain departures from these policies as practical expedients. The practical expedients used by the Group on transition to IFRS 16 are explained in note 17.

Right-of-use assets are presented within property, plant and equipment and depreciated on a straight-line basis over the shorter of their useful life and the lease term. Their carrying amounts are measured at cost less accumulated depreciation and impairment losses. Lease liabilities are presented within current and non-current borrowings. Over the lease term, the carrying amounts of lease liabilities are increased to reflect interest on the liability and reduced by the amount of lease payments made. A lease liability is remeasured if there is a modification, a change in the lease term or a change in lease payments. The costs of these leases are recognised in the income statement split between the depreciation of the lease asset and the interest charge on the lease liability. Depreciation is presented within selling and administrative expenses and interest charges within finance costs.

This policy applies mainly to the Group's leases for properties and vehicles. For short-term leases with a lease term of 12 months or less and leases of low value items, the Group has elected to apply the exemptions available under the standard. For these leases, rentals payable are charged to the income statement on a straight-line basis as an operating expense presented within selling and administrative expenses. Where rent payments are prepaid or accrued, their balances are reported under prepayments and accruals respectively. The low value exemption has been applied to most of the Group's leases of IT and other office equipment.

The Group leases various office and warehouse properties and vehicles, plant and equipment under non-cancellable lease agreements. Leases of properties have a range of lease terms, up to a maximum of 15 years. Other leases are generally for lease terms of 3 or 4 years. Property leases include various contractual terms, most commonly variable lease payments and termination and extension options.

3 Profit before income tax *continued*

The carrying amounts of right-of-use assets and their movements during the year are presented in note 7.

The carrying amounts of lease liabilities and their movements during the year are below.

	Note	2020 £m
At 30 September 2019		**–**
Lease liabilities on transition to IFRS 16		**135**
Additions		**30**
Interest charge in the year		**4**
Payment of lease liabilities		**(42)**
Transfer to liabilities held for sale		**(9)**
Exchange movement		**(5)**
		113
Presented as		
Borrowings – current	12.4	**20**
Borrowings – non-current	12.4	**93**

The maturity analysis of lease liabilities is included in note 13.2.

Amounts recognised in profit and loss for leases are as follows:

	Note	2020 £m
Depreciation of right-of-use assets		**25**
Interest expense charge on lease liabilities	3.5	**4**
Lease expense from short-term leases and leases of low value assets (included in selling and administrative expenses)		**5**
		34

Total cash outflows for leases in the year, including interest payments and outflows related to short-term leases and leases of low value assets, was £47m.

At 30 September 2019, prior to the application of IFRS 16, the Group had the following future amounts payable under operating lease agreements accounted for under IAS 17.

Total future minimum lease payments under non-cancellable operating leases falling due for payment as follows:	2019 Property, vehicles, plant and equipment £m
Within one year	30
Later than one year and less than five years	76
After five years	56
	162

3.5 Finance income and costs

Accounting policy

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

	2020 £m	2019 £m
Finance income:		
Interest income on short-term deposits	**3**	6
Foreign currency movements on intercompany balances	**–**	2
Finance income	**3**	8
Finance costs:		
Finance costs on bank borrowings	**(7)**	(11)
Finance costs on US senior loan notes	**(16)**	(16)
Interest charge on lease liabilities	**(4)**	–
Foreign currency movements on intercompany balances	**(6)**	–
Amortisation of issue costs	**(1)**	(2)
Finance costs	**(34)**	(29)
Finance costs – net	**(31)**	(21)

3.6 Adjustments between underlying and statutory results

Accounting policy

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

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

Recurring items

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

Non-recurring items

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

3 Profit before income tax *continued*

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

Recurring items

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

Other M&A activity-related items relate to completed transaction costs and include advisory, legal, accounting, valuation and other professional or consulting services as well as acquisition-related remuneration, directly attributable integration costs and any required provision for future selling costs for assets held for sale. £4m (2019: £nil) of these costs have been paid in the year while the remainder is expected to be paid in subsequent financial years. Further details can be found in note 15.3.

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

Non-recurring items

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

Following challenging current trading and economic conditions in Asia, an impairment of goodwill by £19m (2019: £nil) relating to the Asia group of CGUs has been recognised. See note 6.1 for further details.

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

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

Office relocation costs relate to the incremental depreciation charge resulting from accelerated depreciation following the announced UK office move. Further details can be found in note 3.2.

The net gain on disposal of subsidiaries relates to the disposal of Sage Pay (gain: £193m) and the Brazilian business (loss: £52m). Further details can be found in note 15.3.

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

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

See note 4 for the tax impact of these adjustments.

4 Income tax expense

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

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

Accounting policy

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

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

Deferred tax arises due to certain temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases (note 11).

Analysis of expense in the year	Note	2020 £m	2019 £m
Current income tax			
• Current tax on profit for the year		**91**	91
• Adjustment in respect of prior years		**(9)**	3
Current income tax		**82**	94
Deferred tax			
Origination and reversal of temporary differences		**(21)**	5
Adjustment in respect of prior years		**2**	(4)
Deferred tax	11	**(19)**	1
The current year tax expense is split into the following:			
Underlying tax expense		**87**	116
Tax credit on adjustments between the underlying and statutory operating profit		**(24)**	(21)
Income tax expense reported in income statement		**63**	95

The tax on items credited to other comprehensive income was insignificant in both 2020 and 2019. Deferred tax charge relating to share options and IFRS 16 of £2m has been recognised directly in equity (2019: £4m relating to share options and IFRS 15 and 9).

4 Income tax expense *continued*

The effective tax rate for the year is lower (2019: higher) than the rate of UK corporation tax applicable to the Group of 19% (2019: 19%). The differences are explained below:

	2020 £m	2019 £m
Profit before income tax	**373**	361
Statutory profit before income tax multiplied by the rate of UK corporation tax of 19% (2019: 19%)	**71**	69
Tax effects of:		
Adjustments in respect of prior years	**(7)**	(1)
Foreign tax rates in excess of UK rate of tax	**16**	20
US tax reform	**1**	1
Non-deductible expenses and permanent items	**7**	6
Other corporate taxes (withholding tax, business tax)	**11**	7
Tax incentive claims	**(13)**	(7)
Non-taxable gain on disposal	**(23)**	–
At the effective income tax rate of 17% (2019: 26%)	**63**	95
Income tax expense reported in the income statement	**63**	95

The effective tax rate on statutory profit before tax was 17% (2019: 26%), whilst the effective tax rate on underlying profit before tax on continuing operations was 23% (2019: 27%). The statutory effective tax rate is lower than the underlying effective tax rate mainly due to non-taxable accounting net gains on our FY20 disposals, offset by non-tax-deductible charges relating to the impairment of goodwill in respect of the Asia business and accelerated depreciation relating to the relocation of our North Park office in Newcastle. The 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, the inclusion of local business taxes in the corporate tax expense offset by innovation tax credits for registered patents and software, and research and development activities which are government tax incentives in a number of operating territories. The underlying effective tax rate was reduced in FY20 principally as a result of changes in the French patent box regime and non-recurring adjustments in some of our operating territories.

The Group recognises certain provisions and accruals in respect of tax which involve a degree of estimation and uncertainty where the tax treatment cannot finally be determined until a resolution has been reached by the relevant tax authority. This approach resulted in providing £27m at 30 September 2020 (2019: £27m).

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

Management has applied the principles set out in IFRIC 23 in determining the measurement of uncertain tax positions. In making these estimates, management's judgement was based on various factors including:

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

When making this assessment, we utilise our specialist in-house tax knowledge and experience of similar situations. These judgements also, where appropriate, take into consideration specialist tax advice provided by third-party advisors.

EU State Aid

The Group continues to monitor developments following the EU Commission's decision published on 25 April 2019 in respect of its State Aid investigation into the UK's Controlled Foreign Company regime. The EU Commission concluded that the UK law did not comply with EU State Aid rules in certain circumstances. The UK Government has appealed to the European Court seeking annulment of the EU Commission's decision. The Group, in line with a number of UK corporates, has made a similar appeal.

HMRC issued guidance on this issue in December 2019 and provided some key factors that should be considered in the quantification of the State Aid amount. The Group has made an assessment of the potential State Aid amount in accordance with HMRC's guidance. The Group has submitted our analysis to HMRC but remains of the view that State Aid is not applicable.

Based on current advice, we consider that no provision is required at this time. However, we have estimated our maximum potential liability to be approximately £35m. The assessment of uncertain tax positions is subjective and significant management judgement is required. This judgement is based on current interpretation of legislation, management experience and professional advice.

5 Earnings per share

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

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

Accounting policy

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

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

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

Note:

* Underlying as reported is at 2019 reported exchange rates.

5 Earnings per share *continued*

Reconciliation of earnings	2020 £m	2019 £m
Earnings – statutory profit for the year attributable to owners of the parent	**310**	266
Adjustments:		
• Amortisation of acquired intangible assets	**33**	31
• Net gain on disposal of subsidiaries	**(141)**	(28)
• Foreign currency movements on intercompany balances	**6**	(2)
• Other M&A activity-related items	**20**	21
• Impairment of assets held for sale	**–**	14
• Impairment of goodwill	**19**	–
• Restructuring costs	**22**	–
• Property restructuring costs	**21**	16
• Office relocation	**33**	12
• Taxation on adjustments between underlying and statutory profit before tax	**(24)**	(21)
Net adjustments	**(11)**	43
Earnings – underlying profit for the year (before exchange movement)	**299**	309
Exchange movement	**–**	(8)
Taxation on exchange movement	**–**	2
Net exchange movement	**–**	(6)
Earnings – underlying profit for the year (after exchange movement) attributable to owners of the parent	**299**	303

Exchange movement relates to the retranslation of prior year results to current year exchange rates as shown in the table on page 59 within the Financial review.

6 Intangible assets

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

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

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

6.1 Goodwill

Accounting policy

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

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

Goodwill is tested for impairment annually and when circumstances indicate that it may be impaired. Goodwill is assessed for the purpose of impairment testing, at either the individual CGU level or group of CGUs, consistent with the level at which goodwill is monitored internally. Impairment is determined by assessing the recoverable amount of each CGU or group of CGUs to which the goodwill relates. When the recoverable amount of the CGU or group of CGUs is less than its carrying amount, an impairment loss is recognised.

At recognition, goodwill is allocated to those CGUs expected to benefit from the synergies of the combination.

	Note	**2020 £m**	2019 Restated* £m
Cost at 1 October		**2,083**	2,100
• Additions	15.1	**–**	26
• Disposals		**–**	3
• Transfer to held for sale	15.3	**(66)**	(119)
• Exchange movement		**(55)**	73
At 30 September		**1,962**	2,083
Impairment at 1 October		**–**	92
• Impairment in the year		**19**	–
• Transfer to held for sale	15.3	**(19)**	(93)
• Exchange movement		**–**	1
At 30 September		**–**	–
Net book amount at 30 September		**1,962**	2,083

Note:

* 2019 restated for finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Ocrex Limited in 2019 (see notes 1 and 15.1).

6 Intangible assets *continued*

6.1 Goodwill *continued*

Cash-generating units

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

	2020 £m	2019 Restated* £m
North America		
• Sage Business Solutions Division (SBS)	**733**	769
• Sage Intacct	**471**	494
UK & Ireland	**295**	295
France	**229**	224
Iberia	**137**	134
Central Europe	**69**	87
Africa and the Middle East	**26**	31
Australia	**2**	28
Asia	**–**	20
	1,962	2,083

Note:

* 2019 restated for finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Ocrex Limited in 2019 (see notes 1 and 15.1) and allocation of previously unallocated goodwill (£41m) to the UK & Ireland (£9m) and Sage Business Solutions Division (£17m) CGUs, with the remainder allocated to other intangible assets and deferred tax liabilities (see note 15.1).

Annual goodwill impairment tests

The recoverable amount of a CGU or group of CGUs is determined as the higher of its fair value less costs of disposal and its value in use. In determining value in use, estimated future cash flows are discounted to their present value. The Group performed its annual test for impairment as at 30 June 2020. In all cases, the 2021 budget and the approved Group plan for the three years following the current financial year form the basis for the cash flow projections for a CGU or group of CGUs with an extension of a further one year for the Sage Intacct CGU to reflect the planned growth following its acquisition in 2017. Beyond the three-year Group plan period and additional one-year period for the Sage Intacct CGU these projections are extrapolated using an estimated long-term growth rate. The key assumptions in the value in use calculations are the average medium-term revenue growth rates and the long-term growth rates of net operating cash flows.

- The average medium-term revenue growth rates represent the compound annual revenue growth for the first three (2019: five) years. The average medium-term revenue growth rate applied to each CGU's cash flow projections for plan periods of three or four years are calculated using the specific rates used in the preparation of those plans and reflect rates applicable to each territory.
- Long-term growth rates of net operating cash flows are assumed to be equal to the long-term growth rate in the gross domestic product of the country in which the CGU's operations are undertaken reflecting the specific rates for each territory.

Range of rates used across the different CGUs	**2020**	2019
• Average medium-term revenue growth rates*	**3%-25%**	2%-17%
• Long-term growth rates to net operating cash flows	**1%-3%**	1%-3%

Note:

* Average medium-term revenue growth rate is calculated on value in use projections that exclude intercompany revenue.

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

2020	**Local discount rate (post-tax)**	**Approximate local discount rate (pre-tax) equivalent**	**Long-term growth rate**	**Average medium-term revenue growth rate***
• UKI	**7.7%**	**9.2%**	**2.1%**	**6.7%**
• France	**7.4%**	**10.8%**	**2.0%**	**2.7%**
• North America – SBS	**7.7%**	**9.6%**	**1.9%**	**4.4%**
• North America – Sage Intacct	**10.2%**	**11.3%**	**1.9%**	**24.7%**

2019	Local discount rate (post-tax)	Approximate local discount rate (pre-tax) equivalent	Long-term growth rate	Average medium-term revenue growth rate*
• UKI	7.9%	9.1%	2.1%	5.2%
• France	7.7%	9.6%	2.0%	3.9%
• North America – SBS	9.0%	11.6%	1.9%	4.8%
• North America – Sage Intacct	9.0%	10.7%	1.9%	16.8%

Note:

* Average medium-term revenue growth rate is calculated on value in use projections that exclude intercompany revenue. Current year average medium-term revenue growth is based on three (2019: five) year compound annual revenue growth.

Discount rate

The Group uses a discount rate based on a local Weighted Average Cost of Capital ("WACC") for each CGU or group of CGUs, applying local government yield bonds and tax rates to each CGU or group of CGUs on a geographical basis. The discount rate applied to a CGU or group of CGUs represents a post-tax rate that reflects the market assessment of the time value of money as at 30 June 2020 and the risks specific to the CGU or group of CGUs. Use of a post-tax discount rate is consistent with the use of post-tax cash flows in the calculations and produces a result that is not materially different from applying the equivalent pre-tax rate to pre-tax cash flows. For comparison, the equivalent pre-tax rate has been estimated by grossing up the post-tax rate and is considered to provide a reasonable approximation of the rate that would have been used if calculations were on a pre-tax basis considering there are no significant timing differences. The post-tax discount rates applied to CGUs or group of CGUs were in the range of 7.0% (2019: 7.2%) to 15.5% (2019: 15.6%), reflecting the specific rates for each territory.

Sensitivity analysis

A sensitivity analysis was performed for each of the significant CGUs or group of CGUs and other than for the Sage Intacct and Iberia CGUs management concluded that no reasonably possible change in any of the key assumptions would result in the carrying value of the CGU or group of CGUs to exceed its recoverable amount.

For the Intacct CGU, a reasonably possible change of a 2% increase in the discount rate combined with a decrease in the average medium-term revenue growth rate by 5% p.a. for the next three years would reduce the value in use by £249m down to its carrying value. The Group has concluded that no reasonably possible change in the long-term growth rate would reduce the recoverable amount to below its carrying value, even considering a reasonably possible decrease in the average medium-term revenue growth rate.

For the Iberia CGU, a reasonably possible change in the average medium-term revenue growth rate by 5% p.a. for the next three years would reduce the value in use by £35m down to its carrying value. The Group has concluded that no reasonably possible change in discount rate or long-term growth rate would reduce the recoverable amount to below its carrying value, even considering a reasonably possible decrease in the average medium-term revenue growth rate.

Impairment charge

The Group recognised an impairment charge in the year of £19m (2019: £nil). This relates to the Asia group of CGUs. Following challenging trading and economic conditions in Asia in the first half of the year, management reassessed the expected future business performance relating to the Asia group of CGUs. The revised projected cash flows were lower than previously determined and this led to the impairment charge, which was equal to the total value of goodwill in Asia. The Group performed its annual test for impairment for all other CGUs as at 30 June 2020. The recoverable amount exceeded the carrying value for each CGU or group of CGUs, accordingly no further impairment charge has been recognised in the year.

6 Intangible assets *continued*

6.2 Other intangibles

Accounting policy

Intangible assets arising on business combinations are recognised initially at fair value at the date of acquisition. Subsequently they are carried at cost less accumulated amortisation and impairment charges. The main intangible assets recognised are brands, technology, in-process R&D, computer software and customer relationships. Amortisation is charged to the income statement on a straight-line basis over their estimated useful lives.

The estimated useful lives are as follows:

Brand names	• 1 to 20 years	Customer relationships	• 4 to 15 years
Technology/In-process R&D ("IPR&D")	• 3 to 8 years	Computer software	• 2 to 7 years

Other intangible assets that are acquired by the Group are stated at cost, which is the asset's purchase price and any directly attributable costs of preparing the asset for its intended use, less accumulated amortisation and impairment losses if applicable.

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

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

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

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

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

	Brands £m	Technology £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
Cost at 1 October 2019 restated*	**38**	**192**	**4**	**146**	**178**	**558**
• Additions	**–**	**6**	**–**	**13**	**–**	**19**
• Disposals	**–**	**–**	**–**	**(1)**	**–**	**(1)**
• Transfer to held for sale	**(4)**	**(7)**	**–**	**(1)**	**(3)**	**(15)**
• Exchange movement	**–**	**(4)**	**–**	**(3)**	**(4)**	**(11)**
At 30 September 2020	**34**	**187**	**4**	**154**	**171**	**550**
Accumulated amortisation at 1 October 2019	**34**	**102**	**4**	**98**	**75**	**313**
• Charge for the year	**1**	**18**	**–**	**12**	**14**	**45**
• Disposals	**–**	**–**	**–**	**(1)**	**–**	**(1)**
• Transfer to held for sale	**(4)**	**(7)**	**–**	**(1)**	**(3)**	**(15)**
• Exchange movement	**–**	**–**	**–**	**(3)**	**(1)**	**(4)**
At 30 September 2020	**31**	**113**	**4**	**105**	**85**	**338**
Net book amount at 30 September 2020	**3**	**74**	**–**	**49**	**86**	**212**

	Brands £m	Technology £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
Cost at 1 October 2018	41	187	4	135	183	550
• Additions	–	4	–	11	–	15
• Acquisitions*	1	10	–	–	6	17
• Disposals	–	–	–	(1)	(8)	(9)
• Transfer to held for sale	(5)	(14)	–	(4)	(10)	(33)
• Exchange movement	1	5	–	5	7	18
At 30 September 2019 restated*	38	192	4	146	178	558
Accumulated amortisation at 1 October 2018	35	99	4	85	67	290
• Charge for the year	2	15	–	13	14	44
• Disposals	–	–	–	(1)	(3)	(4)
• Transfer to held for sale	(4)	(14)	–	(3)	(6)	(27)
• Exchange movement	1	2	–	4	3	10
At 30 September 2019 restated*	34	102	4	98	75	313
Net book amount at 30 September 2019 restated*	4	90	–	48	103	245

Note:

* 2019 restated for finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Ocrex Limited in 2019 (see notes 1 and 15.1).

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

7 Property, plant and equipment

This note details the physical assets used by the Group to operate the business and generate revenues and profits. Assets are shown at their purchase price less depreciation, which is an expense that is charged over the useful life of these assets to reflect annual usage and wear and tear, and impairment. Following the application of IFRS 16 on 1 October 2019, property, plant and equipment includes the right-of-use assets recognised for leases in which the Group is the lessee.

Accounting policy

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

Freehold buildings	• Up to 50 years
Long leasehold buildings and improvements	• Shorter of lease term and useful life
Plant and equipment	• 2 to 7 years
Motor vehicles	• 4 years
Office equipment	• 2 to 7 years
Right-of-use lease assets	• Shorter of lease term and useful life

Freehold land is not depreciated.

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

Further information on the policy applied to right-of-use lease assets is included in note 3.4.

7 Property, plant and equipment *continued*

	Land and buildings £m	Plant and equipment £m	Motor vehicles and office equipment £m	Right-of-use assets: Property £m	Right-of-use assets: Vehicles £m	Right-of-use assets: Total £m	Total £m
Cost at 1 October 2019	**92**	**137**	**59**	**–**	**–**	**–**	**288**
• Adjustment on initial application of IFRS 16	**–**	**–**	**–**	**110**	**3**	**113**	**113**
• Additions	**–**	**24**	**3**	**26**	**4**	**30**	**57**
• Disposals	**–**	**(31)**	**(6)**	**(10)**	**–**	**(10)**	**(47)**
• Transfer to held for sale	**(4)**	**(9)**	**(5)**	**(10)**	**–**	**(10)**	**(28)**
• Exchange movement	**(1)**	**(4)**	**(1)**	**(2)**	**–**	**(2)**	**(8)**
At 30 September 2020	**87**	**117**	**50**	**114**	**7**	**121**	**375**
Accumulated depreciation at 1 October 2019	**31**	**96**	**44**	**–**	**–**	**–**	**171**
• Charge for the year	**34**	**16**	**4**	**22**	**3**	**25**	**79**
• Impairment	**–**	**2**	**1**	**11**	**–**	**11**	**14**
• Disposals	**–**	**(31)**	**(6)**	**(8)**	**–**	**(8)**	**(45)**
• Transfer to held for sale	**(4)**	**(5)**	**(3)**	**(2)**	**–**	**(2)**	**(14)**
• Exchange movement	**–**	**(2)**	**–**	**(1)**	**–**	**(1)**	**(3)**
At 30 September 2020	**61**	**76**	**40**	**22**	**3**	**25**	**202**
Net book amount at 30 September 2020	**26**	**41**	**10**	**92**	**4**	**96**	**173**

	Land and buildings £m	Plant and equipment £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 October 2018	92	130	60	282
• Additions	–	25	2	27
• Disposals	–	(4)	(3)	(7)
• Disposal of subsidiaries	–	(2)	–	(2)
• Transfer to held for sale	–	(14)	(2)	(16)
• Exchange movement	–	2	2	4
At 30 September 2019	92	137	59	288
Accumulated depreciation at 1 October 2018	18	94	41	153
• Charge for the year	13	16	5	34
• Impairment	–	2	1	3
• Disposals	–	(4)	(3)	(7)
• Disposal of subsidiaries	–	(2)	–	(2)
• Transfer to held for sale	–	(12)	(1)	(13)
• Exchange movement	–	2	1	3
At 30 September 2019	31	96	44	171
Net book amount at 30 September 2019	61	41	15	117

All depreciation charges in the years presented have been charged through selling and administrative expenses. Of these depreciation charges, £33m (2019: £12m) has been classified as a non-recurring adjustment, see note 3.6.

All impairment charges in the years presented have been charged through selling and administrative expenses, as well as being classified as a non-recurring adjustment within property restructuring costs, see note 3.6.

8 Working capital

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

Trade and other receivables are made up of amounts owed to the Group by customers, amounts that we pay to our suppliers in advance and unamortised incremental costs to acquire a contract. Trade receivables are shown net of an allowance for expected credit losses. Our trade and other payables are amounts we owe to our suppliers that have been invoiced to us or accrued by us. They also include taxes and social security amounts due in relation to our role as an employer.

This note also gives some additional detail on the age and recoverability of our trade receivables, which provides an understanding of the credit risk faced by the Group as a part of everyday trading. Credit risk is further disclosed in note 13.6.

8.1 Trade and other receivables

Accounting policy

Trade receivables and contract assets

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for expected credit losses.

The Group uses the term "Trade receivables" for contract receivables. These are recognised when the right to consideration is unconditional. Typically, the Group invoices fees for perpetual licences on contract closure and delivery. For performance obligations satisfied over time, judgement is required in determining whether a right to consideration is unconditional. In such situations, a receivable is recognised for the transaction price of the non-cancellable portion of the contract when the Group starts satisfying the performance obligation.

When revenue recognised in respect of a customer contract exceeds amounts received or receivable from the customer a contract asset is recognised.

The carrying amounts of trade receivables and contract assets are reduced by allowances for expected credit losses using the simplified approach under IFRS 9. The Group uses a matrix approach to determine the allowance, with default rates assessed for each country in which the Group operates. The default rates applied are based on the ageing of the receivable, past experience of credit losses and forward looking information. An allowance for a receivable's estimated lifetime expected credit losses is first recorded when the receivable is initially recognised, and subsequently adjusted to reflect changes in credit risk until the balance is collected. In the event that management considers that a receivable cannot be collected, the balance is written off.

Incremental costs of obtaining customer contracts

The incremental costs of obtaining customer contracts are capitalised under IFRS 15. Contract acquisition costs primarily consist of sales commissions earned by the Group's sales force and business partners.

Judgement is required in determining the amounts to be capitalised, particularly where the commissions are based on cumulative targets. The Group capitalises such cumulative target commissions for all customer contracts that count towards the cumulative target but only if nothing other than obtaining customer contracts can contribute to achieving the cumulative target.

The capitalised assets are amortised over the period during which the related revenue is recognised, which may extend beyond the initial contract term where the Group expects to benefit from future renewals as a result of incurring the costs. Typically, either the Group does not pay sales commissions for customer contract renewals or such commissions are not commensurate with the commissions paid for new contracts. Consequently, the Group amortises sales commissions paid for new customer contracts on a straight-line basis over the expected contract life including probable contract renewals. Judgement is required in estimating these contract lives. In exercising this judgement, the Group considers respective renewal history adjusted for indications that the renewal history is not fully indicative of future renewals.

The amortisation periods range from one year to ten years depending on the type of commission arrangement. Amortisation of the capitalised costs of obtaining customer contracts is reported within selling and administrative expenses.

8 Working capital *continued*

8.1 Trade and other receivables *continued*

Non-current:	2020 £m	2019 £m
Customer acquisition costs	**79**	65
Other receivables	**5**	4
Prepayments	**2**	4
	86	73

Current:	2020 £m	2019 £m
Trade receivables	**239**	280
Less: allowance for expected credit losses	**(37)**	(23)
Trade receivables – net	**202**	257
Other receivables	**18**	15
Prepayments	**48**	55
Customer acquisition costs	**34**	37
	302	364

The Group has incurred £119m (2019: £111m) to obtain customer contracts and an amortisation expense of £99m (2019: £76m) was recognised in operating profit during the year. There were no material contract assets.

Movements on the Group allowance for expected credit losses of trade receivables were as follows:	2020 £m	2019 £m
At 1 October	**23**	20
Impact of adoption of IFRS 9	**–**	6
Increase in allowance for expected credit losses	**28**	7
Receivables written off during the year as uncollectable	**(10)**	(5)
Unused amounts reversed	**(1)**	(3)
Transfer to held for sale	**(2)**	(1)
Exchange movement	**(1)**	(1)
At 30 September	**37**	23

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

The Group's businesses implement policies, procedures and controls to manage customer credit risk. Outstanding balances are regularly monitored and reviewed to identify any change in risk profile. The Group recognises a loss allowance against trade receivables using the simplified approach under IFRS 9. The amount of the allowance reflects the lifetime expected credit losses measured using historical payment default rates determined for each geographical market in which the Group operates. The historical default rates are adjusted where necessary if they do not reflect the level of future expected credit losses, for example because of changes in the local economy or other commercial considerations. The allowance for expected credit losses is calculated using a provision matrix. The amount of the allowance increases as outstanding balances age. A customer balance is written off when it is considered that there is no reasonable expectation that the amount will be collected and legal enforcement activities have ceased.

An analysis of the gross carrying amount of trade receivables showing credit risk exposure by age of the outstanding balance is as follows:

Trade receivables at 30 September 2020	Not yet due £m	1-30 days overdue £m	31-60 days overdue £m	61-90 days overdue £m	91+ days overdue £m	Total £m
Expected credit loss rate	**8%**	**10%**	**34%**	**75%**	**85%**	**–**
Estimated total gross carrying amount at default	**186**	**27**	**6**	**5**	**15**	**239**
Expected credit loss	**(15)**	**(3)**	**(2)**	**(4)**	**(13)**	**(37)**

Trade receivables at 30 September 2019	Not yet due £m	1-30 days overdue £m	31-60 days overdue £m	61-90 days overdue £m	91+ days overdue £m	Total £m
Expected credit loss rate	2%	2%	17%	47%	77%	–
Estimated total gross carrying amount at default	203	39	10	12	16	280
Expected credit loss	(3)	(1)	(1)	(6)	(12)	(23)

Included in selling and administrative expenses in the income statement is £26m (2019: £17m) in relation to receivables credit losses. See note 1 in relation to the impact on trade receivables of the Covid-19 pandemic.

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

8.2 Trade and other payables

Accounting policy

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

Trade and other payables can be analysed as follows:	**2020 £m**	2019 £m
Trade payables	**25**	16
Other tax and social security payable	**35**	37
Other payables	**34**	38
Accruals	**203**	200
	297	291

8.3 Deferred income

Accounting policy

If amounts received or receivable from a customer exceed revenue recognised for a contract, a contract liability is recognised. The Group uses the term "deferred income" for a contract liability. Contract liabilities primarily reflect invoices due or payments received in advance of revenue recognition. Deferred income is unwound as related performance obligations are satisfied.

In all material respects current deferred income at 1 October 2019 was recognised as revenue during the year. Other than business-as-usual movements, and deferred income transferred to held for sale (see note 15.3), there were no significant changes in contract liability balances during the year.

9 Provisions

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

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

Accounting policy

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

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

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

	Restructuring £m	Legal £m	Building £m	Other £m	Total £m
At 1 October 2019	1	7	16	2	26
• Adjustment on initial application of IFRS 16	–	–	(5)	–	(5)
• Additional provision in the year	22	10	5	2	39
• Provision utilised in the year	(1)	(3)	(4)	(1)	(9)
• Exchange movement	1	–	–	–	1
• Transfer to held for sale	–	–	(1)	(1)	(2)
At 30 September 2020	23	14	11	2	50

	Restructuring £m	Legal £m	Building £m	Other £m	Total £m
Maturity profile					
< 1 year	9	5	3	2	19
1 – 2 years	14	9	5	–	28
2 – 5 years	–	–	1	–	1
> 5 years	–	–	2	–	2
At 30 September 2020	23	14	11	2	50

Restructuring provisions are for the estimated costs of Group restructuring activities and relate mainly to employee severance which remains unpaid at the balance sheet date. These provisions will be utilised as obligations are settled which is generally expected to be within one year. This includes the non-recurring restructuring costs which remain unpaid at the balance sheet date (see note 3.6).

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

Building provisions relate to dilapidation charges and property-related contracts that have become onerous. The timing of the cash flows associated with building provisions is dependent on the timing of lease agreement termination. This includes the non-recurring property restructuring costs which remain unpaid at the balance sheet date (see note 3.6).

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

10 Post-employment benefits

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

The majority of the Group's employees are members of defined contribution pension schemes. Additionally, the Group operates two small defined benefit schemes in France and Switzerland. At 30 September 2020, the defined benefit scheme in Switzerland was transferred to held for sale.

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

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

Accounting policy

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

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

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

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

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

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

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

Pension costs included in the consolidated income statement	Note	**2020 £m**	2019 £m
Defined contribution schemes		**20**	16
Defined benefit plans		**2**	2
	3.3	**22**	18

10 Post-employment benefits *continued*

Defined benefit plans

The most recent actuarial valuations of the post-employment benefit plans were performed by KPMG (France) and PwC (Switzerland) during the year for the year ended 30 September 2020.

Weighted average principal assumptions made by the actuaries	2020 %	2019 %
Rate of increase in pensionable salaries	**2.0**	2.0
Discount rate	**0.4**	0.3
Inflation assumption	**2.0**	2.0

Mortality rate assumptions made by the actuaries	2020 Years	2019 Years
Average life expectancy for 65-year-old male	**21**	21
Average life expectancy for 65-year-old female	**23**	23
Average life expectancy for 45-year-old male	**40**	40
Average life expectancy for 45-year-old female	**43**	43

Amounts recognised in the balance sheet	2020 £m	2019 £m
Present value of funded obligations	**(23)**	(48)
Fair value of plan assets	**–**	23
Net liability recognised in the balance sheet	**(23)**	(25)

Major categories of plan assets as a percentage of total plan assets	£m	2020 %	£m	2019 %
Bonds (quoted)	**7**	**29**	8	35
Equities (quoted)	**7**	**29**	6	26
Properties	**8**	**34**	6	26
Other (unquoted)	**2**	**8**	3	13
Transfer to held for sale	**(24)**	**(100)**	–	–
	–	**–**	23	100

Expected contributions to post-employment benefit plans for the year ending 30 September 2021 are £1m (2019: expected contributions for the year ending 30 September 2020: £1m).

Amounts recognised in the income statement	2020 £m	2019 £m
Net interest costs on obligation	**–**	–
Current service cost	**(3)**	(2)
Others (Curtailments/Plan amendments)	**1**	–
Total included within staff costs – all within selling and administrative expenses	**(2)**	(2)

Changes in the present value of the defined benefit obligation	2020 £m	2019 £m
At 1 October	**(48)**	(41)
Exchange movement	**(1)**	(1)
Service cost	**(3)**	(2)
Plan participant contributions	**(1)**	(1)
Interest cost	**–**	(1)
Benefits paid	**1**	2
Curtailments/Plan amendments	**1**	–
Actuarial loss – financial assumptions	**–**	(3)
Actuarial loss – experience	**–**	(1)
Transfer to held for sale	**28**	–
At 30 September	**(23)**	(48)

Changes in the fair value of plan assets	2020 £m	2019 £m
At 1 October	**23**	19
Exchange movement	**1**	1
Employer's contributions	**1**	1
Plan participant contributions	**1**	1
Benefits paid	**(2)**	(2)
Actuarial gain on plan assets	**–**	3
Transfer to held for sale	**(24)**	–
At 30 September	**–**	23

Analysis of the movement in the balance sheet liability	2020 £m	2019 £m
At 1 October	**(25)**	(22)
Total expense as recognised in the income statement	**(2)**	(3)
Benefits paid	**(1)**	–
Contributions paid	**1**	1
Actuarial loss	**–**	(1)
Transfer to held for sale	**4**	–
At 30 September	**(23)**	(25)

Sensitivity analysis on significant actuarial assumptions		2020 £m	2019 £m
Discount rate applied to scheme obligations	+/- 0.5% pa	**3**	3
Salary increases	+/- 0.5% pa	**2**	2

11 Deferred income tax

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

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

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

Accounting policy

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

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

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

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

11 Deferred income tax *continued*

The movement on the deferred tax account is as shown below:	2020 £m	2019 Restated* £m
At 1 October	**5**	26
Adjustment on initial application of IFRS 16	**2**	–
Income statement credit/(charge)	**19**	(1)
Acquisition of subsidiaries	**–**	(2)
Transfer to held for sale	**(5)**	(13)
Other balance sheet reclassification	**–**	–
Exchange movement	**–**	(1)
Other comprehensive income/equity movement in deferred tax	**–**	(4)
At 30 September	**21**	5

The net deferred tax asset at the end of the year is analysed below:	2020 £m	2019 Restated* £m
Deferred tax assets	**35**	31
Deferred tax liabilities	**(14)**	(26)
Net deferred tax asset	**21**	5

Note:

* 2019 restated for finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Ocrex Limited, completed in 2019 (see notes 1 and 15.1).

Deferred tax assets have been recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered. Each of these assets are reviewed to ensure there is sufficient evidence to support their recognition. All underlying temporary differences where a deferred tax liability arising from investments in subsidiaries have been appropriately recognised where it is probable the temporary difference will reverse in the foreseeable future. The taxable temporary differences associated with investments in the Group's subsidiaries for which a deferred tax liability has not been recognised are not considered material. The Group has undistributed earnings of £301m at 30 September 2020.

At 30 September 2020, following the decision to sell certain of our Australian, Polish, Swiss, Singaporean and Malaysian entities, we transferred £5m of deferred tax assets to held for sale. At 30 September 2019, following the decision to sell our Brazilian entities, we transferred £13m of tax losses to held for sale.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as required by IAS 12 "Income Taxes") during the year are shown below. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Deferred tax	Other intangible assets (excluding goodwill) £m	Tax losses £m	Other £m	Total £m
At 30 September 2018	(34)	24	36	26
Income statement (debit)/credit	(1)	(5)	5	(1)
Acquisition/disposal	(2)	–	–	(2)
Transfer to held for sale	2	(10)	(5)	(13)
Other comprehensive income/equity movement in deferred tax	–	–	(4)	(4)
Exchange movement	(2)	1	–	(1)
At 30 September 2019 restated*	**(37)**	**10**	**32**	**5**
Income statement (debit)/credit	**7**	**(3)**	**15**	**19**
Adjustment on initial application of IFRS 16	**–**	**–**	**2**	**2**
Acquisition/disposal	**–**	**–**	**–**	**–**
Transfer to held for sale	**–**	**–**	**(5)**	**(5)**
Other comprehensive income/equity movement in deferred tax	**–**	**–**	**–**	**–**
Exchange movement	**1**	**–**	**(1)**	**–**
At 30 September 2020	**(29)**	**7**	**43**	**21**

Deferred tax assets and liabilities categorised as "other" in the above table includes various balances in relation to the following items:

	2020 £m	2019 Restated* £m
Accounting provisions/accruals	**27**	22
Goodwill amortisation	**(21)**	(21)
Deferred revenue	**18**	17
Stock options	**9**	7
Interest carried forward	**6**	3
R&D capitalisation	**2**	2
Lease liability	**16**	–
Right-of-use lease assets	**(15)**	–
Other amounts	**1**	2
	43	32

Note:

* 2019 restated for finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Ocrex Limited, completed in 2019 (see notes 1 and 15.1).

The Company has unrecognised carried forward losses of £73m (2019: £62m) principally in the UK and the US, available to reduce certain future taxable profits. Deferred tax assets have not been recognised in respect of these losses due to uncertainty regarding whether suitable profits will arise in future periods against which the deferred tax asset would reverse.

12 Cash flow and net debt

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

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

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

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

12.1 Cash flow generated from continuing operations

Reconciliation of profit for the year to cash generated from continuing operations	2020 £m	2019 £m
Profit for the year	**310**	266
Adjustments for:		
• Income tax	**63**	95
• Finance income	**(3)**	(8)
• Finance costs	**34**	29
• Amortisation and impairment of intangible assets	**45**	44
• Depreciation and impairment of property, plant and equipment	**93**	37
• Impairment of goodwill	**19**	–
• Impairment and cost of disposal of assets held for sale	**–**	19
• R&D tax credits	**(2)**	(2)
• Equity-settled share-based transactions	**29**	32
• Net gain on disposal of subsidiaries	**(141)**	(28)
Changes in working capital (excluding effects of acquisitions and disposals of subsidiaries):		
• Decrease in trade and other receivables	**26**	18
• Increase in trade and other payables and provisions	**44**	46
• Increase in deferred income	**10**	38
Cash generated from continuing operations	**527**	586

12.2 Net debt

Reconciliation of net cash flow to movement in net debt	2020 £m	2019 £m
Increase in cash in the year (pre-exchange movements)	**510**	158
Cash outflow from movement in loans, lease liabilities and cash held on behalf of customers	**(96)**	142
Change in net debt resulting from cash flows	**414**	300
Impact of adoption of IFRS 16	**(136)**	–
Acquisitions	**–**	1
Disposals	**(12)**	–
Other non-cash movements	**(30)**	(2)
Exchange movement	**6**	(24)
Movement in net debt in the year	**242**	275
Net debt at 1 October	**(393)**	(668)
Net debt at 30 September	**(151)**	(393)

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

Analysis of change in net debt (inclusive of leases)	At 1 October 2018 £m	Cash flow £m	Acquisitions £m	Reclassification as held for sale	Disposal of subsidiary £m	Non-cash movements £m	Exchange movement £m	At 30 September 2019 £m
Cash and cash equivalents	272	120	1	(4)	(26)	–	8	371
Bank overdrafts	(8)	5	–	3	–	–	–	–
Cash and bank overdrafts amounts included in held for sale	58	33	–	1	(91)	–	–	1
Cash, cash equivalents and bank overdrafts including cash held for sale	322	158	1	–	(117)	–	8	372
Liabilities arising from financing activities								
Loans due within one year	–	–	–	–	–	(115)	(7)	(122)
Loans due after more than one year	(913)	181	–	–	–	113	(24)	(643)
Cash held on behalf of customers	(19)	(6)	–	–	26	–	(1)	–
Cash held on behalf of customers included in held for sale	(58)	(33)	–	–	91	–	–	–
	(990)	142	–	–	117	(2)	(32)	(765)
Total	(668)	300	1	–	–	(2)	(24)	(393)

The Group's cash balances no longer include cash held on behalf of customers at 30 September 2020 (2019: £nil).

12 Cash flow and net debt *continued*

12.3 Cash and cash equivalents (excluding bank overdrafts and cash amounts included in held for sale)

Accounting policy

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

	2020 £m	2019 £m
Cash at bank and in hand	**391**	370
Short-term bank deposits	**440**	1
	831	371

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

Cash and cash equivalents are classified and measured at amortised cost under IFRS 9 and are therefore subject to the expected loss model requirements of that standard. However, no material expected credit losses have been identified. At 30 September 2020, 92% (2019: 93%) of the cash and cash equivalents balance was deposited with financial institutions rated at least A3 by Moody's Investors Service. The investment instruments utilised are money market funds, money market term deposits and bank deposits.

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

12.4 Borrowings (excluding borrowings included in held for sale)

Accounting policy

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

Further information on the policy applied to lease liabilities is included in note 3.4.

Current	2020 £m	2019 £m
US senior loan notes – unsecured	**–**	122
Lease liabilities	**20**	–
	20	122

Non-current	2020 £m	2019 £m
Bank loans – unsecured	**490**	243
US senior loan notes – unsecured	**387**	400
Lease liabilities	**93**	–
	970	643

Included in loans above is £877m (2019: £765m) of unsecured loans (after unamortised issue costs).

In the table above, bank loans and loan notes are stated net of unamortised issue costs of £4m (2019: £2m). Unsecured bank loans attract an average interest rate of 1.6% (FY19: 2.6%).

				Loan value	
Borrowings	Year issued	Interest coupon	Maturity	2020 £m	2019 £m
US private placement					
• USD 150m loan note	2013	3.08%	20–May–20	**–**	122
• USD 150m loan note	2013	3.71%	20–May–23	**116**	122
• USD 50m loan note	2013	3.86%	20–May–25	**39**	40
• EUR 55m loan note	2015	1.89%	26–Jan–22	**50**	49
• EUR 30m loan note	2015	2.07%	26–Jan–23	**27**	27
• USD 200m loan note	2015	3.73%	26–Jan–25	**155**	162

Unsecured bank loans comprises a fixed term loan of £200m (2019: £200m) expiring in September 2022 and £294m drawings (2019: £45m) under the multi-currency revolving credit facility of £692m (2019: £720m) expiring in February 2025, which consists both of US$719m/£557m (2019: US$719m/£585m) and of £135m (2019: £135m) tranches.

Further information on lease liabilities is included in note 3.4.

13 Financial instruments

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

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

Accounting policy

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

Financial assets are derecognised when the rights to receive cash flows from the asset have expired, or when the Group has transferred those rights and either has also transferred substantially all the risks and rewards of the asset or has neither transferred nor retained substantially all the risks and rewards of the asset but no longer has control of the asset.

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

The amounts in the consolidated balance sheet that are accounted for as financial instruments, and their classification under IFRS 9, are as follows:

		IFRS 9 classification		
As at 30 September 2020	Note	**At amortised cost £m**	**At fair value through profit or loss £m**	**Total £m**
Non-current assets				
Other financial assets		**–**	**1**	**1**
Trade and other receivables: other receivables	8.1	**2**	**3**	**5**
Current assets				
Trade and other receivables: trade receivables	8.1	**202**	**–**	**202**
Trade and other receivables: other receivables	8.1	**17**	**1**	**18**
Cash and cash equivalents	12.3	**831**	**–**	**831**
Current liabilities				
Trade and other payables excluding other tax and social security	8.2	**(262)**	**–**	**(262)**
Borrowings	12.4	**(20)**	**–**	**(20)**
Non-current liabilities				
Borrowings	12.4	**(970)**	**–**	**(970)**
		(200)	**5**	**(195)**

As at 30 September 2019	Note	IFRS 9 classification: At amortised cost £m	At fair value through profit or loss £m	Total £m
Non-current assets				
Other financial assets		3	1	4
Trade and other receivables: other receivables	8.1	1	3	4
Current assets				
Trade and other receivables: trade receivables	8.1	257	–	257
Trade and other receivables: other receivables	8.1	13	2	15
Cash and cash equivalents	12.3	371	–	371
Current liabilities				
Trade and other payables excluding other tax and social security	8.2	(254)	–	(254)
Borrowings	12.4	(122)	–	(122)
Non-current liabilities				
Borrowings	12.4	(643)	–	(643)
		(374)	6	(368)

13.1 Fair values of financial instruments

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

Bank loans and loan notes

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

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

	Note	**2020 Book value £m**	**2020 Fair value £m**	2019 Book value £m	2019 Fair value £m
Long-term borrowing – Bank loans and loan notes	12.4	**(877)**	**(902)**	(643)	(660)
Short-term borrowing – Bank loans and loan notes	12.4	**–**	**–**	(122)	(122)

13 Financial instruments *continued*

Contingent consideration receivable

The Group recognises contingent consideration receivable of £4m (2019: £5m) relating to the disposal of Sage Payroll Solutions in the year ended 30 September 2019. This is classified as a financial asset measured at fair value through profit or loss. Its fair value is determined using a discounted cash flow valuation technique. The main inputs to the calculation for which assumptions have been made are the discount rate and the period over which the consideration will be received. This is a level 3 fair value under IFRS 13.

13.2 Maturity of financial liabilities

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

				2020
	Borrowings: bank loans and loan notes £m	**Borrowings: lease liabilities £m**	**Trade and other payables excluding other tax and social security £m**	**Total £m**
In less than one year	**19**	**25**	**262**	**306**
In more than one year but not more than two years	**269**	**23**	**2**	**294**
In more than two years but not more than five years	**656**	**46**	**–**	**702**
In more than five years	**–**	**46**	**–**	**46**
	944	**140**	**264**	**1,348**

			2019
	Borrowings: bank loans and loan notes £m	Trade and other payables excluding other tax and social security £m	Total £m
In less than one year	148	255	403
In more than one year but not more than two years	217	1	218
In more than two years but not more than five years	278	–	278
In more than five years	206	–	206
	849	256	1,105

The maturity profile of provisions is disclosed in note 9.

13.3 Borrowing facilities

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

	2020 £m	2019 £m
Expiring in more than two years but not more than five years	**398**	675

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

13.4 Market risk sensitivity analysis

Financial instruments affected by market risks include borrowings and deposits.

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

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

Using the above assumptions, the following table shows the illustrative effect on the consolidated income statement and equity resulting from changes in market interest rates.

	2020		2019	
	Income (losses)/gains £m	**Equity (losses)/gains £m**	Income (losses)/gains £m	Equity (losses)/gains £m
1% increase in market interest rates	**(3)**	**(3)**	(2)	(2)
1% decrease in market interest rates	**3**	**3**	2	2

The following table shows the illustrative effect on equity resulting from changes in sterling/US Dollar and sterling/Euro exchange rates:

	2020	2019
	Equity gains/(losses) £m	Equity gains/(losses) £m
10% strengthening of sterling versus the US Dollar	**28**	41
10% strengthening of sterling versus the Euro	**7**	7
10% weakening of sterling versus the US Dollar	**(34)**	(50)
10% weakening of sterling versus the Euro	**(9)**	(8)

13.5 Hedge accounting

Accounting policy

On transition to IFRS 9, the Group elected to continue to apply the hedge accounting requirements of IAS 39. The Group applies hedge accounting to external borrowings that are designated as a hedge of a net investment in foreign operations. The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation which is determined to be an effective hedge is recognised in other comprehensive income. The ineffective portion is recognised immediately in profit or loss. On disposal of the net investment, the foreign exchange gains and losses on the hedging instrument are recycled to the income statement from equity.

The Group hedges the risk exposure to foreign currency exchange movements of its net investment in its subsidiaries in the US and Eurozone. A proportion of the Group's external US Dollar denominated borrowings, and the total of its Euro denominated borrowings, are designated as hedging instruments. The underlying risk of the hedging instruments exactly matches the hedged risk as the borrowings and net investments in subsidiaries are denominated in the same currencies, giving a hedge ratio of 1:1. Hedge ineffectiveness will arise if the carrying amount of the net investment falls below the carrying amount of the designated borrowings.

The impact of the hedging instrument on the consolidated balance sheet is:

As at 30 September 2020		Nominal amount	**Carrying amount £m**	**Change in carrying amount as a result of foreign currency movements in the year recognised in OCI £m**
Non-current borrowings	USD loan notes	USD 398m	**308**	**16**
Non-current borrowings	EUR loan notes	EUR 85m	**77**	**(2)**
			385	**14**

13 Financial instruments *continued*

13.5 Hedge accounting *(continued)*

As at 30 September 2019		Nominal amount	Carrying amount £m	Change in carrying amount as a result of foreign currency movements in the year recognised in OCI £m
Current borrowings	USD loan notes	USD 133m	108	
Non-current borrowings	USD loan notes	USD 400m	324	
		USD 533m	432	25
Non-current borrowings	EUR loan notes	EUR 85m	76	–
			508	25

The impact of the hedged item on the statement of financial position is as follows:

	2020		2019	
	Change in value of hedged item used to determine hedge effectiveness £m	**Foreign currency translation reserve £m**	Change in value of hedged item used to determine hedge effectiveness £m	Foreign currency translation reserve £m
Net investment in foreign subsidiaries – USD	**(16)**	**46**	25	82
Net investment in foreign subsidiaries – EUR	**2**	**14**	–	12
	(14)	**60**	25	94

The hedging movement recognised in other comprehensive income is equal to the change in value for measuring effectiveness. No ineffectiveness is recognised in profit or loss.

On disposal of Sage Payroll Solutions in the year ended 30 September 2019, an exchange difference of £6m related to hedging instruments was recycled through the income statement in proportion to the disposed net investment.

Further information on the Group's exposure to foreign currency risk and how the risk is managed is included in note 13.6.

13.6 Financial risk management

The Group's exposure to and management of capital, liquidity, credit, interest rate and foreign currency risk are summarised below.

Capital risk

The Group's objectives when managing capital (defined as net debt plus equity) are to safeguard our ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders, while optimising returns to shareholders through an appropriate balance of debt and equity funding. The Group manages its capital structure through regular review by the Board and makes adjustments to it with respect to changes in economic conditions and our strategic objectives. Priorities for capital allocation are organic investment; bolt on acquisitions of complementary technology and portfolio rationalisation; the maintenance and growth of the dividend in real terms; and additional capital returns to shareholders, if appropriate. Over the medium term, the Group plans to operate in a broad range of 1-2x net debt to EBITDA, with flexibility to move outside this range as the business needs require. In the event that the Group needs to adjust its capital structure, it would review the appropriateness of existing levels of debt and consider whether returns to shareholders remain appropriate.

To support the Group's financial strength in light of the Covid-19 pandemic, Sage announced on 6 April 2020 the cancellation of the previously announced £250m Share Buyback Programme, after £7m of shares had been purchased.

Liquidity risk

The Group manages its exposure to liquidity risk by reviewing cash resources required to meet business objectives through both short and long-term cash flow forecasts. The Group has committed facilities which are available to be drawn for general corporate purposes including working capital. The Treasury function has responsibility for optimising the level of cash across the business.

Credit risk

The Group's credit risk primarily arises from trade and other receivables. The Group has a very low operational credit risk due to the transactions being principally of a high volume, low value and short maturity. The Group has no significant concentration of operational credit risk, with the exposure spread over a large number of well diversified counterparties and customers.

The credit risk on liquid funds is considered to be low, as the Board-approved Group treasury policy limits the value that can be invested with each approved counterparty to minimise the risk of loss. All counterparties must meet minimum credit rating requirements or be specifically authorised as an exception.

Further information on the credit risk management procedures applied to trade receivables is given in note 8.1 and to cash and cash equivalents in note 12.3. The carrying amounts of trade receivables and cash and cash equivalents shown in those notes represent the Group's maximum exposure to credit risk.

Interest rate risk

The Group is exposed to interest rate risk on floating rate deposits and borrowings. The Group's borrowings comprise principally US private placement loan notes which are at fixed interest rates, and a bank revolving credit facility and a term loan, which are subject to floating interest rates. At 30 September 2020, the Group had £831m (2019: £371m) of cash and cash equivalents.

The Group regularly reviews forecast debt, cash and cash equivalents and interest rates to monitor this risk. Interest rates on debt and deposits are fixed when management decides this is appropriate.

At 30 September 2020, the Group's borrowings comprised US private placement loan notes of £387m (2019: £522m), which have an average fixed interest rate of 3.34% (2019: 3.33%); and unsecured bank loans of £490m (2019: £243m), comprising a fixed term loan and a bank revolving credit facility, which have an average interest rate of 1.6% (2019: 2.6%).

Foreign currency risk

Although a substantial proportion of the Group's revenue and profit is earned outside the UK, operating companies generally only trade in their own currency. The Group is therefore not subject to any significant foreign exchange transactional exposure within these subsidiaries.

The Group's principal exposure to foreign currency lies in the translation of overseas profits into sterling; this exposure is not hedged.

The Group's external Euro denominated borrowings and a proportion of its US Dollar borrowings are designated as a hedge of the net investment in its subsidiaries in the US and Eurozone. The foreign exchange movements on translation of the borrowings into sterling have therefore been recognised in the translation reserve. Certain of the Group's intercompany balances have been identified as part of the Group's net investment in foreign operations. Foreign exchange effects on these balances that remain on consolidation are also reflected in the translation reserve. The Group's other currency exposures comprise those currency gains and losses recognised in the income statement, reflecting other monetary assets and liabilities of the Group that are not denominated in the functional currency of the entity involved. At 30 September 2020 and 30 September 2019, these exposures were immaterial to the Group.

14 Equity

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

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

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

14.1 Ordinary shares

Accounting policy

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

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

Issued and fully paid ordinary shares of 1 4/77 pence each	**2020 shares**	**2020 £m**	2019 shares	2019 £m
At 1 October and 30 September	**1,120,789,295**	**12**	1,120,789,295	12

14 Equity *continued*

14.2 Share-based payments

Accounting policy

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

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

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

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

The total charge for the year relating to employee share-based payment plans was £29m (2019: £32m), all of which related to equity-settled share-based payment transactions.

Scheme	**2020 £m**	2019 £m
Performance Share Plan	**6**	6
Restricted Share Plan	**21**	23
Share options	**2**	3
Total	**29**	32

The Sage Group Performance Share Plan

Annual grants of performance shares will normally be made to Executive Directors and senior executives across the Group after the preliminary declaration of the annual results. Under the Performance Share Plan 2,146,687 (2019: 3,690,288) awards were made during the year.

Awards for 2018

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

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

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

The comparator group for awards granted from 2017 onwards is the companies comprised in the FTSE 100 Index at the start of the performance period, excluding financial services and extraction companies.

Awards from 2019

These performance shares are subject to a service condition and two performance conditions. Performance conditions are weighted 70% on the achievement of a revenue growth target and 30% on the achievement of a TSR target.

The revenue growth target is based on the Company's compound annualised recurring revenue growth. Where the Company's annualised recurring revenue growth is between prescribed target ranges, the extent to which the revenue performance condition is satisfied will be calculated on a straight-line pro-rata basis within a defined range.

2019 awards	Range 1	Range 2
• Annualised recurring revenue growth (%)	**6.2%-7.7%**	**7.7%-8.5%**
• Performance condition satisfied (%)	**14%-56%**	**56%-70%**

2020 awards	Range 1	Range 2
• Annualised recurring revenue growth (%)	**5.6%-7.0%**	**7.0%-7.7%**
• Performance condition satisfied (%)	**14%-56%**	**56%-70%**

The performance target relating to TSR measures share price performance against a designated comparator group. Where the Company's TSR is between median and upper quartile, the TSR vesting percentage will be calculated on a straight-line pro-rata basis between 6% and 24% and where the Company's TSR is between upper quartile and upper decile, the TSR vesting percentage will be calculated on a straight-line pro-rata basis between 24% and 30%.

The comparator group for awards granted from 2019 onwards is the companies comprised in the FTSE 100 Index at the start of the performance period, excluding financial services and extraction companies.

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

Grant date	December 2019	May 2020
Share price at grant date	**7.36**	**6.77**
Number of employees	**39**	**4**
Shares under award	**2,033,746**	**112,941**
Vesting period (years)	**3**	**3**
Expected volatility	**23.3%**	**26.5%**
Award life (years)	**3**	**3**
Expected life (years)	**3**	**3**
Risk-free rate	**0.52%**	**(0.04%)**
Fair value per award	**6.15**	**6.02**

Grant date	December 2018	February 2019	May 2019	September 2019
Share price at grant date	5.78/5.86	6.61	7.39	6.71
Number of employees	94	8	2	1
Shares under award	2,921,885	712,414	45,526	10,463
Vesting period (years)	1-3	3	3	3
Expected volatility	22.7%	25.1%	22.6%	22.7%
Award life (years)	1-3	3	3	3
Expected life (years)	1-3	3	3	3
Risk-free rate	0.75%	0.85%	0.71%	0.46%
Fair value per award	4.88	5.58	6.84	5.88

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

14 Equity *continued*

14.2 Share-based payments *continued*

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

	2020		2019	
	Number '000s	**Weighted average exercise price £**	Number '000s	Weighted average exercise price £
Outstanding at 1 October	**7,368**	**–**	6,245	–
Awarded	**2,147**	**–**	3,690	–
Forfeited	**(2,598)**	**–**	(2,085)	–
Exercised	**(343)**	**–**	(482)	–
Outstanding at 30 September	**6,574**	**–**	7,368	–
Exercisable at 30 September	**–**	**–**	–	–

	2020		2019	
		Weighted average remaining life years		Weighted average remaining life years
Range of exercise prices	**Expected**	**Contractual**	Expected	Contractual
N/A	**1.2**	**1.2**	1.3	1.3

The Sage Group Restricted Share Plan

The Group's Restricted Share Plan is a long-term incentive plan used in limited circumstances and usually on a one-off basis, under which contingent share awards are usually made only with service conditions. Executive Directors are not permitted to participate in the plan and shares are either purchased in the market or treasury shares are utilised to satisfy vesting awards. During the year 4,424,901 (2019: 5,258,827) awards were made. These awards only have service conditions and their fair values are equal to the share price on the date of grant, ranging from 657-736p.

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

	2020		2019	
	Number '000s	**Weighted average exercise price £**	Number '000s	Weighted average exercise price £
Outstanding at 1 October	**6,776**	**–**	2,734	–
Awarded	**4,425**	**–**	5,259	–
Forfeited	**(743)**	**–**	(423)	–
Exercised	**(2,181)**	**–**	(794)	–
Outstanding at 30 September	**8,277**	**–**	6,776	–
Exercisable at 30 September	**–**	**–**	–	–

	2020		2019	
		Weighted average remaining life years		Weighted average remaining life years
Range of exercise prices	**Expected**	**Contractual**	Expected	Contractual
N/A	**1.5**	**1.5**	1.5	1.5

Share options

Share options comprise The Sage Global Save and Share Plan (the "Save and Share Plan") and acquisition options. These are not considered to be material to the Group's overall share-based payment arrangements. The key aspects of the Group's share option arrangements are explained below.

The Save and Share Plan is a savings-related share option scheme for employees of the Group and is available to employees in the majority of countries in which the Group operates. The UK plan is an HMRC-approved savings-related share option scheme, and similar arrangements apply in other countries where they are available. The fair value of the options is expensed over the service period of three years on the assumption that 30% of options will lapse over the service period as employees leave the Group.

In the year, 2,924,638 (2019: 1,002,584) options were granted under the terms of the Save and Share Plan.

As part of certain acquisitions, the Group awards certain employees with options proportional to previously held options in the company acquired. Nil (2019: nil) options have been granted in the year. The awards granted in 2017 only have service conditions with the fair value portion of the options relating to pre-acquisition services being included as part of the purchase consideration and the remaining fair value of options being expensed over the service period ranging from 1-36 months.

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

	2020		2019	
	Number '000s	**Weighted average exercise price £**	Number '000s	Weighted average exercise price £
Outstanding at 1 October	**4,216**	**2.03**	5,319	1.92
Forfeited	**(26)**	**3.29**	(97)	3.41
Exercised	**(934)**	**1.64**	(1,006)	1.35
Outstanding at 30 September	**3,256**	**2.13**	4,216	2.03
Exercisable at 30 September	**2,986**	**1.95**	3,282	1.65

	2020		2019	
	Weighted average remaining life years		Weighted average remaining life years	
Range of exercise prices	**Expected**	**Contractual**	Expected	Contractual
22p-702p	**–**	**5.0**	1.7	6.0

14.3 Other reserves

All components of reserves are presented separately on the face of the consolidated statement of changes in equity. This note explains the nature and purpose of the translation and merger reserves.

Translation reserve

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

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

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

Merger reserve

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

14 Equity *continued*

14.4 Retained earnings

Retained earnings	2020 £m	2019 £m
At 1 October	**760**	621
Adjustment on initial application of IFRS 16 net of tax	**(7)**	–
Adjustment on initial application of IFRS 15 net of tax	**–**	24
Adjustment on initial application of IFRS 9 net of tax	**–**	(5)
Profit for the year	**310**	266
Actuarial loss on post-employment benefit obligations (note 10)	**–**	(1)
Value of employee services including deferred tax	**29**	33
Proceeds from issuance of treasury shares	**9**	3
Share Buyback Programme	**(7)**	–
Dividends paid to owners of the parent (note 14.5)	**(186)**	(181)
Total	**908**	760

Treasury shares

Purchase of treasury shares

Shares purchased under the Group's buyback programme are not cancelled but are retained in issue and represent a deduction from equity attributable to owners of the parent. During the year the Group purchased 1,101,918 under the Share Buyback Programme (2019: none).

During the year the Group agreed to satisfy the vesting of certain share awards, utilising a total of 4,956,977 (2019: 3,781,720) treasury shares. The Group gifted 250,000 shares (2019: nil) to the Employee Share Trust.

At 30 September 2020 the Group held 27,844,111 (2019: 31,699,170) treasury shares.

Employee Share Trust

The Group holds treasury shares in a trust which was set up for the benefit of Group employees. The Trust purchases the Company's shares in the market or is gifted these by the Company for use in connection with the Group's share-based payments arrangements. The Trust holds 190,962 ordinary shares in the Company (2019: 35,792) at a cost of £1m (2019: £nil) and a nominal value of £nil (2019: £nil).

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

The costs of funding and administering the scheme are charged to the profit and loss account of the Company in the period to which they relate. The market value of the shares at 30 September 2020 was £1m (2019: £nil).

14.5 Dividends

Accounting policy

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

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

In addition, the Directors are proposing a final dividend in respect of the financial year ended 30 September 2020 of 11.32p per share which will absorb an estimated £124m of shareholders' funds. The Company's distributable reserves are sufficient to support the payment of this dividend. If approved at the AGM, it will be paid on 11 February 2021 to shareholders who are on the register of members on 15 January 2021. These financial statements do not reflect this proposed dividend payable.

15 Acquisitions and disposals

The following note outlines acquisitions and disposals during the year and the accompanying accounting policies. Each acquisition or disposal during the year is discussed and the effects on the results of the Group are highlighted. Additional disclosures are presented for disposals and planned disposals that qualify as businesses held for sale or for presentation as discontinued operations.

Accounting policy

Acquisitions:

The Group has early adopted the amendments to IFRS 3 "Business Combinations" for business combinations and asset acquisitions occurring on or after 1 October 2019, as permitted by the transitional provisions for the amendments. The amendments would otherwise have become mandatory for the Group's business combinations and asset acquisitions occurring on or after 1 October 2020. The amendments clarify the definition of a business under IFRS 3 to help companies to determine whether an acquisition is of a business or a group of assets.

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

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

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

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

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

Businesses held for sale and discontinued operations:

The Group classifies the assets and liabilities of a business as held for sale if their carrying amounts will be recovered principally through a sale of the business rather than through continuing use. These assets and liabilities are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for classification as held for sale are met only when the sale is highly probable and the business is available for immediate sale in its present condition. Actions required to complete the sale must indicate that it is unlikely that significant changes will be made to the plan or that the decision to sell will be withdrawn. Management must be committed to the sale and completion must be expected within one year from the date of the classification. Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the consolidated balance sheet.

A business qualifies as a discontinued operation if it is a component of the Group that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations; and
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations.

Discontinued operations are excluded from the results of continuing operations in both the current and prior years and are presented as a single amount in the consolidated income statement as profit or loss on discontinued operations.

15 Acquisitions and disposals *continued*

15.1 Acquisitions

Measurement adjustments to business combinations reported using provisional amounts

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

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

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

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

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

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

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

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

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

15.2 Costs relating to business combinations in the year

Costs directly relating to completion of the business combinations in the year of £nil (2019: £2m) have been included in selling and administrative expenses in the consolidated income statement. These acquisition-related items relate to completed transactions and include advisory, legal, accounting, valuation and other professional or consulting services.

15.3 Disposals and discontinued operations

Disposals made during the current year

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

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

Net assets disposed comprise:

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

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

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

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

15 Acquisitions and disposals *continued*

15.3 Disposals and discontinued operations *(continued)*

Discontinued operations and assets and liabilities held for sale

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

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

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

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

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

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

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

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

16 Related party transactions

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

The Group's related parties are its subsidiary undertakings and its key management personnel, which comprises the Group's Executive Committee members and the Non-executive Directors. Transactions and outstanding balances between the parent and its subsidiaries within the Group and between those subsidiaries have been eliminated on consolidation and are not disclosed in this note. Compensation paid to the Executive Committee is disclosed in note 3.3.

No other related party transactions occurred during the current year or the prior year.

17 IFRS 16

This note provides information on the changes resulting from the adoption of IFRS 16 and quantitative information on their impact at 1 October 2019.

Differences between IFRS 16 and previous accounting policies

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

The Group's accounting policies under IFRS 16 are set out in note 3.4.

Accounting for the transition to IFRS 16

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

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

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

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

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

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

17 IFRS 16 *continued*

Quantitative impact of policy changes on consolidated balance sheet at 1 October 2019

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

	As at 1 October 2019				
	IFRS 16 right-of-use assets and lease liabilities £m	Derecognise IAS 17 rent accruals and prepayments £m	Right-of-use asset impairment* £m	Tax impact £m	Total Impact £m
Non-current assets					
Property, plant and equipment	118	–	(5)	–	113
Deferred income tax assets	–	–	–	2	2
Current assets					
Trade and other receivables	–	(2)	–	–	(2)
Assets classified as held for sale	1	–	–	–	1
Current liabilities					
Borrowings	(30)	–	–	–	(30)
Trade and other payables	–	10	–	–	10
Provisions	–	–	1	–	1
Liabilities classified as held for sale	(1)	–	–	–	(1)
Non-current liabilities					
Borrowings	(105)	–	–	–	(105)
Provisions	–	–	4	–	4
Net assets	(17)	8	–	2	(7)
Total equity	(17)	8	–	2	(7)

Notes:

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

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

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

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

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

Notes:

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

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

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

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

The estimated impact of the application of IFRS 16, as opposed to IAS 17, on the Group's income statement for the year ended 30 September 2020 was to increase operating profit by approximately £3m (due to lease costs now recognised as depreciation) while decreasing the profit for the year by approximately £1m due to the £4m increase in finance costs from the lease liabilities in the year.

18 Group undertakings

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

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

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

Country	Name	Registered address
Australia	Handisoft Software Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy Chatswood 2067 Australia
Australia	Ocrex Australia Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy Chatswood 2067 Australia
Australia	Sage Australia Holdings Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy Chatswood 2067 Australia
Australia	Sage Business Solutions Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy Chatswood 2067 Australia
Australia	Sage Intacct Australia Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy Chatswood 2067 Australia
Australia	Sage One Pty. Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy Chatswood 2067 Australia
Australia	Sage Software Australia Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy Chatswood 2067 Australia
Australia	Snowdrop Systems Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy Chatswood 2067 Australia
Australia	Softline Australia Holdings Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy Chatswood 2067 Australia
Austria	Sage GmbH	Stella-Klein-Löw-Weg 15, 1020 Wien, Austria
Bahamas	Intelligent Apps Holdings Ltd	2 Bayside Executive Park, West Bay Street & Blake Road, Nassau, Bahamas
Belgium	Sage S.A.	Buro & Design Center, Esplanade 1, 1020, Brussels, Belgium
Botswana	Sage Software Botswana (Pty.) Ltd	Plot 50371, Fairground Office Park, Gaborone, Botswana
Canada	Sage Software Canada Ltd.	111, 5th Avenue SW, Suite 3100-C, Calgary AB T2P 5L3, Canada
France	Sage Holding France SAS	10 Place de Belgique, 92250, La Garenne-Colombes, Paris, France
France	Sage Overseas Limited (Branch Registration)	10 Place de Belgique, 92250, La Garenne-Colombes, Paris, France
France	Sage SAS	10 Place de Belgique, 92250, La Garenne-Colombes, Paris, France
Germany	Best Software (Germany) GmbH	Franklinstraße 61-63, 60486, Frankfurt am Main, Germany
Germany	eWare GmbH	Untere Weidenstr. 5, c/o RAè Becker & Koll., 81543, München, Germany
Germany	Sage bäurer GmbH	Josefstraße 10, 78166 Donauerschingen, Germany
Germany	Sage CRM Solutions GmbH	Franklinstraße 61-63, 60486, Frankfurt am Main, Germany
Germany	Sage GmbH	Franklinstraße 61-63, 60486, Frankfurt am Main, Germany
Germany	Sage Management & Services GmbH	Franklinstraße 61-63, 60486, Frankfurt am Main, Germany
Germany	Sage Services GmbH	Karl-Heine-Straße 109-111, 04229, Leipzig, Germany
India	Intacct Software Private Limited	No. 26/1 3rd Floor, Esteem Arcade, Devearaju Urs Road, Race Course Road, Bangalore, 560001, India
India	Ocrex Enterprises Private Limited[1]	House No 546, Sector-10D, Chandigarh 160011, Chandigarh, India
India	Sage Software India Private Ltd (In Liquidation)	N-34, Lower Ground Floor, Kalkaji, New Delhi, 110 019, India
Ireland	Ocrex Limited	11/12 Warrington Place, Dublin 2, Ireland
Ireland	Sage Global Services (Ireland) Limited	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Ireland	Sage Hibernia Limited	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Ireland	Sage Irish Finance Company Unlimited Company	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Ireland	Sage Technologies Limited	Number One, Central Park, Leopardstown, Dublin 18, Ireland

Country	Name	Registered address
Ireland	Sage Treasury Ireland Unlimited Company	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Ireland	TAS Software Limited	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Ireland	Tonwomp Unlimited Company	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Israel	Budgeta Technologies Ltd	Derech Menachem Begin 144, Tel Aviv-Yafo, 6492102, Israel
Kenya	Sage Software East Africa Limited	LR No. 1870/IX/96, 114 & 115 Nivina Towers, Westlands Road, Westlands, Nairobi, P.O Box 38283, Kenya
Latvia	CakeHR SIA	Maskavas 10, Riga, LV-1050, Latvia
Malaysia	Creative Purpose Sdn Bhd (In Liquidation)	Suite B13A-4, Tower B, Level 13A, Northpoint Offices, Mid Valley City, No. 1 Medan Syed Putra Utara, 59200 Kuala Lumpur, Malaysia
Malaysia	Sage Software Sdn Bhd	SO-26-02, Menara 1,No. 3 Jalan Bangsar, KL Eco City, 59200, Kuala Lumpur, Malaysia
Morocco	Sage Software SARL	Tour Crystal 1, Niveau 9, Bd Sidi Mohammed Ben Abdellah, Casablanca, 20030, Morocco
Namibia	Sage Software Namibia (Pty) Ltd	3rd Floor, 344 Independence Avenue, Windhoek, P O BOX 1571, Namibia
Nigeria	Sage Software Nigeria Limited	Landmark Towers, 5B Water Corporation Road, Victoria Island, Lagos, Nigeria
Poland	Sage sp. z o.o.	Aleje Jerozolimskie 132, 02-305 Warsaw, Poland
Portugal	Sage Portugal – Software, S.A.	Edifício Olympus II, Av. Dom Afonso Henriques 1462, 4450 013, Matosinhos, Portugal
Romania	Intacct Development Romania SRL	Cluj-Napoca, Bd. 21 Decembrie 1989 no. 77, 1st floor, room C.1.2 building C-D, The Office, Cluj county, Romania
Singapore	Sage Singapore Holdings Pte. Ltd.	12 Marina View, #25-02/03 Asia Square Tower 2, 01896, Singapore
Singapore	Sage Software Asia Pte. Ltd.	12 Marina View, #25-02/03 Asia Square Tower 2, 01896, Singapore
South Africa	Sage Alchemex (Pty) Ltd	23A Flanders Drive, Mount Edgecombe, Durban, 4321, South Africa
South Africa	Sage South Africa (Pty) Ltd*	Floor 6 Gateway West, 22 Magwa Crescent, Waterfall 5-1R, Midrand, Gauteng, 2066, South Africa
Spain	Sage Spain Holdco, S.L.U.	Moraleja Building One – Planta 1, Parque Empresarial de La Moraleja, Avenida de Europa no19, 28108 Alcobendas, Madrid, Spain
Spain	Sage Spain, S.L.[1]	Moraleja Building One – Planta 1, Parque Empresarial de La Moraleja, Avenida de Europa no19, 28108 Alcobendas, Madrid, Spain
Switzerland	KHK Software AG	Platz 10, Root D4, CH-6039, Switzerland
Switzerland	Sage Bäurer AG	Platz 10, Root D4, CH-6039, Switzerland
Switzerland	Sage Schweiz AG	Platz 10, Root D4, CH-6039, Switzerland
United Arab Emirates	Sage Software Middle East FZ-LLC	Suite 118, Building No. 11, Dubai Internet City, Dubai (U.A.E)
United Kingdom	ACCPAC UK Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Interact UK Holdings Limited*	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	KCS Global Holdings Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Multisoft Financial Systems Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Ocrex UK Ltd	Quatro House, Lyon Way, Frimley, Camberley, Surrey, GU16 7ER, United Kingdom
United Kingdom	Protx Group Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Protx Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage (UK) Ltd	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage CRM Solutions Limited	Sage House, Wharfedale Road, Winnersh, Wokingham, Berkshire, RG41 5RD, United Kingdom
United Kingdom	Sage Euro Hedgeco 1	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom

18 Group undertakings *continued*

Country	Name	Registered address
United Kingdom	Sage Euro Hedgeco 2	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Far East Investments Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Global Services Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Hibernia Investments No.1 Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Hibernia Investments No.2 Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Holding Company Limited*	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Holdings Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Intacct UK Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Irish Investments LLP	North Park, Newcastle Upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Irish Investments One Limited*	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Irish Investments Two Limited*	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Online Holdings Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Overseas Limited.	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Management Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage People Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	HR Bakery Ltd	62 Stakes Road, Purbrook, Waterlooville, Hampshire, PO7 5NT, United Kingdom
United Kingdom	Sage Software Ltd	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Treasury Company Limited*	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage US LLP	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage USD Hedgeco 1	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage USD Hedgeco 2	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Whitley Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sagesoft	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Snowdrop Systems Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	TAS Software Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United States	Ocrex, Inc.	15 John Poulter Road, Lexington, MA 02421, United States
United States	Sage Budgeta, Inc.	300 Park Avenue, Suite 300, San Jose, CA 95110, United States
United States	Sage Global Services US, Inc.	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Sage Intacct, Inc.	300 Park Avenue, Suite 300, San Jose, CA 95110, United States
United States	Sage People, Inc.	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Sage Software Holdings, Inc.	C/O Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle, Delaware, 19808, United States
United States	Sage Software International, Inc.	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Sage Software North America	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Sage Software, Inc.	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Sage Tempus, Inc.	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Softline Holdings USA, Inc.	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Softline Software USA, LLC	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Softline Software, Inc.	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	South Acquisition Corp.	C/O Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle, Delaware, 19808, United States

Notes:

* Direct subsidiary
1 Group holding in the subsidiary is >99% and <100%

Contents

Company financial statements

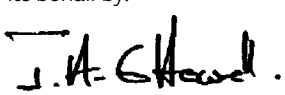
Company balance sheet

At 30 September 2020

	Note	2020 £m	2019 £m
Non-current assets: investments	2	**3,088**	3,088
Current assets			
Cash at bank and in hand	3	**12**	2
Debtors – amounts due greater than one year £nil (2019: £418m)	4	**1,196**	1,120
		1,208	1,122
Creditors: amounts falling due within one year			
Trade and other payables	5	**(156)**	(1,420)
Net current assets/(liabilities)		**1,052**	(298)
Total assets less current liabilities		**4,140**	2,790
Net assets		**4,140**	2,790
Capital and reserves			
Called up share capital	7.1	**12**	12
Share premium account		**548**	548
Other reserves	7.2	**(62)**	(77)
Profit and loss account		**3,642**	2,307
Total shareholders' funds		**4,140**	2,790

The Company's profit for the year was £1,505m (2019: £14m).

The financial statements on pages 234 to 240 were approved by the Board of Directors on 19 November 2020 and are signed on its behalf by:



Jonathan Howell
Chief Financial Officer

Company statement of changes in equity

	Attributable to owners of the parent				
	Called up share capital £m	**Share premium £m**	**Other reserves £m**	**Profit and loss account £m**	**Total equity £m**
At 1 October 2019	**12**	**548**	**(77)**	**2,307**	**2,790**
Profit for the year	**–**	**–**	**–**	**1,505**	**1,505**
Total comprehensive income for the year ended 30 September 2020	**–**	**–**	**–**	**1,505**	**1,505**
Transactions with owners:					
Employee share option scheme:					
• Value of employee services	**–**	**–**	**–**	**29**	**29**
Utilisation of treasury shares	**–**	**–**	**22**	**(22)**	**–**
Proceeds of issuance of treasury shares	**–**	**–**	**–**	**9**	**9**
Share Buyback Programme	**–**	**–**	**(7)**	**–**	**(7)**
Dividends paid to owners of the parent	**–**	**–**	**–**	**(186)**	**(186)**
Total transactions with owners for the year ended 30 September 2020	**–**	**–**	**15**	**(170)**	**(155)**
At 30 September 2020	**12**	**548**	**(62)**	**3,642**	**4,140**

	Attributable to owners of the parent				
	Called up share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total equity £m
At 1 October 2018	12	548	(94)	2,456	2,922
Profit for the year	–	–	–	14	14
Total comprehensive income for the year ended 30 September 2019	–	–	–	14	14
Transactions with owners:					
Employee share option scheme:					
• Value of employee services	–	–	–	32	32
Utilisation of treasury shares	–	–	17	(17)	–
Proceeds of issuance of treasury shares	–	–	–	3	3
Dividends paid to owners of the parent	–	–	–	(181)	(181)
Total transactions with owners for the year ended 30 September 2019	–	–	17	(163)	(146)
At 30 September 2019	12	548	(77)	2,307	2,790

Company accounting policies

Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 (FRS 102) "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Basis of accounting

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006. A summary of the more important Company accounting policies, which have been consistently applied, is set out below. These accounting policies have been consistently applied to all periods presented.

The Company is deemed a qualifying entity under FRS 102, and so may take advantage of the reduced disclosures permitted under the standard. As a result, the following disclosures have not been provided:

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

Foreign currencies

The UK is the home country of The Sage Group plc. (a public company limited by shares). Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange prevailing at the balance sheet date. Transactions in foreign currencies are converted into sterling at the rate prevailing at the dates of the transactions. All differences on exchange are taken to the profit and loss account.

Investments

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

Parent Company profit and loss account

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

Details of the average number of people employed by the parent Company and the staff costs incurred by the Company are as follows.

Average monthly number of people employed (including Directors)	2020 number	2019 number
By segment:		
Northern Europe	**25**	27

Staff costs (including Directors on service contracts)	2020 £m	2019 £m
Wages and salaries	**4**	6
Social security costs	**1**	2
	5	8

Staff costs are net of recharges to other Group companies.

Auditor's remuneration

The audit fees payable in relation to the audit of the financial statements of the Company are £39,000 (2019: £30,000).

Directors' remuneration

Details of the remuneration of Executive and Non-executive Directors and their interest in shares and options of the Company are given in the audited part of the Directors' Remuneration Report on pages 120 to 148.

Share-based payments

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

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

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

At the end of each reporting period, the entity revises its estimates for the number of options expected to vest. It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to equity.

For awards made to subsidiary employees, the fair value of awards made is recognised by the Company through the profit and loss account. Intergroup recharges to the employing subsidiary, up to the fair value of awards made to employees of that subsidiary, subsequently reverse the decrease to the profit and loss account.

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

Financial instruments

The Company only enters into basic financial instrument transactions that result in the recognition of basic financial assets and liabilities, including trade and other receivables and payables and loans to and from related parties. These transactions are initially recorded at transaction price, unless the arrangement constitutes a financing transaction where the transaction is measured at the present value of the future receipt discounted at a market rate of interest, and subsequently recognised at amortised cost.

Financial assets

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in comprehensive income or expense.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expired.

Dividends

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

Employee benefit trust

The Company's employee benefit trust is considered an extension of the Company and therefore forms part of these financial statements.

Notes to the Company financial statements

1 Dividends

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

In addition, the Directors are proposing a final dividend in respect of the financial year ended 30 September 2020 of 11.32p per share which will absorb an estimated £124m of shareholders' funds. The Company's distributable reserves are sufficient to support the payment of this dividend. If approved at the AGM, it will be paid on 11 February 2021 to shareholders who are on the register of members on 15 January 2021. These financial statements do not reflect this proposed dividend payable.

2 Fixed assets: investments

Equity interests in subsidiary undertakings are as follows:

	£m
Cost	
At 30 September 2019	3,224
At 30 September 2020	**3,224**
Provision for diminution in value	
At 30 September 2019	136
At 30 September 2020	**136**
Net book value	
At 30 September 2020	**3,088**
At 30 September 2019	3,088

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

Subsidiary undertakings, included in the Group financial statements for the year ended 30 September 2020, are shown in note 18 of the Group financial statements. All of these subsidiary undertakings are wholly-owned. All subsidiaries are engaged in the development, distribution and support of business management software and related products and services for small and medium-sized businesses.

All operating subsidiaries' results are included in the Group financial statements. The accounting reference date of all subsidiaries is 30 September.

3 Cash at bank and in hand

	2020 £m	2019 £m
Cash at bank and in hand	**12**	2

4 Debtors

	2020 £m	2019 £m
Prepayments and accrued income	**1**	1
Other debtors	**–**	2
Amounts owed by Group undertakings	**1,195**	1,117
	1,196	1,120

Of amounts owed by Group undertakings £nil (2019: £418m) is due greater than one year.

5 Trade and other payables

	2020 £m	2019 £m
Amounts owed to Group undertakings	**151**	1,414
Accruals and deferred income	**5**	6
	156	1,420

Amounts owed to Group undertakings are unsecured and attract a rate of interest of 0.0% and LIBOR plus 1.5% (2019: 0.0% and 6.8%).

6 Obligations under operating leases

	2020	2019
Total future minimum lease payments under non-cancellable operating leases falling due for payment as follows:	**Property, vehicles, plant and equipment £m**	Property, vehicles, plant and equipment £m
Within one year	**3**	2
Later than one year and less than five years	**13**	5
After five years	**18**	20
	34	27

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

7 Equity

7.1 Called up share capital

Issued and fully paid ordinary share of 1 4/77 pence each	2020 shares	2020 £m	2019 shares	2019 £m
At 1 October and 30 September	**1,120,789,295**	**12**	1,120,789,295	12

7.2 Other reserves

	Treasury shares £m	Merger reserve £m	Capital redemption reserve £m	Total other reserves £m
At 1 October 2019	**(140)**	**61**	**2**	**(77)**
Utilisation of treasury shares	**22**	**–**	**–**	**22**
Share Buyback Programme	**(7)**	**–**	**–**	**(7)**
At 30 September 2020	**(125)**	**61**	**2**	**(62)**

	Treasury shares £m	Merger reserve £m	Capital redemption reserve £m	Total other reserves £m
At 1 October 2018	(157)	61	2	(94)
Utilisation of treasury shares	17	–	–	17
At 30 September 2019	(140)	61	2	(77)

Treasury shares

Purchase of treasury shares

Shares purchased under the Group's buyback programme are not cancelled but are retained in issue and represent a deduction from equity attributable to owners of the parent. During the year the Group purchased 1,101,918 under the Share Buyback Programme (2019: none).

During the year the Group agreed to satisfy the vesting of certain share awards, utilising a total of 4,956,977 (2019: 3,781,720) treasury shares. The Group gifted 250,000 shares (2019: nil) to the Employee Share Trust.

At 30 September 2020 the Group held 27,844,111 (2019: 31,699,170) treasury shares.

Employee Share Trust

The Company holds treasury shares in a trust which was set up for the benefit of Group employees. The Trust purchases the Company's shares in the market or is gifted them by the Company for use in connection with the Group's share-based payments arrangements. The Trust holds 190,962 ordinary shares in the Company (2019: 35,792) at a cost of £1m (2019: £nil) and a nominal value of £nil (2019: £nil).

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

The costs of funding and administering the scheme are charged to the profit and loss account of the Company in the period to which they relate. The market value of the shares at 30 September 2020 was £1m (2019: £nil).

Non-GAAP measures

Measure	Description	Rationale
Underlying (revenue and profit) measures	Underlying measures are adjusted to exclude items which would distort the understanding of the performance for the year or comparability between periods: • Recurring items include purchase price adjustments including amortisation of acquired intangible assets and adjustments made to reduce deferred income arising on acquisitions, acquisition-related items, FX on intercompany balances and fair value adjustments; and • Non-recurring items that management judge to be one-off or non-operational such as gains and losses on the disposal of assets, impairment charges and reversals, and restructuring related costs. All prior period underlying measures (revenue and profit) are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations.	Underlying measures allow management and investors to compare performance without the potentially distorting effects of foreign exchange movements, one-off or non-operational items. By including part-period contributions from acquisitions, discontinued operations, disposals and assets held for sale of standalone businesses in the current and/or prior periods, the impact of M&A decisions on earnings per share growth can be evaluated.
Organic (revenue and profit) measures	In addition to the adjustments made for Underlying measures, Organic measures: • Exclude the contribution from discontinued operations, disposals and assets held for sale of standalone businesses in the current and prior period; and • Exclude the contribution from acquired businesses until the year following the year of acquisition; and • Adjust the comparative period to present prior period acquired businesses as if they had been part of the Group throughout the prior period. Acquisitions and disposals where the revenue and contribution impact would be immaterial are not adjusted.	Organic measures allow management and investors to understand the like-for-like revenue and current period margin performance of the continuing business.
Underlying Cash Flow from Operations	Underlying Cash Flow from Operations is Underlying Operating Profit adjusted for non-cash items, net capex (excluding business combinations and similar items) and changes in working capital.	To show the 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 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 12. 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.

Measure	Description	Rationale
Free Cash Flow	Free Cash Flow is Cash Flow from Operations minus non-recurring cash items, interest paid, tax paid and adjusted for profit and loss foreign exchange movements.	To measure the cash generated by the operating activities during the period that is available to repay debt, undertake acquisitions or distribute to shareholders.
% Subscription Penetration	Organic software subscription revenue as a percentage of organic total revenue.	To measure the progress of migrating our customer base from licence and maintenance to a subscription relationship.
% Sage Business Cloud Penetration	Organic recurring revenue from the Sage Business Cloud (native and connected cloud) as a percentage of the organic recurring revenue of the Future Sage Business Cloud Opportunity.	To measure the progress in the migration of our revenue base to the Sage Business Cloud by connecting our solutions to the cloud and/or migrating our customers to cloud connected and cloud native solutions.
Return on Capital Employed (ROCE)	ROCE is calculated as: • Underlying Operating Profit; minus • Amortisation of acquired intangibles; the result being divided by • The average (of the opening and closing balance for the period) total net assets excluding net debt, provisions for non-recurring costs and tax assets or liabilities (i.e. capital employed).	As an indicator of the current period financial return on the capital invested in the Company. ROCE is used as an underpin in the FY19 and FY20 PSP awards.

Revenue type	Description
Recurring revenue Subscription contracts Maintenance and support contracts	Recurring revenue is revenue earned from customers for the provision of a good or service over a contractual term, with the customer being unable to continue to benefit from the full functionality of the good or service without ongoing payments. Subscription revenue is recurring revenue earned from customers for the provision of a good or service over a contractual term. In the event that the customer stops paying, they lose the legal right to use the software and the Group has the ability to restrict the use of the product or service. Subscription revenue and maintenance and support revenue are usually recognised on a straight-line basis over the term of the contract as control is transferred to the customer (including non-specified upgrades, when included). An exception is revenue from term licences embedded within a subscription contract for software with significant standalone functionality which are expected to recur upon renewal of the subscription offering. Revenue for these term licences is recognised when control is transferred at inception of each subscription contract period.
Other revenue Software and software-related services • Perpetual software licences • Upgrades to perpetual licences • Professional services • Training • Hardware and stationery	Perpetual software licences with significant standalone functionality and specified upgrades revenue are recognised when the control relating to the licence has been transferred. This is when the goods have left the warehouse to be shipped to the customer or when electronic delivery has taken place. Other product revenue (which includes hardware and stationery) is recognised as the products are shipped to the customer. Other services revenue (which includes the sale of professional services and training) is recognised when delivered, or by reference to the stage of completion of the transaction at the end of the reporting period. This assessment is made by comparing the proportion of contract costs incurred to date to the total expected costs to completion.
Processing revenue • Payment processing services • Payroll processing services	Processing revenue is revenue earned from customers for the processing of payments or where Sage colleagues process our customers' payroll. Processing revenue is recognised at the point that the service is rendered on a per transaction basis.

AGM
Annual General Meeting

API
Application Program Interface

CAGR
Compound Annual Growth Rate

CDP
Carbon Disclosure Project

CFO
Chief Financial Officer

CGU
Cash Generating Unit

CRM
Customer Relationship Management

DTR
Disclosure Guidance and Transparency Rules

EBITDA
Earnings Before Interest Taxes Depreciation and Amortisation

EBT
Employee Benefit Trust

ED
Executive Director

EPS
Earnings Per Share

ERP
Enterprise Resource Planning

EU
European Union

FCF
Free Cash Flow

FY17
Financial year ending 30 September 2017

FY18
Financial year ending 30 September 2018

FY19
Financial year ending 30 September 2019

FY20
Financial year ending 30 September 2020

GHG
Green House Gas

HR
Human Resources

HCM
Human Capital Management

IFRS
International Financial Reporting Standards

ISV
Independent Software Vendor

KPI
Key Performance Indicator

LSE
London Stock Exchange

LTIP
Long Term Incentive Plan

NED
Non-Executive Director

NPS
Net Promoter Score

PBT
Profit Before Tax

PSP
Performance Share Plan

R&D
Research and Development

SBC
Sage Business Cloud

SaaS
Software as a Service

SSRS
Software & Software Related Services

TSR
Total Shareholder Return

Shareholder information

Financial calendar

Annual General Meeting	4 February 2021
Dividend payments	
FY20 Final payable	11 February 2021
H1 FY21 Interim payable[1]	11 June 2021
Results announcements	
Q1 FY21 Trading update	21 January 2021
H1 FY21 Interim results	12 May 2021
Q3 FY21 Trading update	29 July 2021
FY21 Full Year results	17 November 2021

Note:

1. Please note that this date is provisional and subject to change. Please access our financial calendar on sage.com, which is updated regularly.

Shareholder information online

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

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

Should you decide at a later date that you do not want to receive these emails, you may amend your request by accessing your Shareview Portfolio online and amending your preferred method of communication from "email" to "post". If you wish to continue receiving shareholder information in the current format, there is no need to take any action.

Our corporate website has more information about our business, products, investors, media, sustainability, and careers at Sage.

Stay up to date at www.sage.com

Annual General Meeting of Shareholders

We consider the Annual General Meeting of shareholders (AGM) to be an important event in our calendar and a significant opportunity to engage with our shareholders. The 2021 AGM will be held on 4 February 2021. Further details will be set out in the Notice of AGM and on our website at sage.com.

Advisors

Corporate brokers and financial advisors

Citigroup Global Markets Limited,
Citigroup Centre,
33 Canada Square,
Canary Wharf,
London, E14 5LB

Morgan Stanley & Co. International plc,
25 Cabot Square,
Canary Wharf,
London, E14 4QA

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Spitalfields,
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Lloyds Bank plc,
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London, EC2V 7HN

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London, SE1 2AF

Registrars

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Lancing,
West Sussex, BN99 6DA
www.shareview.co.uk

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(from outside the UK: +44 (0)121 415 7047)

Lines are open 8.30am to 5.30pm UK time, Monday to Friday.

Information for investors

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

Investor enquiries

Enquiries can be directed via our website or by contacting our Investor Relations department:

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