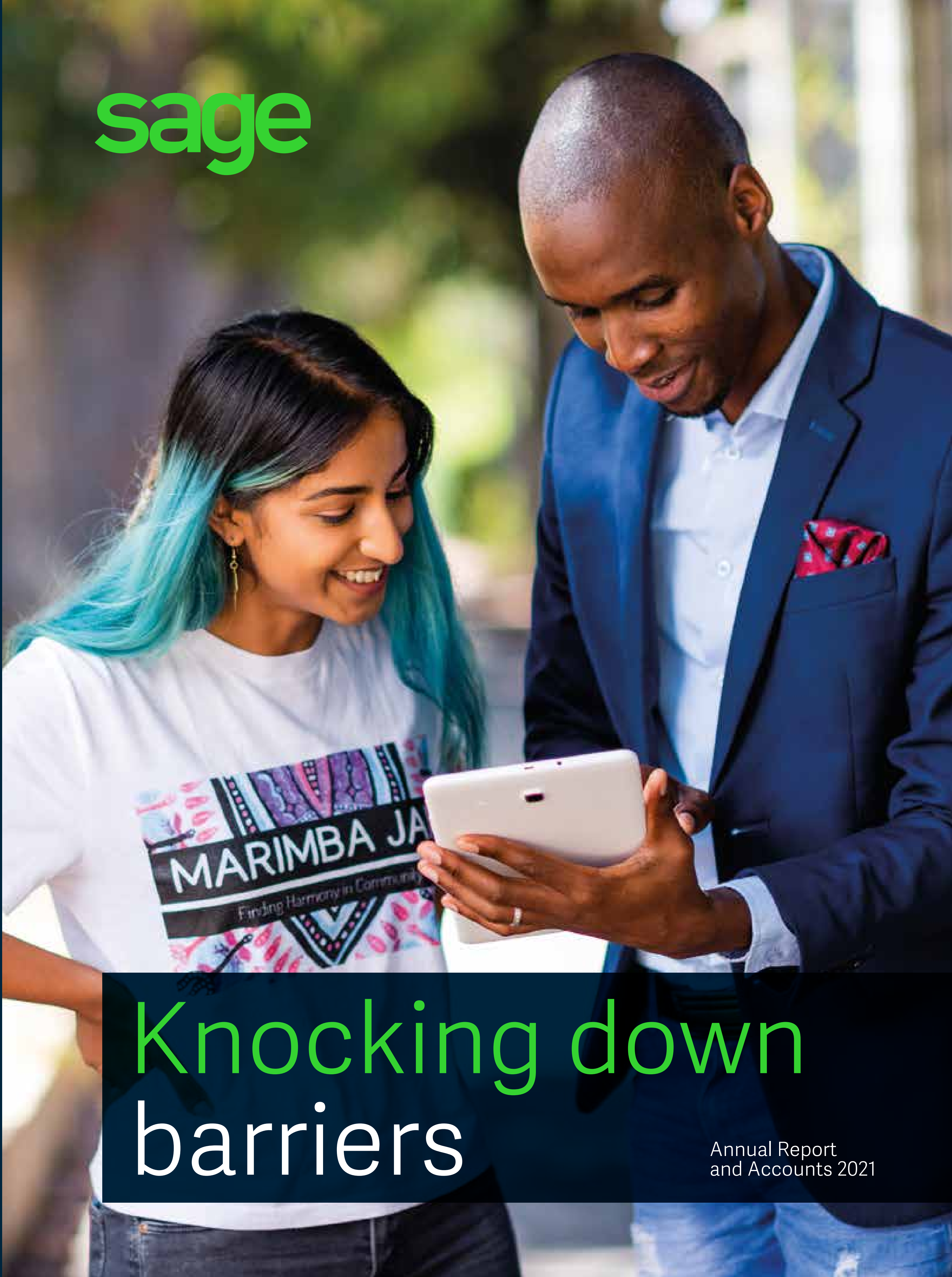
sage



Knocking down barriers

Annual Report and Accounts 2021

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Organic recurring revenue growth

5.4%

FY20: 8.4%

Organic operating margin

19.3%

FY20: 22.0%

Strategic KPIs

Renewal by value

99%

FY20: 99%

Subscription penetration

70%

FY20: 65%

Annualised recurring revenue (ARR) growth

7.7%

FY20: 4.7%

Sage Business Cloud penetration

67%

FY20: 60%

Other key highlights

Underlying cash conversion

126%

FY20: 123%

Statutory revenue growth

(3.0)%

FY20: (1.7)%

Organic revenue growth

3.1%

FY20: 3.6%

Dividend

17.68p

FY20: 17.25p

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 42.

Knocking down barriers

Sage works with millions of small and mid-sized businesses (SMBs) around the world, helping them with our technology and our support, and seeking to make their lives easier and knock down barriers to success.

To ensure we continually meet the needs of our customers and support the communities in which they operate, we have refreshed our strategic framework. Our purpose is to knock down barriers so everyone can thrive. Our ambition is to be the trusted network for SMBs, building experiences that connect, remove friction and deliver insights.

For a summary of our strategic framework see page 3.

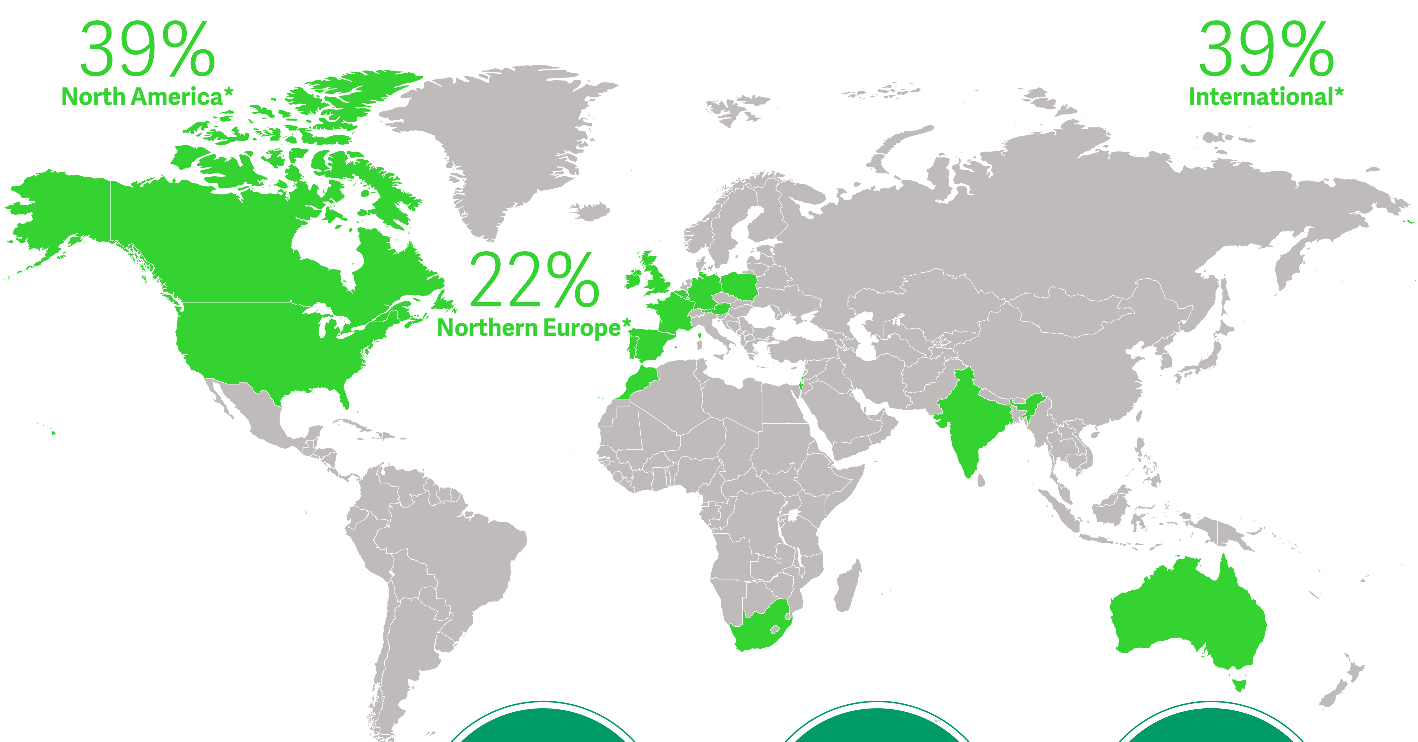
At a glance

About Sage

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

Where we operate

Global reach, local focus



Learn more about our cloud solutions on pages 8-9.

17
Countries

11,700
Colleagues globally

92%
Recurring revenue*

* Percentage of total organic revenue.

Purpose

To knock down barriers so everyone can thrive

Ambition

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

Strategic priorities

Scale Sage Intacct

Expand medium beyond financials

Build the small business engine

Scale the network

Learn and disrupt

Learn more on pages 16-17.

Sage promises to our stakeholders

Customers

We build every experience with human insight and ingenuity.

Learn more on pages 14-15.

Colleagues

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

Learn more on pages 38-40.

Society

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

Learn more on pages 29-31.

Shareholders

We target sustainable growth in shareholder value.

Learn more on pages 22-23.

Accelerating growth with purpose

" Building on our strategic investment across Sage Business Cloud, and our focus on accelerating growth particularly in cloud native solutions, the Group enters FY22 in a strong position and with momentum."

Andrew Duff
Chair

I am delighted to be able to share my thoughts with you for the first time since becoming Chair of Sage on 1 October.

I have already observed many strong qualities across the organisation, including first and foremost the energy, enthusiasm and talent evident among colleagues. Through their commitment, Sage plays a vital role in supporting Small and Medium Businesses globally. The opportunity to oversee and support the long-term success of the Group as it builds on its transformation to a subscription-based cloud business is an exciting one – and one to which I'm fully committed.

I am grateful to the Board, Executive Committee and broader team for their warm welcome. I'd particularly like to thank my predecessor, Sir Donald Brydon, for his strong support and counsel during the transition, and for his service and impact over the nine years of his tenure. He leaves behind a focused business with a clear strategy and purpose and a strong management team.

Purpose-driven performance

The Board has adopted a new strategic framework for the business, governed by the Group's purpose: to knock down barriers so everyone can thrive. This governing purpose defines our attitudes to each other and to the communities and customers with whom we interact. Our purpose complements an understanding of the wider economic significance of a thriving SMB sector. Serving and supporting SMBs is at the heart of what Sage does, not only through its software and digital solutions, but also through access to its network as well as the business advice it provides.

It is clear that a close alignment between our business activities and Sage's wider purpose is central to the sustainability of the Group, as we create solutions that meet the current and future needs of our customers, while fostering a culture that embraces diversity and inclusion. Encouraging innovation is key, as the Group continues to enhance the capabilities of Sage Business Cloud, making it a more compelling digital environment in which customers can connect, collaborate and do business.

Looking back at FY21

The Group entered the year amid ongoing uncertainty relating to the Covid-19 pandemic. However, thanks to a continued focus on execution, and reflecting our increased strategic investment in sales, marketing and innovation, the Group achieved a strong operational and financial performance, gaining momentum throughout the year.

Subscription revenues grew by 11% on an organic basis to £1.24bn, with 70% of Group revenue now coming from subscription, up from 65% last year. Sage Business Cloud revenue grew by 19% to over £1bn, and Sage Business Cloud penetration is 67%, up from 60% last year. While organic recurring revenue grew by 5.4% during the year, the increasing momentum generated through strong execution led to annualised recurring revenue (ARR) growth of 8%. The principal driver was cloud native ARR, which grew by 44% to £347m. Organic operating profit margin declined by three percentage points to 19%, reflecting the Group's significant strategic investment during the year.

The Group remains strongly cash generative with underlying cash conversion of 126%. During the year Sage initiated share buyback programmes totalling £600m, reflecting the proceeds from recent disposals while also considering potential future capital requirements to support both organic and inorganic growth. In line with our policy of maintaining the dividend in real terms, the Group is proposing to increase the full-year dividend by 2.5% to 17.68p.

The pandemic has presented many challenges to our colleagues and our customers. It is with much gratitude that I wish to acknowledge the way in which every colleague embraced the challenges and the new ways of working necessary to maintain our progress and support our customers, while looking after their families, parents and children.

Travel between the UK and our businesses in North America, South Africa and Europe has been almost impossible for our leadership during the past 18 months. Despite this, I am delighted that all of these businesses have made substantial progress in 2021 and I greatly look forward to personally visiting these regions in the near future.

The Board in FY21

In March 2021, the Board was pleased to welcome Derek Harding as a Non-executive Director and member of the Audit and Risk Committee, bringing a wide range of financial leadership experience. A brief biography of Derek can be found on page 71. In April, Sangeeta Anand, who joined the Board last year, was appointed to the Audit and Risk Committee, further strengthening the technology skills of the Committee.

In June we launched our Sustainability and Society strategy, setting out new commitments to address societal and economic inequality and to play our part in tackling the climate crisis, including targeting net zero carbon emissions by 2040. As a Board, we believe Sage can play a pivotal role in supporting a new generation of diverse and sustainable businesses, and we are committed to investing in education, technology and the environment as we execute on this strategy.

The Board maintained effective engagement with its key stakeholders, despite working remotely for most of the year. In September the Board met together, in person, for the first time since February 2020. Several Board members had not met each other in person since appointment, and it was an energetic and inspiring meeting. I look forward to building a strong cohesive dynamic over the coming months.

I have been particularly impressed by the way that Sage has implemented the Board Associate innovation – currently filled by Pamela Novoa Ralli, VP of Business Development (Partners & Alliances), based in Atlanta. Pamela has brought valuable insight and a colleague perspective to Boardroom discussions, enabling the Board to hear more of colleagues' views while generating a greater understanding of the role of the Board among colleagues. Supporting her work is the Associates' Council, which was formed last year and provides the Board with a wider range of colleague views and sentiment.

Looking forward to FY22 and beyond

Building on our strategic investment across Sage Business Cloud, and our focus on accelerating growth particularly in cloud native solutions, the Group enters FY22 in a strong position and with momentum.

The Group's new strategic framework promises customer experiences created with human insight and ingenuity, and recognises the increasing value to customers of the digital network that Sage solutions enable; connecting companies with their employees, suppliers, customers and regulatory authorities. Under this new framework, Sage's ambition is to be the trusted network for SMBs, delivering value to customers by building experiences that connect, remove friction and fuel confidence. To realise this, our focus will be on delivering against five strategic priorities. You can read more about these new priorities on pages 16-17.

I look forward to the future with confidence, as Sage delivers on its purpose of knocking down barriers to help everyone thrive. I truly believe that through our focus on meeting our customers' needs and the commitment of our talented colleagues, together with the financial strength of our business, Sage is well placed to deliver high-quality, sustainable growth to the benefit of shareholders and all our stakeholders.

The Board's statement in respect of matters pertaining to section 172(1) of the Companies Act 2006 is set out on page 26.

Further insight into the activities of the Board for FY21 can be found on pages 96 to 101.

Andrew Duff
Chair

Growing market opportunity as businesses accelerate their digital transformation

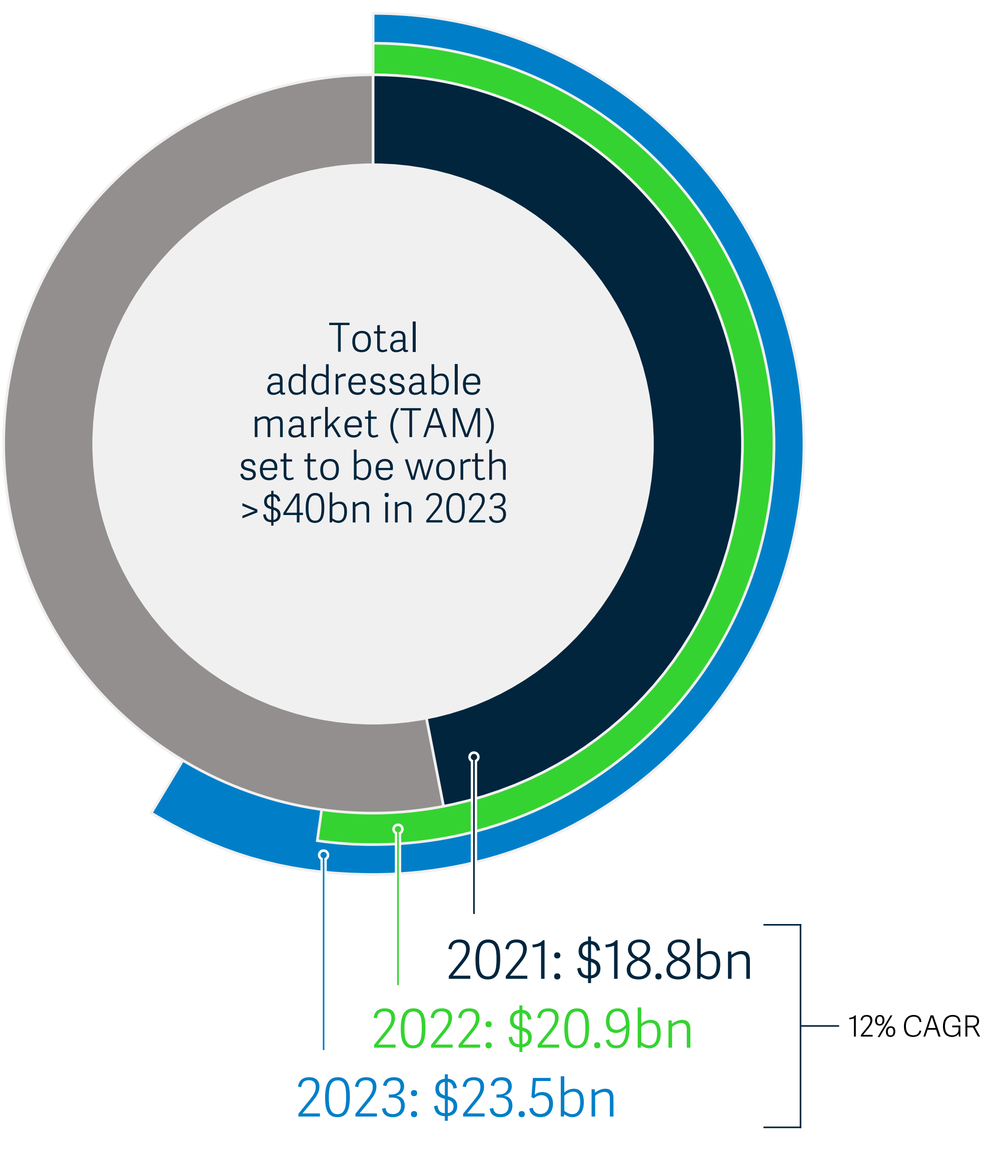
Total addressable market (TAM)

Sage's TAM is forecast to reach $38bn in 2022 (5% growth year-on-year) and exceed $40bn in 2023 (6% growth year-on-year). Included within this TAM is Accounting and Financials, HR and Payroll applications for businesses with up to 2,000 employees. The TAM comprises over 67 million small and medium businesses.

Accelerating cloud growth

Digital transformation among Sage's customers is accelerating, partly driven by the global pandemic, as SMBs globally prioritise flexibility, resilience and productivity. TAM growth in 2022 and 2023 is comprised of 12% cloud growth and a 1% decline in the on-premise market. Cloud adoption rates globally are forecast to reach 55% in 2022 and 58% in 2023. The US is the most cloud-adoptive region and forecast to reach 65% in 2023, with the UKI expected to be at 56% and France at 41%.

Growth in cloud share of TAM



Company estimate based on external sources

Unique capabilities to capture the market opportunity

Through its well-established and trusted brand, Sage's global scale combined with local expertise provides a unique understanding of the needs of SMBs.

We have a track record of taking our customers through a changing business environment over many years and we have that expertise all over the world.

Sage's solutions enable businesses to be more productive by automating processes and providing better business insights, continuously enriched through innovation.

Our differentiator is our ability to deliver an experience to our customers which is both digital and human and to do it globally.

Our well-established partner network of accountants and resellers, together with a growing ecosystem of ISVs, enhances our capabilities and reach, enabling us to scale and grow.

Sage's strong digital and direct sales presence is further enhanced by a global network of partners contributing significant indirect sales:

80,000
Accountants who advise and sell Sage solutions

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

Dozens
Of strategic alliances including Microsoft, PwC, Amazon

700
Independent Software Vendors (ISVs) and app developers who add further functionality and vertical customisation to Sage solutions

1,400
Partner integrations in our marketplace

Our Competitive Advantages

We have unrivalled global reach and unique local focus
The span of Sage's customer base, from start-ups to the mid-market, and its global presence in major economies, provides unique insight into SMBs and their changing needs

We are a trusted partner
Sage has a strong reputation as a trusted advisor, renowned for keeping customers safe and compliant, which increases loyalty

We have a world-class cloud product portfolio
Sage continually innovates and invests in technology to provide market-leading solutions that connect Sage Business Cloud customers into a single digital network

We build enduring relationships
Sage prides itself on the strength of its customer relationships and its ecosystem of reseller partners, accountants and ISVs, all supported by a dedicated team of customer services colleagues

Creating products and services that connect, remove friction and deliver insights

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

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

Small businesses

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

Mid-sized businesses

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

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 of ISV apps and emerging tech across Artificial Intelligence, Machine Learning and automation.

	Cloud connected and hybrid solutions	Cloud native solutions
Mid-sized businesses	**Sage** X3 **Sage** 200cloud	**Sage** Intacct **Sage** People
Small businesses	**Sage** 50cloud	**Sage** Accounting **Sage** Payroll **Sage** HR
	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.

Supporting customers with award-winning solutions

Sage Intacct

Sage Intacct is a best-in-class provider of cloud accounting software products and financial management solutions that deliver deep accounting capabilities across multiple industries, designed to accelerate customer success.

Industry analysts have named Sage Intacct as a Visionary. Sage Intacct provides finance professionals with a powerful cloud financial management platform, offering 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, giving them the flexibility to easily add more functionality as they scale and grow.

Sage Intacct serves customers in the medium segment, focusing on services-centric industries as well as construction and real estate and wholesale distribution, ensuring the product strategy is laser-focused on customer needs. Sage Intacct is available to customers in the US, Canada, Australia, UK and South Africa.

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.

Sage Accounting is a cloud-based solution designed for small business owners and sole traders operating in any industry – from professional services to construction to retail. It enables customers to quickly and easily create and track invoices, track cash flow, accept payments, record transactions, automate admin, capture expenses, and much more.

Sage Accounting Start is ideal for sole traders and micro-businesses. Accounting Standard is designed for small businesses, offering more advanced features through the integration of AutoEntry which enables data capture and upload by taking a photo of receipts, invoices, and supplier statements. Accounting Plus offers all the Standard features plus support for multiple currencies and inventory management, targeting professional users. Over time, our objective is to launch Sage Accounting into other geographies, using the UK go-to-market as a blueprint for success.

As part of our suite of solutions catering to small businesses, Sage Payroll and Sage HR (formerly CakeHR) are both available as add-ons and integrate seamlessly with Sage Accounting.

Sage Payroll

Sage Payroll software helps small businesses manage their payroll with confidence. Sage Business Cloud payroll is an intuitive, cloud-based payroll solution that helps customers to run their payroll reliably and flexibly, including pensions filing and HMRC submissions and compliance.

Sage People

Sage People empowers leading multinational, mid-size organisations to build great employee experiences that truly engage and inspire their people. A cloud HR and People system that allows businesses to effectively respond to changing priorities, Sage People uses powerful automation, comprehensive analytics, and flexible workflows to ensure global workforces can adapt and thrive, whilst staying connected.

Sage 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.

Sustainably growing for our stakeholders

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

Steve Hare
Chief Executive

Sage delivered a strong performance in FY21. We achieved recurring revenue growth ahead of our initial expectations and ended the year with real momentum, supported by our strategic investment in sales, marketing and innovation. Our cloud native solutions have performed particularly well, as more new customers choose Sage to take care of their accounting, people and payroll processes - removing friction and delivering insights into their business performance.

Ever since Sage was founded, we have been serving small and mid-sized businesses (SMBs) with our software and support, removing friction from their business processes, and helping them thrive and grow. SMBs make up over 99% of all businesses in most developed economies and have a broad-reaching impact on the wellbeing, economic and otherwise, of their owners, employees, customers and the communities in which they operate.

These organisations are the inspiration behind Sage's purpose, and they have driven our strong performance in FY21. SMBs have shown remarkable resilience, and I am grateful to our colleagues and partners for everything they have done to support our customers through this period.

Sage began FY21 amid the uncertainties of the Covid-19 pandemic, with a commitment to increase our strategic investment in sales, marketing and innovation, accelerate growth, and continue to embed SaaS capabilities and culture throughout the organisation. This approach built on the strong foundations created through our consistent focus on strategic execution, and led to a strong financial performance for the year.

Financial performance

In FY21 the Group achieved organic recurring revenue growth of 5% to £1,637m, and organic total revenue growth of 3% to £1,778m. The increase in recurring revenue was underpinned by a 19% rise in Sage Business Cloud revenue to £997m, reflecting strength from new customer acquisition together with continued progress in migrating existing customers from desktop to cloud solutions.

Organic operating profit was £343m, representing a margin of 19.3%, which reflects the Group's additional strategic investment in sales and marketing and product development (R&D) to accelerate growth in Sage Business Cloud, primarily in cloud native.

Drivers of growth

Sage's ARR increased by 8% to £1,680m (FY20: £1,560m), accelerating significantly in the second half across all our regions, reflecting strong levels of growth balanced between new and existing customers.

This was underpinned by particularly strong cloud native ARR growth of 44% to £347m (FY20: £240m), driven by a good performance across our cloud native portfolio including strong new customer acquisition for Sage Intacct and Sage Accounting, together with migrations principally to Sage HR and to Sage Partner Cloud.

In total, Sage added £140m of ARR through new customer acquisition (including reactivations) during the year, up from £90m in FY20, through an improving customer proposition supported by increased sales and marketing spend.

Across the Group, existing customer renewal rates have been strong, with churn slightly below pre-Covid levels. Renewal rate by value of 99% is in line with FY20 and reflects a strong performance in customer add-ons during the second half, together with a continued focus on customer retention.

Our strategic progress

Three years ago I put in place a clear strategic framework to create focus and drive the simplification of the Group. Since then, Sage has made significant strategic progress. 92% of the Group's revenue is now recurring, with 70% coming from software subscriptions, up from 45% in FY18. Sage Business Cloud penetration has risen from 31% in FY18 to 67%, powered by strong growth in both cloud native and cloud connected solutions.

We have increased investment significantly across the business. Around 16% of recurring revenue is now spent on R&D, up from 13% in FY18 and, following a programme of disposals by the Group, this investment is now focused on a significantly smaller product and regional footprint. Sage has also reshaped its operating model and culture to drive more innovation, speed and customer centricity as a SaaS-focused business.

I believe this investment and focus is now starting to pay off, as growth accelerates across all regions driven by Sage Business Cloud. There are several factors underpinning the quality of this growth. Firstly, a compelling cloud native portfolio based around Sage Intacct for mid-sized businesses and Sage Accounting for small businesses, backed with efficient sales and marketing, is driving new customer acquisition. Secondly, our cloud connected portfolio is enabling Sage 50 and Sage 200 customers to enjoy a cloud experience while retaining their existing systems and workflows. And thirdly, we are creating a digital network of applications and services, through which our customers are able to digitise more aspects of their business.

8%
ARR growth (FY20: 5%)

44%
Cloud native ARR growth (FY20: 26%)

99%
Renewal by value (FY20: 99%)

At our FY20 results we set out a number of strategic priorities to accelerate the execution of our strategy. Our progress against these priorities during FY21 is outlined below.

Growing in our target markets

In Northern Europe, we continued to make progress in cloud native solutions for small businesses. By improving the customer experience and investing in sales and marketing, new customer additions for Sage Accounting increased by 80% in FY21, while for Sage Payroll they doubled, supported by a strong attach rate to Sage Accounting.

In North America, momentum in solutions for mid-sized businesses strengthened during the year, particularly in Sage Intacct, driven by product enhancements, sales and marketing investment, and broader distribution. Across the Group, we added more than 2,000 new Sage Intacct customers, an increase of over 50% compared to FY20. Retention rates across the Sage 50 and Sage 200 product families have also remained strong.

In our newly created International segment, growth has centred around cloud connected products, together with a significant contribution from cloud native, including Sage Partner Cloud, X3 Cloud and Sage Intacct. Leveraging our global scale, we've recently introduced new cloud native solutions in these markets, including in France, Spain and Germany, and further launches are planned to drive growth across the region.

Investing to accelerate growth

Our sales and marketing investment has been focused on growing digital marketing spend and enhancing our sales capacity and capability. We have also invested in the Sage brand, helping to attract new audiences to Sage solutions. The "Boss It" campaign has continued to spur strong demand for our small business solutions in the UK, and was also launched in other markets including South Africa and Canada, driving significant increases in website visitors and online conversion.

Our investment in product development (R&D) has focused on driving innovation, including developing the Sage Business Cloud digital network, enriching our cloud solutions, and enhancing our AI capabilities:

- We have invested in the Service Fabric, our microservices architecture, to support the deployment of new cloud services, where we've seen a significant increase in customer engagement.
- We have enhanced our cloud banking and e-invoicing services, and we launched a new automated tax determination service that processed over 7 million transactions on its first day.
- We have continued to grow our team of data scientists and AI engineers and expand our Machine Learning infrastructure, investing in innovative solutions such as the General Ledger Outlier Detection tool, Sage Intelligent Time, and a new predictive absence management tool.
- We have been working in partnership with Tide to provide small business owners and entrepreneurs with a combined banking and accounting product, connecting Tide members to Sage's new accounting and compliance as a service (ACaaS) platform.
- We have invested in how we serve accountants, acquiring GoProposal, a cloud native client onboarding solution, and we will launch a new cloud native practice management solution in the UK shortly.
- We have also invested in a number of complementary businesses including BrightPearl, an eCommerce solutions provider, and CountingUp, a mobile-based banking and accounting start-up.

Additionally, Sage Intacct was recognised as a Visionary by Gartner in its 2021 Magic Quadrant for Cloud Core Financial Management Suites, and it achieved the highest product score in the Core Financials for Lower Midsize Enterprises Use Case, for the fifth consecutive year.

Engaging colleagues

We are committed to further embedding SaaS capabilities, based on an innovative and high-performing culture. During the year, new customer-centric programmes were introduced for all colleagues. These includes our '10x Innovation' programme which trains colleagues in design thinking methodology and helps to instil a culture of human-centred innovation and experimentation across the Group.

We continue to prioritise all forms of colleague wellbeing, to shape our culture, create a more inclusive environment, and develop sustainable high performance. During the year we launched our Flexible Human Work initiative. Co-created with our colleagues, this framework sets out the future of work at Sage and empowers teams to experiment with how, when and where colleagues work.

In September we achieved our highest colleague NPS score to date, and have made progress across other key measures of colleague engagement – including further awards received from organisations including Glassdoor and Comparably – showing that colleagues recognise our focus in this area.

Simplifying the business

During the year, we completed the disposals of Sage's businesses in Poland, Asia and Australia, as previously announced. We also announced an agreement to sell Sage's business in Switzerland; this transaction is expected to complete during the first half of FY22. Both Sage's business in Switzerland and its South African payroll outsourcing business remained held for sale at the end of FY21. Sage's disposal programme is now largely complete, resulting in a simplified Group structure, with management and capital resources focused on fewer, larger geographies.

In addition, in September Sage announced an organisational restructuring to further simplify and streamline our operations, including the removal of around 800 roles. We expect to fully reinvest the resulting cost savings in areas that are key to Sage's long-term success including

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

Scale Sage Intacct

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

Expand medium beyond financials

Broaden the value proposition for mid-sized businesses.

customer experience and brand, technology and innovation, and AI and data. Associated one-off restructuring costs of £67m have been recognised in FY21.

Sustainability and Society

Sage plays a key role in supporting the small and mid-sized businesses that form the backbone of economies around the world, helping to bring prosperity to their owners and staff, and to the communities in which they operate. In June, Sage launched its new 'Sustainability and Society' strategy, aiming to support a new generation of diverse and sustainable businesses, tackle societal and economic inequality, and play its part in the race to net zero carbon.

Key initiatives include partnering with social enterprise MyKindaFuture to provide mentoring and training for disadvantaged people in the UK in starting their own business, partnering with non-profit lending platform Kiva to improve financial inclusion in communities around the world that find it hard to start or grow businesses, and partnering with the Institute of Engineering and Technology to deliver a STEM skills education programme to young people in deprived communities.

Sage has also pledged to help protect the planet by achieving net zero emissions by 2040, and by halving its carbon emissions by 2030. In addition, Sage recently launched its Sustainability Hub, providing SMBs with expertise and advice on how to reduce their carbon.

These initiatives build on the longstanding work of the Sage Foundation which celebrated its fifth birthday this year. Over this period, we have built an action-oriented volunteering programme, with colleagues, their families and partners giving over 22,000 volunteering days to our communities and the environment across all of our markets in FY21.

Refreshed strategic framework for FY22 and beyond

Looking ahead to FY22, we have refreshed our strategic framework to reflect the Group's evolving priorities. Our purpose is **to knock down barriers so everyone can thrive**, recognising that as Sage removes friction to help SMBs thrive, they in turn have a positive effect on the economies and communities in which they operate. Our ambition is **to be the trusted network for SMBs**, as we develop our existing technology footprint into a digital network of applications and services which connect, remove friction and deliver insights for customers. To serve our purpose and achieve our ambition, we will focus on five strategic priorities (set out on pages 16 to 17) that will help Sage create value for customers, colleagues, society and shareholders, in FY22 and beyond:

- Scale Sage Intacct – accelerate the expansion of Sage Intacct in existing and new markets;
- Expand medium beyond financials – broaden Sage's value proposition for mid-sized businesses;
- Build the small business engine – build a scalable digital 'engine' to acquire and serve small business customers;
- Scale the network – increase participation in Sage's network and accelerate the network effect; and
- Learn and disrupt – build innovative solutions underpinned by a culture of continuous learning and disruption.

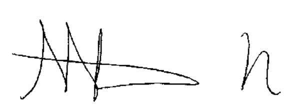
Having reshaped and invested significantly in the Group over the last three years, we are now focused on growing the business in absolute terms, both organically and through acquisitions. I am confident that, through our refreshed strategic framework, we will deliver further sustainable growth, driving the success of Sage now and in the long term.

Outlook

We expect to achieve organic recurring revenue growth in the region of 8% to 9% in FY22, driven by continuing strength in Sage Business Cloud, and in cloud native revenues in particular. We also expect other revenue (SSRS and processing) to continue to decline, in line with our strategy. Consistent with previous guidance, organic operating margin is expected to trend upwards in FY22 and beyond, as we now focus on scaling the Group.

Strategic Report

Our Strategic Report on pages 1 to 66 has been reviewed and approved by the Board.



Steve Hare
Chief Executive

Build the small business engine

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

Scale the network

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

Learn and disrupt

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

Learn more on pages 16-17.

Addressing and adapting to customer macrotrends

Evolving our strategy

Sage has made significant progress in delivering the strategy we set out at the start of FY19, reshaping its operating model and culture as a SaaS-focused business.

Our market continues to develop and grow. When we talk to our customers, three key macrotrends feature consistently. We've evolved our strategic focus to build on our progress so far and reflect these trends and this has shaped our new strategic framework set out on pages 16 to 17 in this report.

The digital imperative

Technology was a critical enabler as businesses moved to remote ways of working, and in many cases pivoted to new business models over the last two years. Having seen the value it has delivered, SMBs are now investing in technology as a key strategic priority for the future.

In our survey of 4,150 SMB decision-makers across the UK, US and France in May 2021, 76% said they now rely on technology. In the UK, 52% now use new technology to sell more and stay connected with customers or improve how their business operates. In France, 67% use technology in this way while 64% of SMBs in the US have invested in new technologies resulting in business improvements. Our recent research with the Financial Times also revealed that driving their companies' digital transformation was the number one goal of CFOs for the next two years.

Arborwood Tree Care

Customer case study

When Sage customer Arborwood Tree Care moved their operations to the cloud, it transformed their business. They are now managing every step of their accounting process – from quoting to invoicing – through Sage Accounting. As well as helping them provide a better customer experience, it freed the owners' time to secure a new contract to shred wood waste from several large building firms, which brings in a significant new revenue stream.

Starting with our customers

We continuously monitor customer engagement and satisfaction, with Net Promoter Score (NPS) used as a key metric that allows Sage to respond to emerging trends in a timely manner and rapidly identify customer challenges.

Our customer engagement now also includes our new Customer Connect and Executive Sponsorship programmes, which help our leaders and colleagues better understand customers' needs and bring vital customer insight into the business.

See page 92 for more on these and our other customer engagement initiatives.

The value of data

SMBs are becoming increasingly aware of the value of their data, as well as the need to protect it.

In Sage's research with senior decision-makers at 1,000 SMBs, three-quarters said data was 'extremely important' to their business and 70% would like to achieve more with data analytics.

Eight out of ten businesses also told us that they would like more control over how their data is used, while 88% agreed that data privacy and data security policies would influence their decision when choosing a back-office solutions provider.

See pages 18-19 for a more detailed look at how Sage is using data to drive real value for customers through our digital network, in an interview with our Chief Technology Officer, Aaron Harris.

The Ford Family Foundation

Customer case study

Sage customer The Ford Family Foundation, based in Oregon, saw the value of their data during the pandemic, when they needed to redirect funds to the communities that most needed them. Sage Intacct provided the insight they needed, and also helped them reduce the time to process grant payments by half.

Being a responsible business

Many SMBs have started thinking more about the broader societal impact they can have, as the pandemic has thrown economic and social inequalities into sharp relief.

In our global research with 11,000 SMB decision-makers, 96% said having a positive societal and environmental impact, and a commitment to diversity, now matters to their business. And over four-fifths see the recovery from the pandemic as an opportunity to promote sustainability.

As part of our Sustainability and Society strategy, we have committed to tackling digital and economic inequality and protecting the planet, to give individuals, SMBs and our planet the opportunity to thrive. See pages 29-31 for more.

Sipsmith

Customer case study

Sage customer Sipsmith – the London-based craft gin distillery – is just one small business that actively increased their focus on sustainability during the pandemic. During the pandemic, Sipsmith reallocated resource to manage the submission for their B-Corp accreditation, which they gained in April 2021 – one of only 4,000 businesses to have done so.

A strategy for sustainable growth and development

Strategic priorities

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

Scale Sage Intacct

Accelerate the expansion of Sage Intacct in existing and new markets

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

We have already invested significantly in building the proposition to drive accelerated scale, establishing Sage Intacct in new markets beyond the US, including Canada, the UK, Australia and South Africa, and expanding its vertical focus into the construction and real estate sector.

We will continue to grow Sage Intacct's customer base and addressable market, deepening its capabilities in existing verticals, driving expansion into new verticals – both directly and with partners – and accelerating international growth.

Success measure

- Growth of Sage Intacct across the Group

Expand medium beyond financials

Broaden the value proposition for mid-sized businesses

Sage's well-established position in providing financial management solutions to mid-sized businesses around the world creates a compelling opportunity to expand into adjacent areas – automating and adding value to a broader set of business processes, and delivering improved data accuracy and insight.

Customers can already benefit from powerful, integrated tools such as Sage Intacct Budgeting and Planning to streamline the planning process, as well as a wide range of add-on modules and services provided by partners. Sage has also partnered with Corporate Spending Innovations to streamline the accounts payable process, while Sage People offers a versatile cloud HR and people management system.

Through a combination of organic and inorganic development, Sage will continue to broaden its value proposition for mid-sized businesses to support their digital transformation, by automating manual processes and by delivering integrated solutions that connect and deliver insight.

Success measure

- Renewal rate by value

Build the small business engine

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

Sage has made significant progress in the small business market in FY21, increasing its share of new business wins in the UK by offering an integrated suite of cloud native solutions, including Sage Accounting, Sage Payroll, Sage HR and AutoEntry. By investing in customer experience and digital marketing capabilities, Sage has created a scalable growth 'engine' that can be deployed in other geographies to leverage economies of scale and best practice.

To complement this approach, Sage is also focused on supporting and building advocacy with accountants, as key partners and recommenders, by investing in solutions to help them digitise their own practices.

Our priority is to continue to build the small business digital growth engine, including through acquisitions where appropriate – refining the proposition and capabilities in the UK while scaling and internationalising the approach in other markets.

Success measure

- Small segment revenue growth

Scale the network

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

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

Sage has several unique assets and capabilities to help it rapidly scale this digital network and drive sustainable competitive advantage, including its strong and loyal global customer base, its vibrant partner, accountant and ISV network, and its brand and reputation.

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

Success measures

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

Learn and disrupt

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

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

We have already made significant progress in developing the core components of the network – for example our SageID identity management system, and Service Fabric, our microservices architecture – as well as our capabilities in Artificial Intelligence and Machine Learning. The resulting innovation – from outlier detection capabilities to intelligent timesheet capture – is delivering value to customers today. Sage will build on these foundations to accelerate momentum over the coming years.

A key part of this is continuously improving Sage's innovation capability and culture, and complementing this with partnerships, investments and acquisitions, in order to share in early learnings from disruptive trends, and to inform subsequent investment choices.

Success measures

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

Evolving our focus to become the trusted network for SMBs

Aaron Harris
Chief Technology Officer

Aaron Harris, Chief Technology Officer, outlines his vision for the Digital Network and what this means for Sage.

Aaron, how does Sage's technology vision support its purpose?

Sage has always been about simplifying accounting processes for Small and Mid-sized Businesses (SMBs). The way we do that has evolved over the past 40 years – reflecting the way that both technology and customer needs have changed over time. Sage has introduced our millions of customers to cloud technology, and to the benefits of Software as a Service (SaaS). But the whole time, ultimately, we have stayed focused on simplifying the SMB ecosystem – connecting, removing friction and delivering insights.

In the future, the way we will do that and deliver on our purpose of knocking down barriers is through the increasing power of our digital network.

What is the Sage digital network?

Digital networks are the breakthrough architecture of the digital era where we all have expectations of a connected world. With SaaS, customers share a common pool of computing resources. In the Digital world, we move beyond simply sharing computing resources to sharing data and activity. The digital architecture doesn't replace SaaS – it extends and enhances it.

The Sage Digital Network capitalises on this computing evolution by digitising business relationships, allowing work and money to flow smoothly between businesses and everyone they need to connect with – for example, customers and suppliers, banks and governments.

For participants of the network (most importantly our customers), it creates trust, saves time and elevates human work.

How does it work?

Trust is at the heart of the digital network. With a digital network, we can leverage verifiable digital identities and blockchains to create perfect trust. And because the network digitises relationships across the business ecosystem, we can use corroboration to test.

The network uses verified digital identities together with a shared ledger based on a centrally managed blockchain, where Sage acts as a central authority. The blockchain provides a cryptographically verifiable, fully auditable history of a transaction. All parties have a view on the same core data, but each party has different permissions so control and privacy is respected. Not everything is visible to all parties and not all parties can do updates. The benefits are a perfect audit trail, high trust in the data, improved accuracy, faster payments, and instant reconciliation.

Then we apply our technology innovation to deliver applications that help customers to overcome challenges or capitalise on opportunities based on insights extracted from the data that flows within the network.

"Digital networks are the breakthrough architecture of the digital era where we all have expectations of a connected world."

These are the core component parts:

- **A globally shared directory** of individuals, organisations, and their business relationships, each with a unique, authenticated Sage ID promoting trust and enabling greater control over data ownership and access at an individual level;
- **Digital services** e.g., digitised bank feeds, payment processing, tax filing, compliance reporting. These digitised services come from Sage and our rich partner ecosystem, building on the public APIs and open standards on which the network is built. They eliminate friction, improve efficiency and enable SMBs to redirect employees to work on higher-value tasks;
- **The shared ledger** which enables data to flow across the network with complete end-to-end authentication; and
- **Artificial Intelligence and Machine Learning** – applying ML and AI to the data that flows across the network is how we extract the insights or make predictions about business operations, that help customers gain business advantage.

Each of these component parts exists today, but the more we scale the digital network, the more we maximise value for our customers to really help their businesses thrive.

What value can Sage deliver to its customers via the Sage Digital Network?

The Digital Network delivers several customer benefits:

- Trust – by authenticating connections within the network so that all relationships within it are trusted. That means when I send or pay an invoice, I feel confident it will reach the right destination – I know participants are who they say they are.
- Efficiency – by digitising workflows to enhance that trust and speed up business processes so companies can operate more efficiently. That means smoother connections and faster processing of business tasks.
- Improved business outcomes – by enabling innovative applications to help customers to overcome challenges or capitalise on insights from data that flows through the network.
- Critically, it also offers a new model for data ownership – giving individuals visibility, control and insight over data ownership and access at an individual level, opening opportunities for entirely new ways of working and new applications.

The more members that participate in the network, the more value it provides as more connections can be digitised and more friction can be removed. Scale also makes the network more attractive for others to join – with network value growing as a direct result of more data being fed into it. The more relevant data that flows through the network the more specific, tailored insights can be delivered to our customers. With greater insights comes greater value and greater trust in the network – for all of its participants.

How will Sage achieve this?

In many ways, the digital network is here today and already delivering.

Sage Intacct customers alone collectively manage over 65 million customer relationships and over 35 million vendor relationships and that ecosystem is growing at 50% year-on-year. Consider Sage 50, BMS, X3 and the entirety of our small business cloud franchise and the scale of the opportunity for Sage is very compelling. And it's not just the quantum of data, it's also the reach. Sage's unique coverage of markets in North America, Europe, South Africa and Middle East add even richer insights and reach.

So the network is real right now. The more people join, the more we learn and the better it gets.

How will we protect our customers' data?

Our customers are increasingly aware of the value of the data they own, and the potential of what it can do for them. So, it's really important to us that the digital network itself is trusted. But more than that, as I've set out, the network itself can actually increase trust between all participants. We think this is a big point of differentiation.

Data privacy and security are critical to our customers, and they're core components of our brand and value proposition. They're non negotiable.

And we have designed a network architecture that gives individuals far greater control over the privacy of their own data, and we ensure that their data is handled transparently and fairly. We recognise that, yes, businesses may control personal data of individuals for specific purposes, but it belongs to those individuals, for example, to their employees, and this distinction is important.

What's next for the Digital Network?

As I've outlined, there is already a huge amount of activity happening across the network. We're using that activity to learn more about how we can remove friction from the SMB economy, and that is leading us to some great new partners and innovations. For example, our partnership with Amazon was created because we could see what an important supplier it was for so many customers, and now that link up is much smoother. We're welcoming new banks, accountants and partners all the time, as well as new customers – and like all networks, it gets better with every participant.

Scaling the network is one of our strategic priorities, and as we digitise more business relationships, we will continue to learn about what our customers need and help them knock down the barriers that stand in their way.

Business model

Creating value through the digital network

Inputs

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

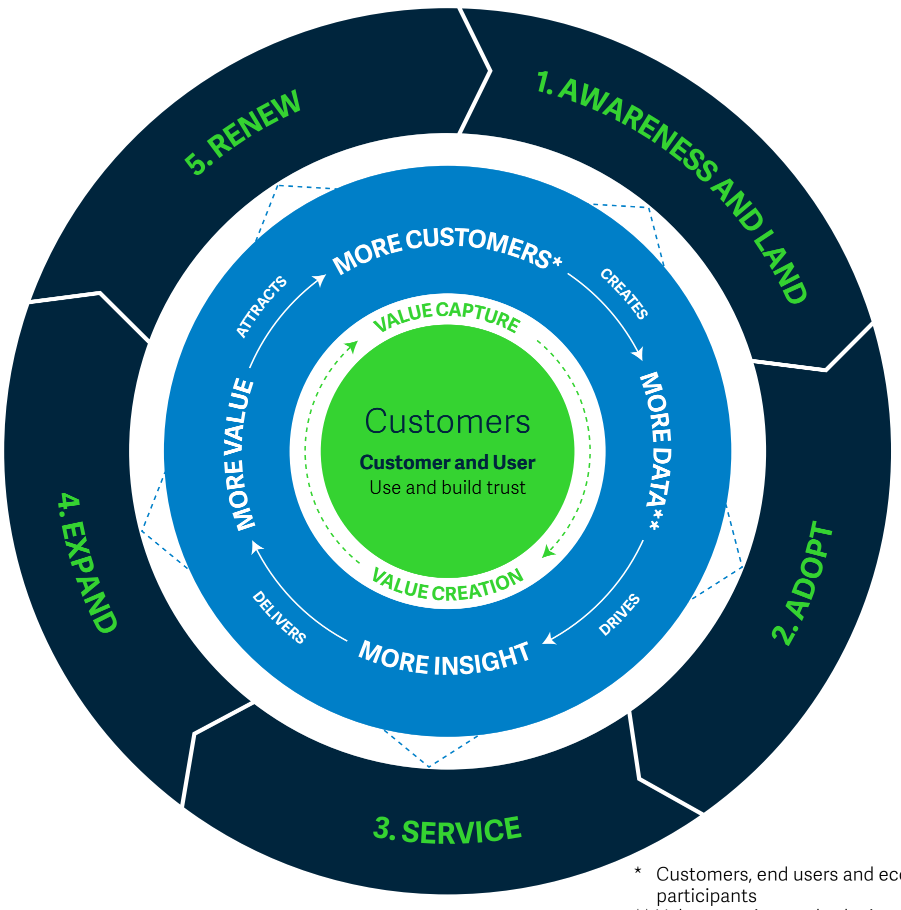
Trusted advisor
Sage is a trusted brand providing market-leading customer service, which in turn generates loyalty and advocacy among customers

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

Ecosystem
Expanding scale and reach through our ecosystem of accountants, resellers and technology partners

Innovation
Investing to ensure our products are ahead of the curve in a changing technology landscape

How we attract and retain customers



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

Underpinned by the Digital Network

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

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

Outputs

1. Awareness and land

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

2. Adopt

New customers sign up to Sage Business Cloud on subscription. For some solutions, Sage or its partners provide training and onboarding to get customers started.

3. Service

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

4. Expand

Once they are part of Sage Business Cloud, customers are able to benefit from an expanding number of cloud-based solutions and services. This increases the value of Sage Business Cloud and enables Sage to deepen customer relationships to scale its business.

5. Renew

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

Customer

99% Renewal by value

Colleague

Colleague Net Promoter Score

+35 up three points year-on-year

Community

22,000 Sage Foundation days spent helping our communities

Shareholders

5.4% High-quality organic recurring revenue growth

126% Underlying cash conversion

17.68p Full-year dividend

For more information on Sustainability and Society please see pages 29-31.

MORE INSIGHT

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

MORE VALUE

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

Building sustainable shareholder value

Sage provides millions of customers around the world with solutions that remove friction from their accounting, people and payroll processes, deliver business insights, and give them a competitive edge. The breadth of our business provides us with unique visibility into small and mid-sized business trends globally, enabling us to better understand and serve our customers' needs. Our scale and experience form the foundations for our sustainable growth, and are core to Sage's investment case.

Unique assets and capabilities

- We serve a strong and loyal customer base through Sage Business Cloud, including fast-growing cloud native solutions and a resilient base of cloud connected and desktop products.
- Our people differentiate Sage, through their dedicated and hands-on approach to solving customer problems, ensuring our technology and service retains a human touch.
- Our well-established partner network of accountants and resellers, together with a growing ecosystem of ISVs, enhances our capabilities and reach.

The trusted network for SMBs

- Sage connects businesses with their customers, employees, suppliers and regulatory authorities. By leveraging this network, Sage has a significant opportunity to remove friction from and add value to these relationships.
- By enabling network participation and enhancing the digital services available, we can attract and retain more customers to power the insights needed to develop more innovative experiences.
- The development of the digital network builds on Sage's well-recognised brand and reputation as a trusted advisor, renowned for keeping customers safe and compliant.

Innovating and investing to drive growth

- We have progressively increased investment in the business, driving innovation in Sage Business Cloud solutions and enhancing the customer experience.
- Through our focus on innovation, we are enriching our cloud solutions with AI and Machine Learning capabilities, making them easier to use and more compelling for customers.
- We are backing our core solutions with increased sales and marketing spend, which is leading to greater brand engagement and powering growth.

Financially robust position

- We have a high-quality revenue base which is 92% recurring in nature, with 70% from software subscription contracts.
- Sage is a highly cash-generative, low capital intensity business, and has achieved underlying cash conversion of over 100% for each of the last three years.
- We balance the need for organic and inorganic investment with returns to shareholders through dividends, supplemented by share repurchases where appropriate.

Financial Highlights

High-quality recurring revenue

5.4%

Organic recurring revenue growth

£1.2bn

Software subscription revenue

Investing to drive growth

19.3%

Organic operating margin

Strong free cash flow

£339m

Free cash flow

126%

Underlying cash conversion

Commitment to shareholder returns

17.68p

FY21 dividend. Policy to maintain dividend in real terms

£600m

Of share buybacks announced in FY21

Commitment to sustainability and society

Our purpose extends beyond our customers and shapes the wider role that we play in helping our communities and the planet. We're committed to knocking down barriers so that everyone has the opportunity to thrive, both at Sage and across the communities in which we operate.

This is why, during FY21, we launched our Sustainability and Society strategy, building on the success of Sage Foundation, which was established five years ago as a way for Sage colleagues and partners to give back to their communities. Under this new strategy, Sage aims to tackle economic inequality by developing digital and business skills in under-represented groups, helping to build and support the next generation of more diverse and sustainable businesses. Learn more on pages 29 to 31.

As part of our environmental commitment, Sage is targeting net zero emissions by 2040 across Scope 1, 2 and 3, with an interim target of halving emissions by 2030, from a baseline of 2019. Learn more on pages 32 to 33.

All of this is the right thing to do. It means we attract people who care, we can better address key business risks, and it makes us the first choice for customers who are looking to support positive change.

Our key performance indicators

Measuring our progress

Sage has four strategic KPIs that show the impact and progress of strategic execution.

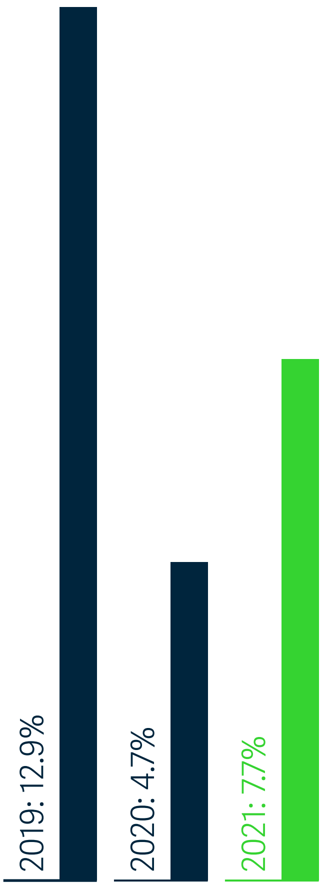
Annualised recurring revenue (ARR) growth

8%

Defined as the normalised reported recurring revenue in the last month of the reporting period, adjusted consistently period to period, multiplied by 12 (FY21: £1,680m 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.

ARR increased by 8% in FY21, driven by additional investment in sales and marketing and R&D, which is accelerating growth, particularly in cloud native.

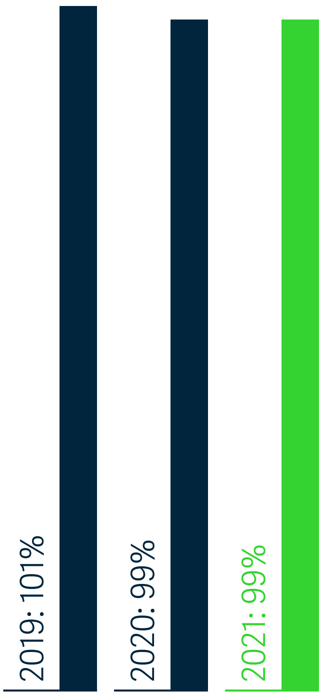


Renewal by value

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.

Renewal by value of 99% is in line with FY20, and reflects a strong performance in customer add-ons in the second half, together with a continued focus on customer retention.



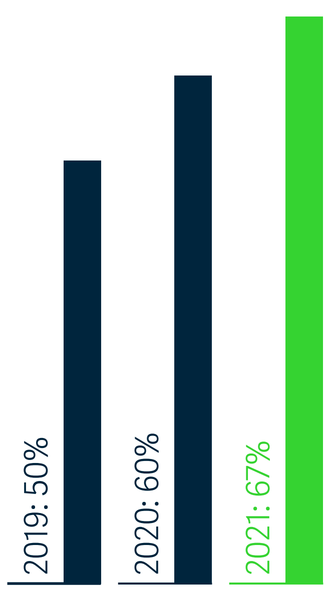
These KPIs are disclosed every six months to demonstrate Sage's progress.

Sage Business Cloud penetration

67%

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 42.

The focus on driving revenue to cloud solutions has resulted in Sage Business Cloud penetration of 67% in FY21.



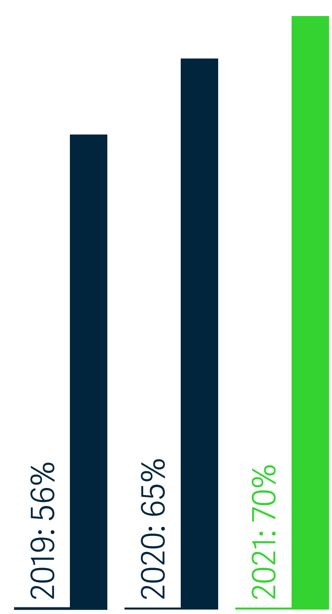
Subscription penetration

70%

% 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 (FY21: £1,242m organic software subscription revenue).

In FY21, subscription penetration reached 70%, reflecting continued focus on attracting new customers and migrating existing customers to Sage Business Cloud.



Section 172(1) Statement

The Board of Directors believe that, during the year under review, they have individually and together, acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so, have had regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006 ("section 172(1)") and referred to in the UK Corporate Governance Code 2018 (the "Code"). We have integrated our section 172(1) reporting throughout this Annual Report, using the icons shown on this page to indicate where relevant information can be found.

The Board collectively has had regard to each element of section 172(1) in its actions, behaviours and decisions. The Board recognises that Sage has a wide range of stakeholders and balancing their respective needs and expectations is important. The decision-making process is structured to enable Directors to evaluate the merit of proposed business activities in view of competing priorities and the likely consequences of decisions on our stakeholders over the short, medium and longer term.

Although section 172(1) imposes duties on Directors, we think it is fundamental that Sage's wider leadership also understands the Board's responsibilities. 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 in everything Sage does as a Company.

Section 172(1)

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

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

Our stakeholders

Sage is driven by its purpose and its success depends on its ability to engage effectively and work constructively with all our stakeholders, and to take their views into account. Their interests are important to us, and we are committed to maintaining strong, positive and trusted relationships and to listening to and understanding the needs of all our stakeholders, so we can continue to deliver value and build a sustainable business.

Further insight into our stakeholder engagement and the Board's decision making is set out in our Governance Report on pages 88 to 97.

Key stakeholders

This section sets out our key stakeholder categories and why they are important to us.

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 they care about
Investors are interested in our long-term strategy, our operational performance and strategic execution. Our financial performance is important to them but increasingly they are concerned about broader societal issues and the role we play in addressing them.

Our colleagues

Why they matter to us
Colleagues are the life blood of Sage. Every day they serve our millions of customers around the world through their innovation, integrity and passion.

What they care about
Colleagues want to work for a company that values them, and that provides them an opportunity to thrive. They expect us to address societal issues from diversity and inclusion to the future of work. Our colleagues are proud of the work we do in our communities through our Sustainability and Society strategy and Sage Foundation.

Our customers

Why they matter to us
SMBs are the growth engine of the global economy. Accountants are the professionals who rely on us to help them deliver a great service to their clients, whatever their size. They are a diverse and dynamic group who we are proud to call our customers.

What they care about
Customers are focused on (i) running and growing their business as the global economy starts to re-open; (ii) having products that keep their business compliant; (iii) quality customer service; and (iv) having greater visibility into their business and deriving actionable insights from their data. Improving efficiencies and productivity remain priorities, but they are also increasingly interested in the wellbeing of their staff and the environment and their role in protecting it.

Our partners

Why they matter to us
Sage partners are core to our strategy and they are an extension of our Sage team. We work with an extensive network of partners, who contribute to our mutual growth and our ambition to enable customer success. Our community of partners includes accountants, resellers, IP builders and services providers, who represent our brand in the market. They bring our solutions to life, serving our customers locally and create an ecosystem of complementary solutions and services.

What they care about
Partners in our ecosystem work in collaboration with Sage to: (i) harness our innovative technology to deliver customer success through creation of unique joint value propositions; (ii) expand their market reach; (iii) share insights into what our current and future customers want, ultimately impacting product strategy and roadmaps; and (iv) accelerate business growth through Sage-supported sales and marketing programmes, as well as technical training.

Our communities and the planet

Why they matter to us
In today's world, not everyone is given an equal chance. Discrimination, bias, lack of education, and unequal access to technology and data are creating barriers for many people to succeed. It's our pledge as one of the UK's biggest technology companies to knock down these barriers to create equal opportunity. We are committed to investing in education, technology, and environmental change to give individuals, SMBs and our planet the opportunity to thrive.

What they care about
Research in our communities shows that starting a business and becoming your own boss is seen as a route to a better life. People in under-represented groups or sectors hardest hit by crisis need support to start and grow businesses, as this is a proven route to long-term employment, high job satisfaction and wealth creation. For SMBs, having a positive societal and environmental impact, and a commitment to diversity, matters to their business. 85% of SMBs see a role for accountancy and HR software providers helping them to make their businesses more sustainable.

In addition to the above stakeholders, we recognise that other groups of stakeholders are also 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.

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

Ethics & Governance

Environment

Social

People

Sage's broader corporate responsibilities – We do the right thing

The Board both 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.

Sage's purpose, to 'knock down barriers so everyone can thrive' is our commitment to act, through our strategic, operational and financial objectives, in a lawful and ethical manner and in doing so, do the right thing for Sage's stakeholders and for the wider society.

Our customers are at the centre of everything we do. Our ambition is to be the trusted network for small and medium businesses, playing an instrumental role in tackling the root causes that stand in the way of such businesses thriving in today's world, such as economic friction, information asymmetry and regulation. Sage takes responsibility to enhance the competitiveness of SMBs so that they can contribute to more inclusive globalisation and growth.

Whilst customers are the focus of our purpose, our commitment to act in the public interest – to be a responsible and active member of our communities – is evidenced more broadly by how we support all of our key stakeholders and deliver on our promises to customers, colleagues, society and shareholders. Examples of how Sage has sought to satisfy these broader corporate responsibilities can be found within this Annual Report and in our Sustainability and Society Report which can be found on our website at sage.com.

Our progress is empowered by our Sustainability and Society strategy

This year we launched our Sustainability and Society strategy 'Knocking down barriers' to help create a more equitable and sustainable future.

Sage Foundation is at the heart of this strategy, and over the past five years we have used action philanthropy to create a purpose-led culture at Sage. We know that we still have a bigger role to play in our communities and want to continue to tackle issues that impact all of humanity.

We believe it should be possible for everyone to thrive. But in today's world, not everyone is given an equal chance. Barriers like discrimination, bias, and unequal access to education and technology stack the odds against marginalised communities and under-represented groups. That's why we've launched our new strategy to knock down these barriers to create equal opportunity. We are committed to investing in education, technology, and environmental change to give individuals, SMBs, and our planet the opportunity to thrive. Our goal is to use our technology, time, investment, skills and experience to back a generation of diverse and sustainable businesses.

Learn more in our Sustainability and Society Report and on our website.

Our Sustainability and Society strategic pillars

Tech for Good

Tackling digital inequality for innovation, enterprise, and progress

An estimated 70% of new value created in the global economy over the next decade will be based on digitally enabled platform business models.

We want everyone to benefit from the opportunity created by this rapid digitalisation and aim to knock down the barriers to digital equality and address the lack of diversity in the technology sector.

We're committed to knocking down barriers to digital equality by making technology and data open to all. We will do this by being a business that is inclusive to all, and a leader in diversity, equity and inclusion (DEI) innovation in the Tech sector.

This starts with our own teams at Sage. As part of our Sustainability and Society strategy, we have pledged to become a more diverse employer and have published six commitments that will help us advance DEI at Sage to help foster a stronger sense of belonging (see page 38).

We are also committed to building a generation of tech talent by creating opportunities for young people to learn life-changing digital skills. Through our partnership with IET FIRST LEGO League, we aim to create new digital skills opportunities for 13,000 school children by 2023 so they have the opportunity to be inspired by a potential future in the technology sector.

Fuel for Business

Tackling economic inequality by supporting under-represented groups

The opportunity to start and grow a business provides a route to long-term employment, high job satisfaction and wealth creation.

As one of the UK's largest technology companies serving SMBs, Sage can make a difference by providing business mentoring, advice and support for businesses and start-ups run by under-represented groups. We are working with a number of global partners to help us address economic inequality, support business growth and create employment opportunities.

We're working with Connectr to roll out a national training programme via the Job Centre Plus network to help unemployed people across the UK looking to start a business.

Black women are America's fastest-growing demographic of entrepreneurs. In the US, we've partnered with Access to Capital for Entrepreneurs and The BOSS Network to tackle inequality. We will help African-American women and other under-represented groups, to achieve their goal of growing a business by providing access to finance and the development of skills needed to successfully start or grow their business.

To further tackle economic inequality, Sage is investing $1m through loans, grants and direct support for individuals or SMBs in the developing world, or supporting social entrepreneurs through partnerships with Kiva and Ashoka.

Protect the Planet

Tackling the climate crisis – powering sustainable business models

Sage will help to protect the planet by taking action to reduce our own environmental impact and by supporting SMBs by making it easier for them to take action against the climate crisis.

We have made it our goal to knock down the barriers that stand in their way so that they can more easily understand how to comply with environmental requirements and reduce environmental impacts.

We will lead by example with ambitious targets of our own. Our aim is to get to Net Zero by 2040 across our Scope 1,2 and 3 emissions, with a mid-term goal to reduce our emissions by 50% by 2030 against our 2019 baseline. Sage has committed to the SBTi (Science Based Targets initiative) and the UN climate change Race to Zero.

In September 2021, Sage launched a Sustainability Hub for small businesses in the UK and Ireland. It will give small business owners the knowledge and actionable advice they need to reduce the carbon impact of their own operations and move towards a more sustainable future.

To help SMBs participate in the move to Net Zero, we joined forces with the Association of Chartered Certified Accountants (ACCA) to co-chair a senior-level discussion and to launch a whitepaper at an event with the International Chamber of Commerce (ICC) at CoP26. To help us to participate in policy development and champion the voice of SMBs, Sage has become a member of the World Business Council for Sustainable Development (WBCSD).

Employee case study

Purpose-led philanthropy through Sage Foundation

In FY21, Sage Foundation celebrated five years of making a difference in communities across the globe. To mark this milestone, we launched a series of exciting programmes that connected Sage's colleagues, business partners and customers with the non-profit community to make an even bigger impact by offering over 1,000 free financial literacy training spaces for non-profits, volunteer programmes to support local communities and investments supporting non-profits with an environmental focus.

Through Sage's Sustainability and Society strategy, we will empower colleagues, partners and customers to give back time to their local communities through volunteering and fundraising, focusing on impactful and innovative ways to make a difference.

During FY21, we awarded 178 grants to our charity partners and 419 non-profit organisations benefitted from donated or discounted Sage Business Cloud software. Sage colleagues continue to be encouraged to use their five annual volunteering days, and this year colleagues achieved over 22,000 volunteer days, with volunteer time estimated at £3.2m in value. In the past six years, we have raised over $3m for charities and causes that matter most to our colleagues.

We are guided by the United Nations Sustainable Development Goals (SDGs) as a means to address the world's most critical challenges. Our investment and partnership programmes support our focus areas through education, employment and entrepreneurship initiatives. We provide technology and expertise to help the non-profit sector thrive so they can run their organisations effectively and focus on those that need it most – their beneficiaries and the communities they operate in across the world.

Managing our impact

At Sage, we understand the role we have to play in addressing the immediate and very real global climate crisis. Therefore, in June 2021, Sage publicly announced its approach to environmental sustainability. This outlines our commitment to achieving a science-based Net Zero target for Scope 1, 2 and 3 emissions by 2040.

Environmental sustainability

We have set ourselves an ambitious goal: to achieve Net Zero across our Scope 1 and 2 emissions, and also our Scope 3 emissions, by 2040. We have a mid-term goal of reducing these emissions by 50% by 2030 against our baseline year of 2019.

To re-enforce our goal, we have committed to the Science Based Targets initiative (SBTi) which requires us to clearly define the 1.5°C pathway we will take to reduce our emissions. We will publish our Net Zero pathway by the end of FY22.

As part of our pledge to address the climate crisis, Sage is committed to implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) to enhance our understanding and management of climate-related risks and opportunities.

Streamlined Energy and Carbon Reporting (SECR)

We recognise the importance of reporting against Scopes 1, 2, and 3 emissions and are committed to continually reviewing our data collection processes across global operations to extend the boundary of Sage's carbon footprint.

Our carbon footprint and emissions calculation methodology, along with our approach to reducing emissions, is described in detail within Sage's Sustainability and Society Report, and is summarised below.

Methodology

We have calculated our emissions using the World Resources Institute's Greenhouse Gas Protocol Corporate Accounting and Reporting Standard. This is consistent with previous years. We have used the UK Government's "Environmental Reporting Guidelines: including mandatory greenhouse gas emissions reporting guidance" (March 2019) issued by the Department for Business, Energy & Industrial Strategy (BEIS), to design our emissions and data disclosure table.

We have used the UK Government emissions factors for company reporting (published by BEIS 2021), along with the International Energy Agency (IEA) international conversion factors (2020) for non-UK electricity in our calculations. 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 further details, our methodology document can be found in our Sustainability and Society Report.

Organisational boundary and responsibility

In accordance with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, we report our emissions data using an operational control approach to define our organisational boundary in respect of the energy consumption and emissions for which we are responsible. Under this approach, we have accounted for 100% of GHG emissions from operations over which the Sage Group has control.

Scope 3 emissions

Scope 3 indirect emissions from our value chain account for the largest proportion of our carbon footprint. These emissions are set out in more detail in our Sustainability and Society Report. We are working with our upstream and downstream value chain partners to continually improve how we measure and reduce our Scope 3 emissions. This includes addressing data gaps in Scope 3 reporting, such as obtaining primary data, where possible, and using established methodologies to fill data gaps so that our carbon footprint remains robust.

Verification

Sage completed independent third-party verification, to the level of limited verification, of its greenhouse gas (GHG) emissions for the footprint year of October 2019 – September 2020 (FY20). Sage will undertake a similar verification exercise for the FY21 footprint by the end of December 2021. The data published in this report has not yet been independently verified.

Energy efficiency actions

Sage continued to further develop a range of carbon reduction initiatives to manage our sites effectively and efficiently. These initiatives include:

- Building optimisation audits to assess energy use and return on investment case studies;
- Support for electrification of company cars – we aim to be fully electric by 2030 and are supporting colleagues in the transition to electric vehicles;
- Switching to certified renewable electricity in our offices where Sage has direct control, and engaging with landlords for those under lease;
- Engagement with our value chain partners to understand their Scope 1 and 2 impacts. This involves understanding our ambitions, workshops, questionnaires, advice, and guidance;
- Analysis of business travel to enable reduction targets to be set along with policy guidance to colleagues regarding their choice of travel;
- Engaging with our data centre providers is important as we transition to cloud-based working. Sage has started the engagement process with several providers bringing a positive think-tank mindset to enable accurate identification on where Sage data is stored globally and evaluation of the associated emissions data;
- Continual data consistency and accuracy improvement. We recognise that obtaining quality data is crucial for emissions accounting and we will endeavour to improve Scope 3 data capture to further enhance our reporting and subsequent reductions; and
- Reflecting the increase in home working by providing only the required level of energy in the management of Sage-operated facilities.

Impact of homeworking

Our colleagues continue to spend a proportion of their time working remotely as we support increased flexibility in work location. From an environmental perspective, this reflects a shift in energy consumption associated with office emissions. These emissions have now relocated to our colleagues' homes, beyond our direct control. Due to this, we have reported an increase in colleague homeworking 'Category 7' emissions of 118%.

Sage has followed best practice to account for emissions from homeworking within Scope 3 using a Homeworking and Commuting Emissions Calculation Tool.

Scope 1 and 2 emissions: UK and Global[1]

Total Global greenhouse gas emissions data	Current reporting year Oct 2020 – Sept 2021		Previous reporting year Oct 2019 – Sept 2020	
	UK and Offshore Area	Global (excluding UK and Offshore Area)	UK and Offshore Area	Global (excluding UK and Offshore Area)
Emissions from activities which the company own or control, including combustion of fuel & operation of facilities (Scope 1) / tCO_2e	**666**	**393**	874	2,110
Emissions from the purchase of electricity, heat, steam, or cooling by the company for its own use (Scope 2 Indirect) Location-based emissions (tCO_2e)	**1,102**	**3,079**	1,180	5,927
Scope 2 (Indirect) Market-based emissions (tCO_2e)	**153**	**3,002**	247	6,004
Total gross Scope 1 & location-based Scope 2 emissions (tCO_2e)	**1,768**	**3,473**	2,054	8,036
Energy consumption* used to calculate above emissions (kWh)	**8,597,070**	**9,676,918**	9,203,396	21,259,169
Carbon intensity ratio: Location-based CO_2e emissions reported above normalised to tCO_2e per total GBP £1,000,000 revenue (Scope 1 & 2) ** (tCO_2e/revenue)	**0.96**	**1.89**	1.08	4.22

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

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

** Global revenue in 2021 is £1,846m for Sage during the reporting period. It was £1,903m for the previous year's reporting period.

Task Force for Climate-related Financial Disclosures (TCFD)

In preparing to comply with the TCFD reporting requirements in FY22, Sage has made progress in embedding climate issues into governance, strategy and risk management arrangements.

During FY20, Sage's Board reviewed Sage's approach to environmental sustainability. Building on the achievement of its target to reduce CO_2e emissions by 5% by 2020, relative to 2019 emissions, Sage committed to setting a Science Based Targets initiative (SBTi) aligned climate target across all Scope 1, 2 and 3 emissions as part of its reviewed approach to environmental sustainability.

During FY21, Sage's Board approved the approach to environmental sustainability within its new Sustainability and Society strategy and adopted ESG, which incorporates climate change, as a 'Principal Risk'. This included making a Net Zero commitment, which was formalised through the SBTi, and initiating workshops to identify and assess climate risks and opportunities.

During FY22, Sage will apply Climate Scenario Analysis modelling to climate-related risks and opportunities and update its Risk Register to strengthen the way in which climate change is integrated within risk management processes, strategy planning and governance. Sage will also submit its Net Zero plan to the SBTi for verification.

TCFD recommendation status

Sage will fully comply with the requirement to make TCFD-aligned disclosures during FY22. Our current status against these recommendations is summarised below and described in detail within our Sustainability and Society Report.

TCFD report

Governance

Recommendation	Response
a) Describe the board's oversight of climate-related risks and opportunities	Sage's Board has overall responsibility and accountability for the implementation of the Sustainability and Society strategy, which includes Sage's approach to environmental sustainability. One area of focus for the Board in FY22 will be to determine an appropriate governance structure for Board and Board Committees to monitor the ongoing performance and delivery of the strategy, including climate change risks and opportunities. The Executive Committee endorsed Sage's TCFD approach in July 2021. The risk and opportunity outcomes from the Climate Scenario Analysis will be presented to the Board in 2022.
b) Describe the management's role in assessing and managing climate-related risks and opportunities	Responsibility for Sage's environmental sustainability strategy, including the approach to TCFD, is devolved to the Chief People Officer. Day-to day co-ordination of the approach to TCFD is led by Sage's Sustainability and Society team in collaboration with leaders across Sage functions. Information flows between regional risk teams and the Global Risk Committee which monitors, manages, and brings climate-related risks to the attention of the Audit and Risk Committee, with oversight and decision making reserved by the Board.

Strategy

Recommendation	Response
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term (consider providing by sector and/or geography as appropriate)	In FY21, Sage conducted a climate risk and opportunity screening exercise, involving interviews with key internal stakeholders across the Company. The process was used to explore the range of climate impacts that may have the potential to present material short-, medium- and long-term risks and opportunities to Sage. The findings from this exercise will be consolidated early in FY22 and will be presented to the Global Risk Committee for endorsement. Examples of the types of climate-related risk and opportunity that are now being considered, and which will be further reviewed and defined, include: Potential areas of risks **Physical** *Acute Physical* – Damage to sites and facilities caused by severe storms and flooding. *Chronic Physical* – Reliance on hosting services that may be vulnerable to weather events such as flooding or storms, which may cause service disruption. **Transition** *Reputational* – Reputational impact if climate targets are not achieved. *Market* – Changing customer behaviours may affect demand for energy-consuming products and services. *Regulation* – Increased carbon pricing may result in additional business cost. Potential areas of opportunity *Products* – Potential to develop low-carbon products to align to changing customer demand. *Reputation* – Enhanced reputation with customers, shareholders, and colleagues by becoming a sustainability leader within the technology sector.
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	During FY21, Sage conducted a process of identifying climate-related risks and opportunities and their impact on our value chain. Sage will complete the evaluation of the materiality of the identified climate-related risks and opportunities in FY22. Subsequently, Sage will consider the extent to which these risks and opportunities are already taken into account within business strategy and financial planning and how new risks and opportunities may contribute to, and inform, future decision making.
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C lower scenario	Climate Scenario Analysis will be undertaken in FY22 to assess our most material physical and transition climate-related risks under both a 2°C scenario and a 4°C scenario. Modelling results will be used to further inform Sage on evolving risks and opportunities across the business.

Risks

Recommendation	Response
a) Describe the organisation's processes for identifying and assessing climate-related risks	In 2021, Sage started to consider climate-related risks as part of our Group risk management policy and framework. The Board approved ESG as a Group Principal Risk, demonstrating the importance of climate change for Sage. The Global Risk Committee reviews material risks to our business and the plans to mitigate and manage their potential impact. Part of Sage's Enterprise Risk Framework also includes criteria for risk rating which we will use to assess the severity of climate-related risks, including financial materiality.
b) Describe the organisation's processes for managing climate-related risks	Business risks are overseen by the Global Risk Committee. Sage also has regional Risk Committees to oversee business risk impact at a regional level. Sage uses a defined risk-rating criteria to assess exposure to key risks, including climate change, which considers the likeliness and impact of each risk. As Sage's climate-related risks are further reviewed and defined, Sage will continue to integrate climate risk into global and regional risk management processes.
c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	Management teams across Sage functions are responsible for identifying, assessing, and managing different types of climate-related risks within their respective areas of responsibility. For example, climate risks associated with cloud hosting are considered by Sage's Product Team, whereas physical risks to the built environment resulting from extreme weather are considered by Sage's Property team. Further detail of how Sage tracks, monitors, and reports risks is set out in the Risk Management section of this report.

Metrics and Targets

Recommendation	Response
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	Sage is preparing its Science Based Targets initiative (SBTi) implementation plan and will submit this for plan to the SBTi before end June 2022. This implementation plan will include metrics to monitor progress against emissions reductions. Absolute and intensity-based (revenue) energy and GHG emissions metrics are currently used to track progress against emissions targets.
b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks	Sage calculates and discloses emissions from our Scope 1 and Scope 2, in compliance with SECR regulations. Sage also discloses emissions for certain Scope 3 categories. Further detail about our GHG methodology and emissions is provided as part of Sage's SECR statement on page 32, as well as in our Sustainability and Society Report.
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	In June 2021, Sage committed to a 1.5°C aligned target. Sage is currently in the process of developing an implementation plan to achieve this target which will be used to guide our actions. This involves achieving Net Zero by 2040 across Scopes 1, 2 and 3 emissions by 2040, reducing the impact of our business operations and cutting emissions by 50% by 2030 against our baseline year of 2019.

The Sage Culture

At Sage, our colleagues are at the heart our business, delivering great outcomes for our customers, communities and each other every day. Our Colleague Promises set out what Sage stands for to all colleagues and guide our approach to building an inclusive, supportive and high-performance culture in which every colleague can do their very best work.

Colleague Promises

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

We are inclusive – be yourself and thrive.
We launched our new Diversity, Equity and Inclusion strategy (DEI strategy) and invested in the leadership capacity and capability we need to drive it forward.

Our leaders listen, creating outstanding colleague experiences with you.
In FY21 we continued to be guided by what our colleagues told us, and used those insights to continually improve the colleague experience, remove barriers to execution and drive positive change.

Come and do the best work of your life, collaborating to grow, innovate and transform.
In FY21 we increased our focus on talent development and succession planning at all levels – with a particular focus on embedding customer centricity, innovation, and accountability.

We do the right thing by our customers, colleagues, and communities.
In FY21 we launched our new Sustainability and Society strategy, 'Knocking down barriers'. We're building on the success of Sage Foundation to commit even more to tackling societal and economic inequality and playing our part in protecting the planet. We also enhanced our focus on wellbeing to support our colleagues through the pandemic and beyond, helping them take care of their mental, physical, financial and social wellbeing.

"We can only execute on the Strategic Priorities set out in this report if we build a culture that enables our colleagues to perform at their very best; an inclusive, innovative and collaborative culture in which every single colleague feels they belong and can thrive."

Amanda Cusdin
Chief People Officer

Measuring our success[1]

Glassdoor Score

4.2

FY20: 4.4
FY19: 3.5

eNPS

+35

FY20: +32
FY19: -6

eSAT

81

FY20: 81
FY19: n/a

Voluntary attrition

9.6%

FY20: 7.2%
FY19: 12.3%

1. Sage uses employee Net Promoter Score (eNPS) and employee Satisfaction (eSAT) as indicators of colleague engagement and satisfaction, using the bi-annual Pulse surveys to understand these scores.

We also launched Flexible Human Work – a new framework for how, when and where we work at Sage, that is built around flexibility and collaboration.

Working together to create outstanding experiences

Listening to our colleagues, and understanding their experiences and how they feel, remains vital to our success. Through bi-annual colleague 'Pulse' surveys, ongoing 'Always Listening' channels and other feedback channels around moments that matter, colleague feedback helps us to knock down barriers, remove obstacles that hinder the customer or the colleague experience and drive positive change.

Over the last year this feedback has helped to simplify metrics used by the customer services team and provide valuable insight into how our colleagues' experience can impact the customer experience.

Everyone at Sage is accountable for driving action from our listening strategy. Results are openly shared and leaders and managers create their action plans with teams, and share case studies of changes they have made.

Listening to colleagues has also formed a crucial part of our hybrid working strategy, as colleague input helped us develop our Flexible Human Work framework (see next page).

We have a clear communications framework in place to keep colleagues informed about what's happening across our business, including: an annual global kick off; live monthly Q&As with leaders; regular updates on our global intranet; and localised channels to make global messages relevant at a team level.

See page 43 of our Sustainability and Society Report for more on our listening strategy and our latest colleague engagement indicators.

Building a Sage where everyone belongs

For Sage to be the company we want it to be, we need a bold, agile, and comprehensive DEI strategy, which drives innovation and enables all colleagues to succeed together.

This year we have made significant progress, with a new DEI vision and public DEI commitments, an investment in leadership and governance, plus substantial progress on flagship programmes.

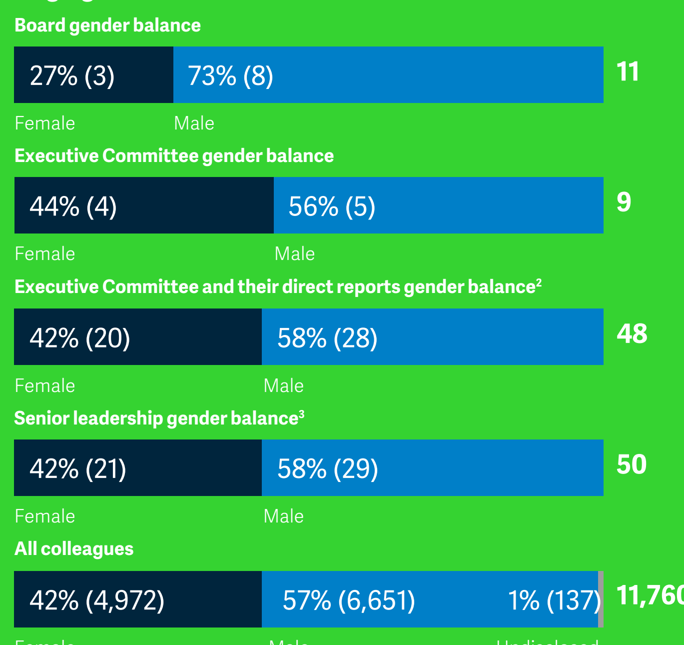
Gender diversity remains an important part of our overall strategy and we continued to close the mean gender pay gap to 7.3% in April 2021 (2020: 7.6%; 2019: 10.2%), which is significantly below the tech industry standard (20%) for our UKI business.

We also launched a new insight project, All About Us, inviting colleagues in eight countries to voluntarily share more about themselves, covering topics such as gender identity, sexual orientation, and ability. This is allowing us to better understand the impact that our systems and processes have so we can create an equitable experience for all. This important milestone contributed to us achieving a Bronze Standard Award in DEI from The Employers Network for Equality & Inclusion.

Our DEI strategy now forms a key part of our wider Sustainability and Society strategy, and in particular our commitment to tackling digital inequality.

See pages 20-21 of our Sustainability and Society Report for more detail on our DEI strategy, expanded Colleague Success Networks, new initiatives, and key metrics around gender diversity within our business.

Sage gender balance[1]



1. The gender balance data reflects the information as at 30 September 2021. After year end, the Board gender balance has improved and at the date of this report is at 30% female representation.
2. Executive Committee and their direct reports includes Executive Directors, other Executive Committee members, Company Secretary and their direct reports comprising individuals for whom they have direct line management responsibility, excluding administrative and support roles (for example personal assistants).
3. Senior leadership refers to c.50 leaders in Sage including Executive Committee and Executive Team members.

At Sage, we know that there are more gender identities than the binary choice of female or male that is used for standard reporting. This will be reflected in our more detailed DEI report that will be published annually from 2022.

Helping people do the best work of their lives

We continue our commitment to being a talent-led organisation, with an increased focus on emerging talent growth, succession planning and building a high-performance, learning-based culture, fit for the future.

In FY21 we continued to develop our leaders for today and tomorrow. We strengthened our leadership capability, through a range of tailored development programmes for our Executive Team, and further deepened our leadership pipeline, with 58 of our VP and Director colleagues attending our Senior Leadership Programme.

Our internal fill rate remains high at 37% (up from 26% in 2019), and our emerging talent pipeline continues to build through graduate and apprentice hiring. Additionally, our talent pipeline has been strengthened through our Sage Pathways programme, introduced to help young adults start their career or support those returning to work after a career break, by providing support, training, and career opportunities at Sage (see page 31 of our Sustainability and Society Report).

New customer-centric programmes were introduced for colleagues at all levels, so colleagues can empathise with Sage customers regardless of their role at Sage. Over 1,000 colleagues have been trained on the design thinking methodology through our internal '10x Innovation' movement which is helping to instil a culture of innovation and experimentation across Sage.

We achieved our highest eNPS score to date in September FY21 (+35, up 63 points since 2018) and have made progress across other key measures of colleague engagement – including awards received from organisations like Glassdoor or Comparably – showing that our colleagues recognise and feel the positive impact from our continuous focus on enhancing the colleague experience at Sage.

See pages 20-25 of our Sustainability and Society Report for more on how we're building a high-performance culture for leaders and colleagues.

Doing the right thing for our colleagues

The health, safety and wellbeing of our colleagues is a key priority.

Sage is committed to helping colleagues take care of their mental, physical, financial and social wellbeing, and we have had a particular focus on mental wellbeing during the pandemic. In FY21 we offered colleagues in all regions three extra days off to rest and recharge, and gave everyone access to the Headspace mindfulness app, funded by Sage.

We will continue to prioritise all forms of colleague wellbeing as part of our wider people initiatives, to shape our culture, create a more inclusive environment, and develop sustainable high performance.

Sage is also committed to supporting our colleagues with visible and invisible disabilities and this commitment has been reinforced with disability stated as one of our focus areas in the new Global Diversity, Equity and Inclusion strategy, alongside neurodiversity and accessibility, and in alignment with our Diversity, Equity and Inclusion and Wellbeing policies.

In FY21 the Sage Belong team guided the creation and launch of our first Ability@Sage Colleague Success Network in the UK and Ireland, appointed ExCo Ambassadors for Disability and for Neurodiversity and supported Sage Foundation with their implementation of the South Africa Sage Pathways programme, which focused on creating internship opportunities for talented people living with a disability. As part of our Valuable 500 commitments, in FY22 Sage is finalising and will then execute on, a three-year global ability inclusion plan to support our Global Diversity, Equity and Inclusion strategy based on our colleague data and insights.

See page 23 of our Sustainability and Society Report for more on how we're supporting our colleagues' wellbeing, and the health and safety standards that we adhere to.

A future built on flexibility and collaboration

To achieve our ambition and deliver sustainable growth, we need to be future-ready, ensuring the organisation is set up to scale. In FY21 we focused on creating an organisation design that allows us to deliver on our strategy in the short and long term. This is being supported by reward structures, talent acquisition models, succession and development planning, and seamless integration of acquisitions, to ensure we have the skills and capability to deliver now and in the future.

In FY21 we launched Flexible Human Work. Co-created with our colleagues, it is a flexible framework that sets out what the future of work looks like at Sage and then empowers teams to experiment with exactly how, when and where colleagues work.

As part of this, we also launched Work Away, which allows colleagues to work away from their home country for up to ten calendar weeks in any 12-month period. Colleagues have really engaged with this new offering, which enables Sage to support colleague wellbeing and effectiveness by providing more flexible options to balance work and travel.

In 2022 and beyond, we will continue to focus on redesigning work to unlock true flexibility, with a focus on outcomes, collaboration, inclusivity, fairness, and sustainable productivity.

See pages 24-25 in our Sustainability and Society Report for a full case study on Flexible Human Work.

Ethics and governance

Human rights

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

Anti-bribery and corruption

Sage has an anti-bribery and corruption policy and associated whistleblowing procedures designed to ensure that colleagues and other parties including contractors and third parties are able to report any instances of poor practice safely through an independent organisation. All reports received via this or any other reporting mechanism are thoroughly investigated and reported to the Audit and Risk Committee, which reviews each case and its outcomes. None of our investigations during FY21 identified any systemic issues or breaches of our obligations under The Bribery Act 2010. The anti-bribery and corruption policy is supported by our gifts & hospitality and conflicts of interest policies and the declaration and approval procedures, as well as periodic audits and reminders.

Governance and oversight

We recognise that assurance over our business activities and those of our partners and suppliers is essential. During 2021 we monitored and reported on the completion of our mandatory Code of Conduct training for all colleagues. You can read more about our risk management and principal risks from page 50 onwards.

Tax strategy

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

Financial review

Jonathan Howell
Chief Financial Officer

This financial review provides a summary of Sage's 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 FY21 Sage achieved organic recurring revenue growth of 5% to £1,637m and organic total revenue growth of 3% to £1,778m. The increase in recurring revenue was underpinned by a 19% rise in Sage Business Cloud revenue to £997m, reflecting strength from new customer acquisition together with continued progress in migrating existing customers from desktop to cloud solutions.

Other revenue (SSRS and processing) declined by 18% to £141m, in line with our strategy to transition away from licence sales and professional services implementations.

The Group's organic operating profit decreased by 10% to £343m, representing an organic operating margin of 19.3% (FY20: 22.0%). This reflects the Group's additional strategic investment in sales and marketing and product development (R&D) to accelerate growth in Sage Business Cloud, primarily in cloud native.

The Group also achieved underlying basic EPS of 23.09p, strong underlying cash conversion of 126% and free cash flow of £339m.

Portfolio view of revenue

	Recurring			Total		
Organic Revenue by portfolio[1]	**FY21 £m**	**FY20 £m**	**Growth %**	FY21 £m	FY20 £m	Growth %
Cloud native[2]	**£286m**	**£212m**	**+35%**	£299m	£224m	+33%
Cloud connected[3]	**£711m**	**£623m**	**+14%**	£724m	£636m	+14%
Sage Business Cloud	**£997m**	**£835m**	**+19%**	£1,023m	£860m	+19%
Products with potential to migrate	**£490m**	**£546m**	**-10%**	£574m	£654m	-12%
Future Sage Business Cloud Opportunity[4]	**£1,487m**	**£1,381m**	**+8%**	£1,597m	£1,514m	+5%
Non-Sage Business Cloud[5]	**£150m**	**£172m**	**-12%**	£181m	£211m	-14%
Organic Total Revenue	**£1,637m**	**£1,553m**	**+5%**	£1,778m	£1,725m	+3%
Sage Business Cloud Penetration	**67%**	**60%**				

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.

The portfolio view provides a breakdown of Sage's organic revenue by strategic product portfolio. Our principal focus is to grow Sage Business Cloud, by acquiring new customers and migrating existing customers to Sage's cloud native and cloud connected solutions. All customers within Sage Business Cloud are able to connect to Sage's digital network of cloud services, leading to deeper customer relationships and higher lifetime values.

Recurring revenue from cloud native solutions grew by 35% in FY21 to £286m, driven by Sage Intacct together with other solutions including Sage Accounting and Sage People, primarily through new customer acquisition. Cloud native growth has also been driven by migrations principally to Sage HR, our HR management software for small customers, and to Sage Partner Cloud, our managed cloud solution for mid-sized customers.

The increase in cloud connected recurring revenue of 14% to £711m reflects growth in both the Sage 50 and Sage 200 franchises. This has been driven by the migration of existing customers, predominantly in International, as well as further growth from new customers acquired in the period.

Overall, the Future Sage Business Cloud Opportunity, which represents products in or with a clear pathway to Sage Business Cloud, has performed well with recurring revenue growth of 8%.

The Non-Sage Business Cloud portfolio comprises products for which management does not envisage a path to Sage Business Cloud. The revenue decline in this 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	**FY21**	FY20	Change	**FY21**	FY20	Change
North America	**£687m**	£692m	-1%	**£687m**	£651m	+6%
Northern Europe	**£402m**	£412m	-2%	**£402m**	£412m	-2%
International[2]	**£757m**	£799m	-5%	**£757m**	£794m	-5%
Group Total Revenue	**£1,846m**	£1,903m	-3%	**£1,846m**	£1,857m	-1%
Operating Profit	**£373m**	£404m	-8%	**£358m**	£400m	-11%
% Operating Profit Margin	***20.2%***	*21.3%*	*-1.1 ppts*	***19.4%***	*21.6%*	*-2.2 ppts*
Profit Before Tax	**£347m**	£373m	-7%	**£333m**	£376m	-12%
Net Profit	**£285m**	£310m	-8%	**£250m**	£292m	-14%
Basic EPS	**26.33p**	28.38p	-7%	**23.09p**	26.74p	-14%

Notes:
1. Revenue and profit measures are defined in the Glossary.
2. Since H1 21, the International segment includes Central and Southern Europe, in addition to the Africa and Asia-Pacific (APAC) region. For reporting under IFRS 8, we continue to report Central and Southern Europe as "International – Central and Southern Europe" and the former International segment as "International – Africa and APAC".

The Group achieved statutory total revenue of £1,846m, a 3% decrease on the prior year, reflecting the disposals of Sage Pay and Sage's Brazilian business in FY20, together with foreign exchange headwinds, principally in relation to the US dollar. Underlying total revenue, which normalises the comparative period for foreign exchange movements, reduced by 1%.

Statutory operating profit decreased by 8% to £373m, primarily reflecting the additional strategic investment in the business, with non-recurring net gains slightly higher than the prior year, driven by disposals. Underlying operating profit, which excludes recurring and non-recurring items, decreased by 11% to £358m.

Statutory basic EPS decreased by 7% to 26.33p, reflecting the additional strategic investment and the post-tax impact of recurring and non-recurring items. Underlying basic EPS declined by 14% to 23.09p.

Underlying and organic reconciliations to statutory

	FY21			FY20		
	Revenue	**Operating Profit**	**Operating Margin %**	Revenue	Operating Profit	Operating Margin %
Statutory	**£1,846m**	**£373m**	**20.2%**	£1,903m	£404m	21.3%
Recurring items[1]	**–**	**£40m**	**–**	–	£53m	–
Non-recurring items:						
• *Net gain on disposal of subsidiaries*	**–**	**(£126m)**	**–**	–	(£141m)	–
• *Asia goodwill impairment*	**–**	**–**	**–**	–	£19m	–
• *Property restructuring costs*	**–**	**–**	**–**	–	£21m	–
• *Employee restructuring costs*	**–**	**£62m**	**–**	–	£22m	–
• *Office relocation*	**–**	**£9m**	**–**	–	£33m	–
Impact of FX[2]	**–**	**–**	**–**	(£46m)	(£11m)	–
Underlying	**£1,846m**	**£358m**	**19.4%**	£1,857m	£400m	21.6%
Disposals	**(£40m)**	**(£7m)**	**–**	(£103m)	(£14m)	–
Held for sale	**(£28m)**	**(£8m)**	**–**	(£29m)	(£6m)	–
Organic	**£1,778m**	**£343m**	**19.3%**	£1,725m	£380m	22.0%

Notes:
1. Recurring and non-recurring items are detailed in the paragraph below and in note 3 of the financial statements.
2. Impact of retranslating FY20 results at FY21 average rates.

Revenue

The Group achieved statutory and underlying revenue of £1,846m in FY21. Underlying revenue in FY20 of £1,857m reflects statutory revenue of £1,903m retranslated at current year exchange rates, resulting in an FX adjustment of £46m.

Organic revenue of £1,778m (FY20: £1,725m) reflects underlying revenue adjusted for £40m of revenue from Sage's businesses in Poland, Australia and Asia, which were sold during the period, and £28m (FY20: £29m) from assets held for sale at the end of the period, including Sage's business in Switzerland and the South African payroll outsourcing business. In FY20, revenue from disposals included £69m of revenue from Sage's businesses in Poland, Australia and Asia, and £34m from Sage Pay and Sage's Brazilian business.

Operating profit

The Group achieved a statutory operating profit in FY21 of £373m (FY20: £404m). Underlying operating profit of £358m (FY20: £400m) reflects statutory operating profit adjusted for recurring and non-recurring items. Recurring items of £40m (FY20: £53m) comprise £31m of amortisation of acquisition-related intangibles (FY20: £33m) and £9m of M&A related charges (FY20: £20m).

Non-recurring items include a £126m net gain on disposal of subsidiaries from the sale of Sage's businesses in Poland, Australia and Asia (FY20: £141m net gain from the disposals of Sage Pay and Sage's Brazilian business). This is partly offset by a £62m provision for employee restructuring costs, comprising £67m relating to the business simplification announced in September and a £5m reversal of professional services restructuring costs that had previously been provided for, together with a non-cash accelerated depreciation charge relating to the relocation of our North Park office in Newcastle of £9m (FY20: £33m).

Organic operating profit of £343m (FY20: £380m) reflects underlying operating profit adjusted for £7m of operating profit from Sage's businesses in Poland, Australia and Asia (FY20: £10m) and £8m of operating profit from assets held for sale at the end of the period (FY20: £6m). In FY20, operating profit from disposals included a further £4m from Sage Pay and Sage's Brazilian business.

Organic revenue overview

Organic Revenue Mix	FY21 £m	FY21 % of Total	FY20 £m	FY20 % of Total	% Change
Software Subscription Revenue	**£1,242m**	**70%**	£1,116m	65%	+11%
Other Recurring Revenue	**£395m**	**22%**	£437m	25%	-10%
Organic Recurring Revenue	**£1,637m**	**92%**	£1,553m	90%	+5%
Other Revenue	**£141m**	**8%**	£172m	10%	-18%
Organic Total Revenue	**£1,778m**	**100%**	£1,725m	100%	+3%

Organic total revenue increased by 3% in FY21 to £1,778m. Organic recurring revenue grew by 5% to £1,637m, supported by an 11% increase in software subscription revenue to £1,242m, 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 10% to £395m reflects customers migrating from maintenance and support to subscription contracts. Other revenue (SSRS and processing) declined by 18% to £141m, in line with our strategy to transition away from licence sales and professional services implementations.

North America

Organic Revenue by Category	FY21	FY20	% Change
Organic Total Revenue	**£687m**	£651m	+6%
Organic Recurring Revenue	**£641m**	£597m	+7%
% Sage Business Cloud Penetration	**73%**	71%	+2 ppts
% Subscription Penetration	**66%**	61%	+5 ppts

Organic Recurring Revenue	FY21	FY20	% Change
US	**£543m**	£504m	+8%
Of which Sage Intacct	**£164m**	£134m	+22%
Canada	**£98m**	£92m	+6%

North America achieved organic recurring revenue growth of 7% to £641m and organic total revenue growth of 6% to £687m. Sage Business Cloud penetration is now 73%, up from 71% in the prior year, driven by growth in cloud native and cloud connected solutions, while subscription penetration is 66%, up from 61% in the prior year.

Cloud native growth was driven through Sage Intacct, which delivered recurring revenue growth of 22% to £164m reflecting continued strong progress driven by accelerating new customer acquisition.

Recurring revenue in the US increased by 8% to £543m, driven by Sage Intacct together with continued growth in small and medium cloud connected products, primarily the Sage 200 franchise and supported by Sage 50 solutions. Total revenue for the US increased by 6% to £584m.

In Canada, recurring revenue increased by 6% to £98m and total revenue by 5% to £103m, driven by growth in Sage 50 cloud and Sage 200 cloud solutions.

Northern Europe

Organic Revenue by Category	FY21	FY20	% Change
Organic Total Revenue	**£402m**	£394m	+2%
Organic Recurring Revenue	**£391m**	£377m	+4%
% Sage Business Cloud Penetration	**86%**	82%	+4 ppts
% Subscription Penetration	**90%**	85%	+5 ppts

Northern Europe (UK & Ireland) achieved organic recurring revenue growth of 4% to £391m and organic total revenue growth of 2% to £402m. Sage Business Cloud penetration is now 86%, up from 82% in the prior year, while subscription penetration is 90%, up from 85% in the prior year.

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

Cloud native revenue growth in Northern Europe was driven by new customer acquisition in Sage Accounting, Sage People and AutoEntry, together with migrations to Sage HR. Sage Intacct continues to grow rapidly in the UK, building a good momentum in new contract wins through both direct sales and the partner channel.

International

Organic Revenue by Category	FY21	FY20	% Change
Organic Total Revenue	**£689m**	£680m	+1%
Organic Recurring Revenue	**£605m**	£579m	+4%
% Sage Business Cloud Penetration	**47%**	35%	+12 ppts
% Subscription Penetration	**62%**	56%	+6 ppts

Organic Recurring Revenue	FY21	FY20	% Change
Central and Southern Europe	**£480m**	£465m	+3%
France	**£257m**	£245m	+5%
Central Europe	**£102m**	£96m	+6%
Iberia	**£121m**	£123m	-2%
Africa & APAC	**£125m**	£115m	+9%

The International region achieved organic recurring revenue growth of 4% to £605m and organic total revenue growth of 1% to £689m. Sage Business Cloud penetration is now 47%, up from 35% in the prior year, while subscription penetration is now 62%, up from 56% in the prior year.

In France, recurring revenue increased by 5% to £257m, with a strong performance in cloud connected, and further growth in cloud native solutions. Total revenue in France increased by 3% to £281m.

Central Europe achieved recurring revenue growth of 6% to £102m while total revenue increased by 4% to £132m. Growth in the region is driven by a combination of cloud connected and local products.

In Iberia, while subscription revenue increased by 18%, overall recurring revenue decreased by 2% to £121m, reflecting a reduction in maintenance and support revenues, as non-subscription customers opted not to renew their maintenance and support contracts, principally during the first half. Total revenue decreased by 4% to £137m.

Africa & APAC delivered strong recurring revenue growth of 9% to £125m, driven by a continued good performance in cloud native solutions, particularly Sage Accounting in Africa, and supported by growth in local products. Total revenue in Africa & APAC was broadly flat at £139m compared with the prior year.

Operating profit

The Group achieved organic operating profit of £343m (FY20: £380m), representing a margin of 19.3% (FY20: 22.0%). This margin reflects increased strategic investment in sales and marketing and product development (R&D) to drive growth. During the year, the Group reassessed its bad debt provision in connection with Covid-19, resulting in an £8m credit to operating profit.

Underlying operating profit was £358m (FY20: £400m), representing a margin of 19.4% (FY20: 21.6%). The difference between organic and underlying operating profit reflects the operating profit from assets sold during the period (Sage's businesses in Poland, Australia and Asia in FY21, and Sage Pay and the Brazilian business in FY20) and assets held for sale (Sage's business in Switzerland and Sage's South African payroll outsourcing business).

EBITDA was £443m (FY20: £486m) representing a margin of 24.1%. The reduction in EBITDA reflects the additional strategic investment made during the year. While the charge for share based payments increased by £7m to £36m (FY20: £29m) reflecting the expansion of equity reward schemes, this was offset by an £8m reduction in underlying depreciation and amortisation to £49m (FY20: £57m) as a result of the Group's property rationalisation programme and assets held for sale.

	FY21	FY20	FY21 Margin %
Organic Operating Profit	**£343m**	£380m	19.3%
Impact of disposals	**£7m**	£14m	
Impact of held for sale	**£8m**	£6m	
Underlying Operating Profit	**£358m**	£400m	19.4%
Depreciation & amortisation	**£49m**	£57m	
Share based payments	**£36m**	£29m	
EBITDA	**£443m**	£486m	24.1%

Net finance cost

The statutory net finance cost for the period decreased to £26m (FY20: £31m), primarily reflecting the reduced impact from FX movements on intercompany balances, and is broadly in line with the underlying net finance cost of £25m (FY20: £25m).

Taxation

The underlying tax expense for FY21 was £83m (FY20: £84m), resulting in an underlying tax rate of 25% (FY20: 23%). The statutory income tax expense for FY21 was £62m (FY20: £63m), resulting in a statutory tax rate of 18% (FY20: 17%).

The difference between the underlying and statutory rate in FY21 primarily reflects a non-taxable accounting net gain on disposals, partially offset by the non-tax-deductible accelerated depreciation charge relating to the relocation of our North Park office in Newcastle.

The FY21 underlying tax rate has increased primarily as a result of certain non-recurring adjustments in FY20.

Earnings per share

	FY21	FY20	% Change
Statutory Basic EPS	**26.33p**	28.38p	-7%
Recurring items	**3.01p**	4.57p	
Non-recurring items	**(6.25p)**	(5.52)p	
Impact of foreign exchange	**–**	(0.69p)	
Underlying Basic EPS	**23.09p**	26.74p	-14%

Underlying basic earnings per share of 23.09p was 14% lower than the prior period (FY20: 26.74p), reflecting the decrease in underlying operating profit due to additional strategic investment.

Statutory basic earnings per share decreased by 7%, reflecting the reduction in underlying basic earnings per share and the post-tax impact of recurring and non-recurring items.

Cash flow

The Group remains highly cash generative with underlying cash flow from operations of £451m (FY20: £505m), representing an underlying cash conversion of 126% (FY20: 123%). Importantly, the Group has continued to deliver cash conversion in excess of 100% for three years. This strong cash conversion reflects further growth in subscription revenue and sustained improvements in working capital, with continued strength in receivables collection. Free cash flow was £339m (FY20: £382m), largely reflecting continued strong underlying cash conversion and a reduction in net interest and income tax paid.

Cash Flow APMs	FY21	FY20 (as reported)
Underlying operating profit	**£358m**	£411m
Depreciation, amortisation and non-cash items in profit	**£47m**	£56m
Share based payments	**£36m**	£29m
Net changes in working capital	**£65m**	£45m
Net capital expenditure	**(£55m)**	(£36m)
Underlying Cash Flow from Operations	**£451m**	£505m
Underlying cash conversion %	**126%**	123%
Non-recurring cash items	**(£9m)**	(£4m)
Net interest paid	**(£19m)**	(£26m)
Income tax paid	**(£81m)**	(£93m)
Profit and loss foreign exchange movements	**(£3m)**	–
Free Cash Flow	**£339m**	£382m

Statutory Reconciliation of Cash Flow from Operations	FY21	FY20 (as reported)
Statutory Cash Flow from Operations	**£476m**	£527m
Recurring and non-recurring items	**£30m**	£14m
Net capital expenditure	**(£55m)**	(£36m)
Underlying Cash Flow from Operations	**£451m**	£505m

Net debt and liquidity

Group net debt was £247m at 30 September 2021 (30 September 2020: £151m), comprising cash and cash equivalents of £567m (30 September 2020: £848m) and total debt of £814m (30 September 2020: £999m). The increase in net debt in the period is summarised in the table below.

	FY21	FY20
Net debt at 1 October	**(£151m)**	(£529m)
Free cash flow	**£339m**	£382m
New leases	**(£8m)**	(£30m)
Net proceeds from disposal of subsidiaries	**£142m**	£212m
M&A and equity investments	**(£39m)**	(£10m)
Dividends paid	**(£189m)**	(£186m)
Share buyback	**(£353m)**	(£7m)
FX movement and other	**£12m**	£17m
Net debt at 30 September	**(£247m)**	(£151m)

The Group's debt is sourced from a syndicated multi-currency Revolving Credit Facility (RCF), US private placement (USPP) loan notes, and sterling denominated bond notes. The Group's RCF expires in February 2025 with facility levels of £669m (split between US$719m and £135m tranches). At 30 September 2021, the RCF was undrawn (FY20: £294m).

The Group's USPP loan notes at 30 September 2021 totalled £370m (US$400m and EUR 85m) (FY20: £387m – US$400m and EUR 85m). The USPP loan notes have a range of maturities between January 2022 and May 2025.

The Group issued a debut £350m 10-year bond in February 2021, with a coupon of 1.625%. This issuance enabled the Group to extend the maturity of its debt portfolio and to diversify its funding sources. The net proceeds were used to repay an existing £200m syndicated Term Loan that was due to expire in September 2022 and for general corporate purposes.

Sage currently has an investment grade issuer credit rating assigned by Standard and Poor's of BBB+ (stable outlook).

Maturities within the next 18 months comprise EUR 55m (£47m) and EUR 30m (£26m) of the Group's USPP loan notes in January 2022 and January 2023 respectively.

The Group had £1,236m of cash and available liquidity at 30 September 2021, comprising cash and cash equivalents of £567m and undrawn facilities of £669m.

Capital allocation

Sage maintains a disciplined approach to capital allocation. The Group's focus is to accelerate strategic execution through organic and inorganic investment, including through acquisitions of complementary technology and partnerships to enhance Sage Business Cloud and further develop Sage's digital network. In line with management's focus on core geographies, Sage's businesses in Poland, Australia and Asia were sold during the year, and a sale agreement was announced in respect of the disposal of Sage's Swiss business.

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, we have increased the full-year dividend by 2.5% to 17.68p.

The Group also considers returning surplus capital to shareholders. On 4 March 2021 Sage launched a £300m share buyback programme that completed on 3 September 2021. A total of 45.4 million shares were purchased under this programme and are held as treasury shares. A further £300m share buyback programme commenced on 6 September and is expected to end no later than 24 January 2022. As at 12 November, 28 million shares had been purchased under the current programme for a total consideration of £202m and held in treasury.

	FY21	FY20 (as reported)
Net debt	**£247m**	£151m
EBITDA (Last Twelve Months)	**£443m**	£498m
Net debt/EBITDA Ratio	**0.6x**	0.3x

Group net debt as at 30 September 2021 was £247m and EBITDA over the last 12 months was £443m, resulting in a net debt to EBITDA leverage ratio of 0.6x. Group return on capital employed (ROCE) for FY21 was 19% (FY20 as reported: 20%).

Sage plans to operate in a broad range of 1 to 2x net debt to EBITDA over the medium term, with flexibility to move outside this range as the business needs require. Accordingly, we expect our leverage ratio to move back to the medium-term range, through organic investment, M&A and/or capital returns.

Going concern

The Directors have robustly tested the going concern assumption in preparing these financial statements, taking into account the Group's strong liquidity position at 30 September 2021 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 158 and in note 1 of the financial statements on page 181.

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)	**FY21**	FY20	Change
Euro (€)	**1.15**	1.14	1%
US Dollar ($)	**1.37**	1.28	7%
Canadian Dollar (C$)	**1.73**	1.72	1%
South African Rand (ZAR)	**20.28**	20.67	-2%
Australian Dollar (A$)	**1.82**	1.88	-3%

Risk-informed decision making

We have designed a Risk Management Framework, which helps Sage manage strategic, operational, commercial, financial, 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 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 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, strategic, commercial, operational, financial 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 risk 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.

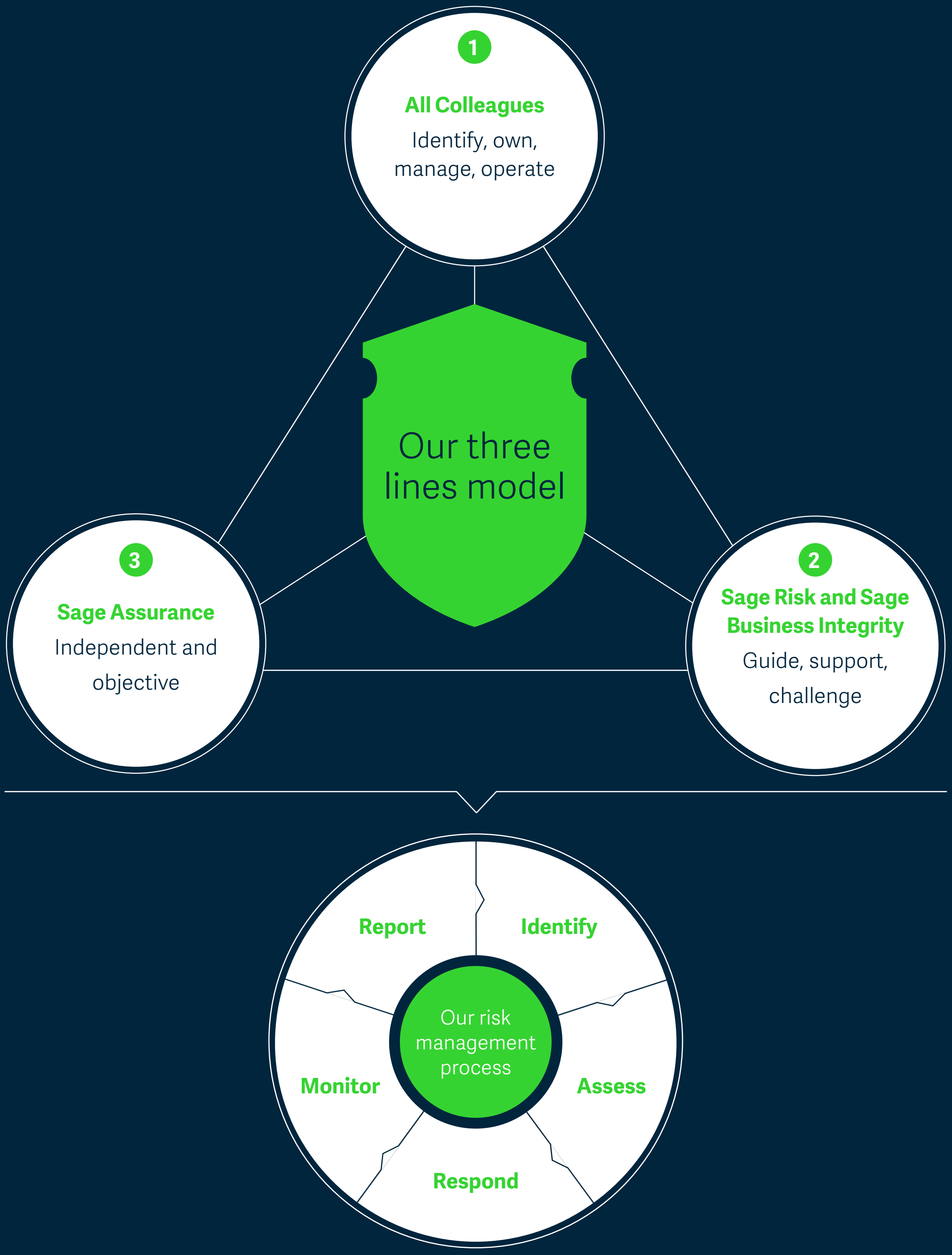
Principal risks are monitored against risk appetite targets using supporting measures, metrics, and tolerances, which are evaluated throughout the year to ensure they remain aligned with our strategic objectives, and within an acceptable risk tolerance for the Group.

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.



How we manage risk

Figure 1 on page 51 and Figure 2 on page 54 present an overview of our process and governance structures, including the Audit and Risk Committee and Board.

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 conduct 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. 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 54 to 56.

Throughout 2021, Sage Risk has continued to embed the 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 continued to embed 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. The Enterprise Risk Management Framework is also supported by the business continuity programme.

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 using a single, unified approach to reporting incidents.

In 2021, to recognise the growing importance of risk management in our business and strengthen the three lines of defence model we have created three new roles. The EVP, Chief Risk Officer is a newly created elevated position which oversees all aspects of risk management in Sage, acting as principal risk advisor to the Executive Committee and Board. Working with the Chief Risk Officer is the Vice President of Risk, a new senior leadership role dedicated to the management of Sage's Enterprise Risk Management Framework described above. The newly created Vice President of Assurance position helps Sage enable independence of the Assurance function and to ensure dedicated focus on the development of our integrated assurance model.

Risk 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 FY21, culture continued to be managed as a principal risk.

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

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.

During 2021 we continued the roll out of our compliance training programme, applying scientific theories and principles into learning design. We provided 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 particular, we launched a global Security Awareness learning to colleagues globally in support of a wider security culture transformation programme to ensure colleagues are able to identify and respond appropriately to security risks, and to operate with a security-by-design mindset.

Security awareness

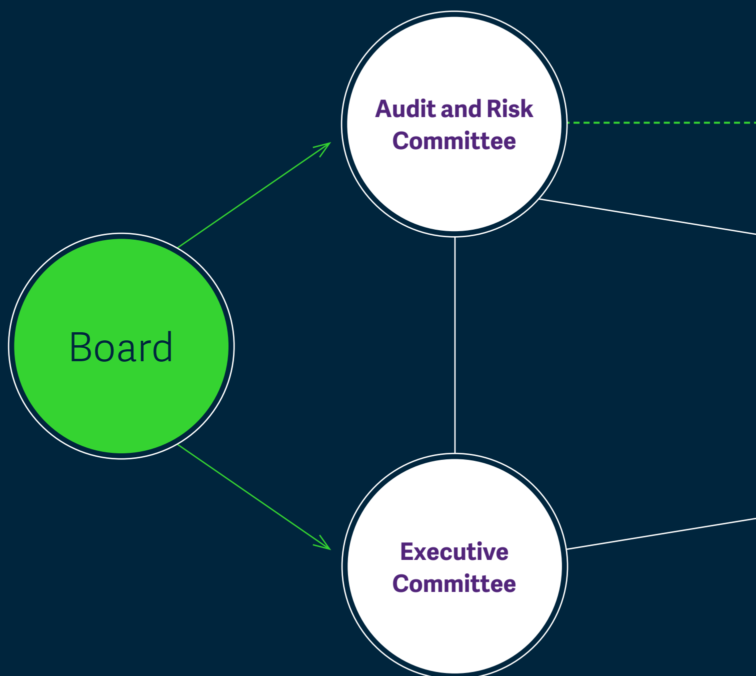
Employee case study

Security Awareness learning deployed to all colleagues during this financial year showed that 99% of colleagues know to report security concerns and 97% of colleagues assume personal responsibility for security at Sage. Demonstrating the transition from theoretical learning into practical application of knowledge, we saw a 50% increase in our Phishing Resiliency Rating after colleagues had completed the learning.

Figure 2

Risk governance

We operate a formal governance structure to manage risk.



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. Further information on the Committee's activity in 2021 is set out in the Audit and Risk Committee Report on pages 110 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 General Counsel and Company Secretary, supported by the EVP Chief Risk Officer, 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; and
- Provide the Board and Audit and Risk Committee with sufficient and effective information to enable them to discharge their risk reporting requirements.

The Global Risk Committee's membership includes the Chief Executive Officer, all principal risk owners and rotational representation from across the business.

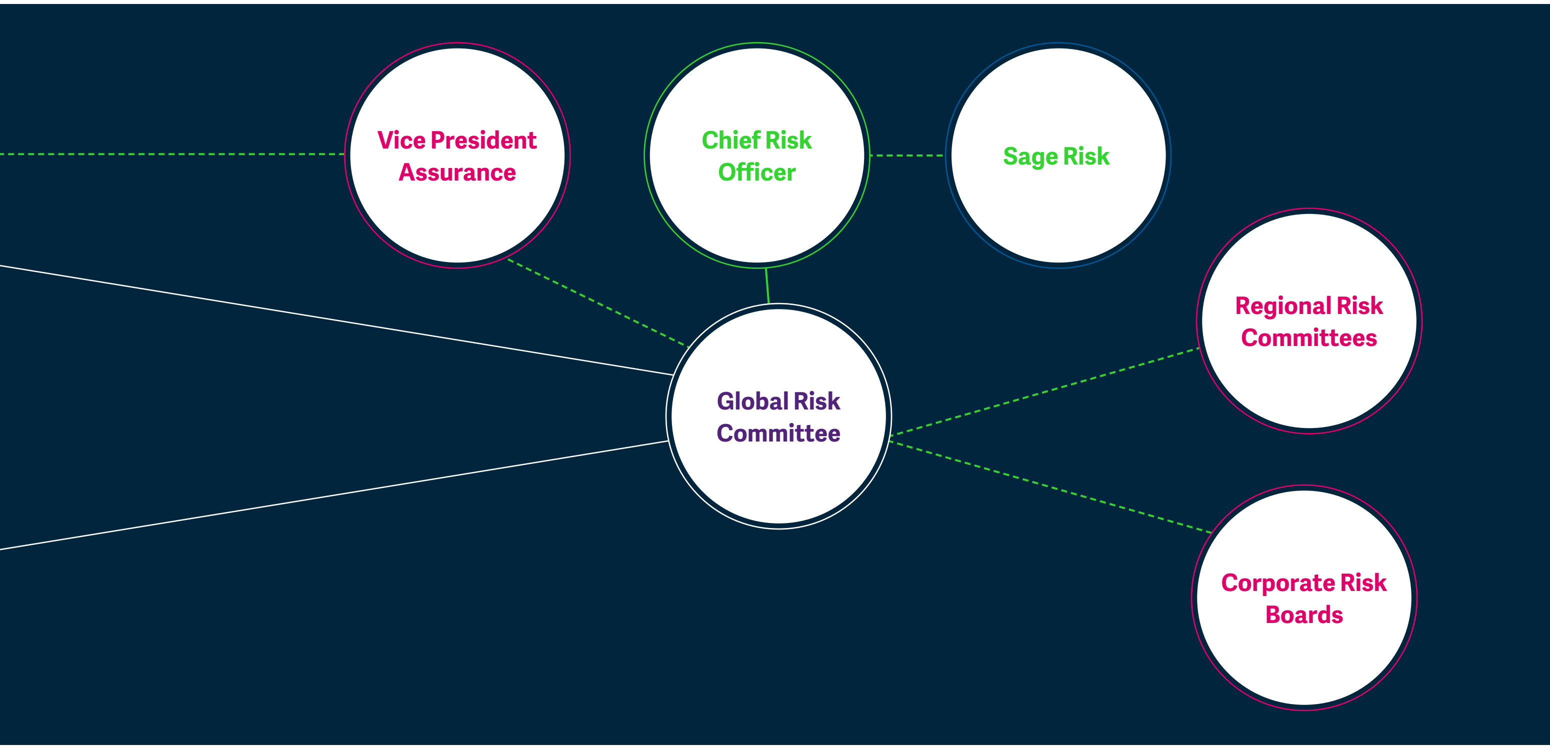
Relevant regional or emerging risks are escalated from the Regional Risk Committees and Corporate Risk Boards to the Global Risk Committee where necessary.

Regional Risk Committees

Seven Regional Risk Committees were operational throughout FY21 in Africa-Middle East, Asia-Australia, North America, Northern Europe, Central Europe, Southern Europe and Iberia. Each Committee met four times during FY21. During 2021, 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 operational during FY21, being the Global Commercial Product Office Risk Board, Global Security Committee, Global Data Privacy Forum and Global IT Risk Board.



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, 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 Management are advised on the product lifecycle exposure of the Group. This Board also supports the management of the Live Services Management principal risk. 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 Management on the current cyber and information risk exposure of the Group. The committee meets at least four times a year.

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 Sage's internal IT processes. This includes advising management and the Global Risk Committee on the current IT risk exposure of the Group and ensuring that the appropriate technical and organisational measures are in place. The board meets on a monthly basis.

Executive Vice President ("EVP") Chief Risk Officer

The EVP Chief Risk Officer is responsible for the second-line functions, namely Sage Risk and Sage Business Integrity. The EVP Chief Risk Officer 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 EVP Chief Risk Officer attends the quarterly Audit and Risk Committee meetings.

The EVP Chief Risk Officer is also responsible for the Sage Insurance programme, the Sage Business Continuity Programme and cyber security across the Group.

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 empowers colleagues to grow Sage with confidence and in good conscience, to achieve sustainable success. The team continues to transform the way colleagues think by empowering them to make decisions at the right time to safeguard Sage and help make it the best business that it can be. This is achieved through education in risk identification and legislative requirements, by leveraging technology enablers fit for a thriving technology company, as well as supporting first-line colleagues in designing and then monitoring suitable control frameworks to mitigate risk. By doing so, the Business Integrity team drives compliance with the Sage Business Control Framework and provides oversight to enhance the existing Sage due diligence framework.

Sage Assurance

Sage Assurance is led by the VP Assurance, and its purpose and activities are set out in the Internal Audit section of the Audit and Risk Committee Report on page 117. The VP Assurance attends the quarterly Audit and Risk Committee meetings and regularly meets with the Chair of the Audit and Risk Committee outside these meetings.

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;
- 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 1 to 66 and about the associated work of the Audit and Risk Committee on pages 110 to 119.

Leveraging our risk profile

In FY21 we continued to accelerate our cloud transition. Our principal risks have evolved as we have leveraged our risks and opportunities in support of our strategic goals. Our risk reporting provides 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 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 FY22.

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.

Throughout 2021, our Covid-19 Task Force supported Sage's recovery approach, ensuring that our colleagues, customers, and partners were being appropriately supported through the available resources and expertise that Sage has at hand. During the latter part of the year, the focus shifted to assisting our colleagues with a safe return to an office environment.

Brexit

During this fiscal year, the UK completed its exit from the European Union. As anticipated, the Group did not experience any adverse material impacts on day-to-day operations due to the local nature of our business operations and customer needs.

A key area of uncertainty for Sage leading up to the separation was in relation to the use of personal data. However, the EU approved adequacy decisions for the EU GDPR which means data can continue to flow as it did before. The General Data Protection Regulation has been kept in UK law as the UK GDPR and we continue to monitor post-Brexit changes.

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. We added a new principal risk titled Environment, Social and Governance to ensure risks relating to climate and societal changes are adequately captured and managed and to acknowledge the importance of operating in a socially and environmentally conscious manner.

We continued to simplify our risk reporting and align our risk metrics and appetite statements with our strategic goals. We also continued our focus on emerging risks, through incorporation into our principal risk assessment and monitoring programme and through dedicated 'horizon scanning' reviews.

As described in the previous pages, principal risks are formally reported to the Global Risk Committee, alongside escalated local risks and emerging risks. The following table describes a range of measures in place to manage and mitigate our principal risks. It should be noted that the risks are not listed in order of importance.

Emerging risks

In FY21, a process to identify and assess emerging risks was formally incorporated into Sage's Enterprise Risk Management Framework. As part of this process, Sage defined emerging risks as external or internal events not previously identified by the organisation which do not yet have clearly understood organisational impacts. The process involves business leaders as well internal and external subject matter experts and considers events across all possible categories, including technology, customers, regulations, socioeconomic factors, and competitor behaviour. The new process seeks to understand and prioritise new and emerging risks and ensure they are reported to the Global Risk Committee and managed appropriately by the business.

1 Understanding Customer Needs

If we fail to anticipate, understand and deliver against the capabilities and experiences our current and future customers need in a timely manner, they will find alternative solution providers.

Strategic alignment:

Risk context

As Sage continues to transform its business and brand, understanding of how to attract customers whilst retaining its existing customers and migrating those who are ready to move to the cloud is essential. This requires a deep and continuous flow of insights supported by processes and systems.

By understanding the needs of our customers, Sage will differentiate itself from competitors, build compelling value propositions and offers, leverage key drivers to identify opportunities, influence product and process roadmaps, decrease churn and drive more effective revenue generation.

Management and mitigation

- Brand health surveys to provide an understanding of customer perception of the Sage brand and its products, used to inform and enhance our market offerings
- A Market and Competitive Intelligence team to provide insights that Sage uses to win in the market
- Utilisation of customer activity and churn data, to understand their appetite for products and features
- 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
- Customer Advisory Boards, Customer Design Sessions and NPS detractor call-back channels to constantly gather information on customer needs.

2 Execution of Product Strategy

If we fail to deliver the capabilities and experiences outlined in our product strategy in a timely manner, we will not meet the needs of our customers or our commercial goals.

Strategic alignment:

Risk context

We need to execute, in a sound and methodical manner at pace, a prioritised product strategy that continues to simplify our product portfolio, focuses on our strategic cloud native offerings, and builds innovative and differentiated capabilities and solutions.

Management and mitigation

- Refined product strategy in line with FY22 strategic objectives and ambitions, based on our market understanding and customer expectations
- New product organisation and governance model to improve the way we build and launch products
- Migration framework in key countries to support our customers in their journey to the cloud
- Sage Intacct is now available in the UK, Australia and South Africa as part of our internationalisation programme
- Improved proposition for accountants, including the acquisition of GoProposal
- Enhanced governance and planning framework aligned to market objectives
- Strengthened product design governance to ensure product development is always driven by our understanding of our ability to penetrate key markets.

Key

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

Risk environment change

- Improving
- Stable

3 Innovation

If we fail to identify and leverage disruptive technologies and invest in modern development practices and tools in a timely manner, we will not meet the needs of our customers or our commercial goals.

Strategic alignment:

Risk context

We must be able to rapidly deploy new innovations to our customers and partners by introducing technologies, services, or new ways of working.

Innovation requires us to address how we drive change and transformation across our people, processes and technology, and how we differentiate our products and drive customer efficiencies.

Management and mitigation

- Continued focus on AI/ML development coupled with a drive to improve how to exploit data to provide better management insight to our customers
- Leveraging Sage ID and the Sage Business Cloud to deliver a unified and highly personalised experience for each customer across the entirety of the customer experience and Sage Digital Network
- Enhanced, consistent digital experience for all Sage Business Cloud users through the Sage Design System
- 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
- Strategic acquisition and collaboration with partners to complement and enable accelerated innovation
- Focused colleague engagement to accelerate innovation across the organisation through a Continuous Innovation Community.

4 Route to Market

If we fail to deliver a bespoke blend of route to market channels in each country, based upon common components, we will not be able to efficiently deliver the right capabilities and experiences to our current and future customers.

Strategic alignment:

Risk context

We have a blend of channels to communicate with our current and potential customers and ensure our customers receive the right information on the right products and services at the right time. Our sales channels include selling directly to customers through digital and telephony channels, via our accountant network and through partners, valued added resellers (VARs) and Independent Software Vendors (ISVs).

We use these channels to maximise our marketing and customer engagement activities. This can shorten our sales cycle and ensure that customer retention is improved.

Management and mitigation

- Market data and intelligence is used to support decision making regarding the best routes to market
- Dedicated colleagues are in place to support partners, and to help manage the growth of targeted channels
- Sale processes are targeted and configured by region for key customer segments and verticals
- sage.com has been enhanced to provide clearer user journeys to enable customer conversion
- Onboarding of new partners to support acceleration in cloud native product utilisation
- New routes to market are being opened through partnerships with payment and banking technology providers
- Centre of Excellence created to support our Indirect Sales and Third Party approach.

5 Customer Success

If we fail to effectively identify and deliver ongoing value to our customers by focusing on their needs over the lifetime of their customer journey, we will not be able to achieve sustainable growth through renewal.

Strategic alignment:

Risk context

We must maintain a sharp focus on the relationship we have with our customers, constantly focusing on delivering the products, services and experiences our customers need to be successful. If we do not do this, they will likely find another provider who does give them these things. Conversely, if we do these things well these customers will stay with Sage, increasing their lifetime value, becoming our greatest marketing advocates.

Whilst Sage is known for its quality customer support, this area requires constant, proactive focus. By helping customers to recognise and fully realise the value of Sage's products we can help increase the value of these relationships over time and reduce the likelihood of customer loss. By aligning our people, processes and technology with this focus in mind, all Sage colleagues can help support our customers to be successful and in turn drive increased financial performance.

Management and mitigation

- Battlecards are in place for key products in all countries, setting out the strengths and weaknesses of competitors and their products
- A data-driven Customer Success Framework to enhance the customer experience and ensure that Sage is better positioned to meet the current and future needs of the customer
- Customer Journey mapping and mapping of the five core customer processes to ensure appropriate strategy alignment and alignment to Target Operating Model
- 'Customer for life' roadmaps, detailing how products fit together, any interdependencies, and migration pathways for current and potential customers
- Continuous Net Promoter Score (NPS) surveying allows Sage to identify customer challenges rapidly, and respond in a timely manner to emerging trends
- A specialised Procurement function supports the business with the selection of strategic third-party suppliers and negotiation of contracts.

6 Third Party Reliance

If we do not embed our partners as an integral and aligned part of Sage's go-to-market strategy in a timely manner, we will fail to deliver the right capabilities and experiences to our customers.

Strategic alignment:

Risk context

Sage places reliance on third-party providers to support the delivery of our products to our customers through the provision of cloud native products.

Sage also has an extensive network of sales partners critical to our success in the market, and suppliers upon whom it places reliance.

Any interruption in these services or relationships could have a profound impact on Sage's reputation in the market and could result in significant financial liabilities and losses.

Management and mitigation

- The appointment of an experienced senior leader to strengthen our Global Partner Alliance team
- Centre of Excellence for our Indirect Sales and Third-Party partners
- Dedicated colleagues in place to support partners, and to help manage the growth of targeted channels
- Standardised implementation plans for Sage products that facilitate efficient partner implementation
- Managed growth of the API estate, including enhanced product development that enables access by third-party API developers
- Enhanced third-party management framework, to support closer alignment and oversight of third-party activities.

Key

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Risk environment change

- Improving
- Stable

7 People and Performance

If we fail to ensure we have engaged colleagues with the critical skills, capabilities and capacity we need to deliver on our strategy, we will not be successful.

Strategic alignment:

Risk context
As we evolve our priorities, the capacity, knowledge and leadership skills we need will continue to change. Sage will not only need to attract the talent and experience we will need to help navigate this change. We will also need to provide an environment where colleagues can develop to meet these new expectations, an environment where everyone can perform at their very best.

By empowering colleagues and leaders to make decisions, be innovative, and be bold in delivering on our commitments, Sage will be able to create an attractive working environment. By addressing drivers of colleague voluntary attrition, and embracing the values of successful technology companies, Sage can increase colleague engagement and create an aligned high-performing team.

Management and mitigation
- Extensive focus on hiring channels to ensure we are attractive in the market through our enhanced employee value proposition, enhanced presence through social media such as Glassdoor, Comparably, Twitter, LinkedIn, and Facebook
- Hiring practices focused on the skills we need in balance with organisational costs supported by a methodology for upskilling and building capability in the long term from within the organisation
- Reward mechanisms designed to incentivise and drive the right behaviour with a focus on ensuring fair and equitable pay in all markets
- Focused development of our leaders to ensure they create the environment which enables colleagues to thrive and perform at their very best
- 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 and an additional three paid days off from work to help cope with the stresses of the pandemic.

8 Culture

If we do not fully empower our colleagues and enable them to take accountability in line with our shared Values and Behaviours, we will be challenged to maintain a culture, that meets Sage's business ambitions.

Strategic alignment:

Risk context
The development of a shared behavioural competency that encourages colleagues to always do the right thing, put customers at the heart of business and drive innovation is critical in Sage's success. Devolution of decision making, and the acceptance of accountability for these decisions, will need to go hand in hand as the organisation develops and sustains its shared Values and Behaviours, and fosters a culture that provides customers a rich digital environment.

Sage will also need to create a culture of empowered leaders that supports the development of ideas, and that provides colleagues with a safe environment allowing for honest disclosures and discussions. Such a trusting and empowered environment can help sustain innovation, enhance customer success and drive the engagement that results in increased market share.

Management and mitigation
- Integration of Values and Behaviours into all colleague priorities including talent attraction, selection, onboarding as well as performance management
- All colleagues are actively encouraged to take up to five paid Sage Foundation days each year, to support charities and provide philanthropic support to the community
- Six new commitments to diversity, equity and inclusion (DEI) including zero tolerance to discrimination, equal chance to everyone, inclusive culture, removing barriers, DEI education, and development of a new DEI strategy to ensure we deliver on our commitments
- A new three-year DEI strategy focuses on building diverse teams, an equitable culture, and fostering inclusive leadership. This strategy is supported by measurable plans and metrics to track progress
- Code of Conduct communicated to all colleagues, and subject to certification every two years
- 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.

9 Cyber Security and Data Privacy

If we fail to responsibly collect, process and store data, together with ensuring an appropriate standard of cyber security across the business, we will not meet our regulatory obligations, and will lose the trust of our stakeholders.

Strategic alignment:

Risk context
Information is the life blood of a digital company – protecting the confidentiality, integrity and accessibility of this data is critical for a data-driven business, and failure to do so can have significant financial and regulatory consequences in the General Data Protection Regulation (GDPR) era. In addition, we also need to use our data efficiently and effectively to drive improved business performance.

Management and mitigation
- Multi-year cyber security programmes in IT and products to ensure Sage is driving continuous improvement and cyber risk reduction across technology, business processes and culture
- Accountability within both IT and Product for all internal and external data being processed by Sage. The Chief Information Security Officer oversees information security, with a network of Information Security Officers that directly support the business
- The Chief Data Protection Officer oversees information protection
- Formal certification schemes maintained across the business, and include internal and external validation of compliance
- All colleagues are required to undertake awareness training for information management and data protection, with a focus on the GDPR requirements
- An Information Security Risk Management Methodology is deployed to provide objective risk information on our assets and systems.

Key

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Build the small business engine
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Expand medium beyond financials
Scale the network

Risk environment change

Improving
Stable

10 Data Strategy

If we fail to identify, maximise and utilise the value of our data and customer data in a timely manner in accordance with our data principles, we will not be able to realise the full potential of our assets.

Strategic alignment:

Risk context

Data is central to the Sage strategy to deliver our ambition of a digital network. The strategy is underpinned by our ability to innovate and develop solutions to enhance customer propositions, improve insight and decision making and create new business models and ecosystems. Successful ability to use data will accelerate our growth and will be a key driver in helping customers transform how they run and build their businesses.

Management and mitigation

- Data strategy across customer, product, and enterprise data to support the delivery of customer value and solve customer problems, including the use of enhanced Artificial Intelligence /Machine Learning capabilities
- Global data function created to drive focus and alignment across the organisation
- Focus on developing Sage ID and Service Fabric to enable better data accuracy and insight
- Plan to increase digital network participation, which will contribute to more data to support the delivery of real customer value and solve real customer problems
- Customer consent service deployed to manage compliance usage of data assets
- Governance policies, processes and tooling to enhance and manage the quality and consistency of our data.

11 Live Services Management

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:

Risk context

As Sage transitions to a digital company, we continue to focus on scaling our current and future platform services environment in a robust, agile, and speedy manner to ensure the delivery of a consistent and robust cloud platform and associated digital network.

Sage must provide the right infrastructure and operations for all of our customer products, a hosting platform together with the governance to ensure optimal service availability, performance, security protection and restoration (if required).

Management and mitigation

- Accountability across product owners, underpinned by ongoing risk assessments and continuous improvement projects
- Formal onboarding process including ongoing management in Portfolio Management processes
- Incident and problem management change processes adhered to for all products and services
- Service-level objectives including uptime, responsiveness, and mean time to repair objectives
- An established forum for continuous assessment and refinement
- Defined Real-Time Demand Management processes and controls and also Disaster Recovery Capability and operational resilience models
- A governance framework to optimise operational cost base in line with key metrics.

12 Environment, Social and Governance (new Principal risk for FY21)

If we fail to fully, and continually, respond to the range of environmental, social and governance-related opportunities and risks we may fail to deliver positive change to social and environmental issues and damage the confidence of our stakeholders.

Strategic alignment:

Risk context

We are committed to investing in education, technology, and the environment to give individuals, small and medium businesses (SMBs), and our planet the opportunity to thrive. Our goal is to use our technology, time, and experience to back a generation of diverse, sustainable businesses.

The potential benefits of investing in our ESG strategy include:

- Increased customer engagement
- Better use of resources, for example lower energy and water consumption and associated costs
- Enhanced stakeholder trust
- Improved ability to attract and retain talent, enabling colleagues to perform at their best
- Stronger community relations

Management and mitigation

- Sage's Sustainability and Society strategy was launched in 2021, focusing on three pillars: Tech for Good, Fuel for Business, Protect the Planet
- Underpinning the strategy is a robust cross-functional governance framework
- Tracking tools in place to enable horizon scanning and to track the Sustainability and Society strategy's reputation impact
- The Sage Foundation, established in 2015, remains focused on the areas of education, employment, and entrepreneurship via the contribution of time, investment and capability
- Multiple projects designed to respond to specific ESG risks, for example, a project focused on TCFD readiness including risk and opportunities mapping and climate scenario analysis.

Further detail on the mitigation of this risk is described in our separate Sustainability and Society Report.

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.

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Viability statement

Assessment of prospects and viability period

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

The Directors have assessed the prospects of the Group by considering the Group's current financial position, its recent and historical financial performance and forecasts, its business model and strategy (pages 20 to 21 and 16 to 19) and the principal risks and uncertainties (pages 57 to 64). In addition, the ongoing 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 a robust liquidity position which is supported by strong underlying cash conversion of 126%, reflecting the strength of the subscription business model; and
- A well-diversified small and medium customer base.

The Directors have reviewed the period used for the assessment and determined that three years remained suitable. The Directors are of the view that projections over a three-year period remain appropriate given the relative predictability of cash flows associated with Sage's subscription business.

This period aligns our viability statement with our three-year strategic planning horizon and is appropriate given the nature and investment cycle of a technology business. Projections beyond this period are less reliable due to the continuously evolving technology landscape in which Sage operates. The Directors have no reason to believe the Company will not be viable over a longer period.

The assessment process

In forming the viability statement, the Directors carried out a robust assessment of the Group's principal and emerging risks which could impact the business model. These are reviewed by the Board and the Audit and Risk Committee quarterly and are a foundation for the Group's strategic plan.

Since the onset of the Covid-19 pandemic, the impact on the Group's financial performance has been limited. Nonetheless the Group is subject to increased uncertainty in the near term, particularly from the potential impact on our customers from the winding down of government support schemes. 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, and we have seen an increased demand for our cloud-based solutions which can be accessed remotely and better enable remote working practices.

The financial forecasts contained in the Group's three-year plan make certain assumptions about composition of the Group's product portfolio, the ability to acquire new customers and maintain a strong renewal rate by value through reducing churn and providing additional functionalities to our existing customers. The plan also assumes that the Group continues to generate resilient cash conversion in excess of 100%, pay debt instalments as they fall due, as well as fund remaining obligations under the share buyback programme.

As part of the assessment, the Group stress tests the three-year plan using various severe but plausible scenarios. To achieve this, management reviewed the principal risks and considered which might threaten the Group's viability. 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 key functions across the business.

Under the stress scenarios, churn assumptions have been increased by up to 100% and a significant reduction in new customer acquisition and sales to existing customers considered. In all stress scenarios the Group continues to have sufficient resources to continue in operational existence without triggering the need to renegotiate debt. Scenarios modelled within this assessment are in line with the prior year, reflecting the continued execution of our SaaS transition.

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. Data breach The deliberate targeting or accidental release of customer data which breaches data privacy laws and/or societal expectations in any region could have a significant impact on Sage's reputation in the market, as well as impact its regulatory compliance under the various data protection laws to which Sage is subject.	• Understanding Customer Needs • Customer Success • Innovation • Route to Market • People and Performance	• Culture • Cyber Security and Data Privacy • Data Strategy • Live Services Management
2. Existing or new market disruptor The entry of a new player or the expansion of an existing market player in the financial and accounting management space with a free or very low-cost offering that significantly disrupts Sage's total market share.	• Understanding Customer Needs • Execution of Product Strategy	• Route to Market • Customer Success • Innovation
3. Global economic shock The crystallisation of a global economic shock which leads to a global economic downturn, resulting in small and 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
4. 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, or a key third-party provider being compromised.	• 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 on the Group should each scenario arise. Consideration of the impact of Covid-19 has been factored into the three-year plan, with incremental risk reflecting current levels of uncertainty modelled as part of the global economic shock scenario.

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

As set out in the Audit and Risk Committee's Report on pages 110 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. The result of the reverse stress testing has highlighted that such a scenario would only arise following a catastrophic deterioration in performance, well in excess of the assumptions considered in the viability scenarios set out above.

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

Confirmation of longer-term viability

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

Corporate Governance

Andrew Duff
Chair

Dear shareholder

On behalf of the Board, I am pleased to introduce our Governance Report for the year ended 30 September 2021. This report sets out our approach to effective corporate governance and outlines key areas of focus of the Board and its activities undertaken during the year as we continue to drive long-term value creation for all our stakeholders.

Board succession and diversity

There have been changes to the Board composition during the year as part of the Board's ongoing succession planning processes. After serving as Chair for nine years, Sage announced in March 2021 that Sir Donald Brydon would retire from the Board at the end of September 2021. Our Nomination Committee, led by our Senior Independent Director, Drummond Hall, with support from the whole Board and the Company Secretary, oversaw the succession and appointment process which led to my appointment as Non-executive Director and Chair designate in May 2021. Further information on the Chair selection process can be found on pages 104 and 105.

I was delighted to be appointed Chair designate of Sage and have worked closely with Sir Donald Brydon, Steve Hare and the rest of the Board over the last few months to ensure a smooth transition and effective handover. A comprehensive induction programme has provided me with an opportunity to meet members of the Executive Committee, senior management and a number of other Sage colleagues and to gain rapid insight and understanding of Sage, its business and culture. You can read more about my induction programme on pages 78 and 79.

In March 2021, following a formal and thorough recruitment process, the Board appointed Derek Harding as a Non-executive Director, with Derek also joining the Audit and Risk Committee upon appointment. We have been delighted to welcome Derek onto the Sage Board and his financial acumen, commercial expertise and experience of leading business transformation has enhanced the strength and depth of existing Board capabilities.

The Board and the Nomination Committee continue to drive the agenda of diversity, equity and inclusion across the Group. At Sage, it is our ambition for our workforce to reflect the diversity of our customers and partners in the communities where we operate. We strongly believe that a diverse and inclusive workforce brings a broader range of perspectives, accelerates growth and innovation, helps to understand the needs of our wide range of stakeholders and helps us to find and retain the best talent. During the year, a formal Diversity, Equity and Inclusion Policy was adopted by the Board which sets out the approach to diversity, equity and inclusion for the Board itself. We recognise and are fully supportive of the recommendations of the Hampton-Alexander and Parker Reviews and as a collective Board will continue to ensure that diversity in its broadest form is fully considered in the context of future Board composition.

Company purpose and culture

The Board is cognisant that it has the ultimate responsibility for ensuring an appropriate company culture to act as a backdrop to the way in which Sage behaves towards all its stakeholders. Our culture provides the foundation to drive our purpose and delivery of our strategy. As a Board, we continue to spend time focused on ensuring that our culture enables us to build the organisational capability required to deliver on our promises to our stakeholders, customers, colleagues, society and shareholders.

With the launch of our Sustainability and Society strategy in June, Sage has set out its commitment to tackle societal and economic inequality and to play its part in tackling the climate change crisis. As a Board we believe Sage can play a pivotal role in supporting a new generation of diverse and sustainable businesses and we are excited by the opportunity to help the millions of small and medium businesses we serve worldwide as we execute against this strategy. We live our purpose of knocking down barriers every day by helping small and medium businesses with our technology and our support. However, our purpose extends beyond our customers. It speaks to a wider economic significance of a thriving small and medium business sector; shapes the wider role that we play in helping our communities and the planet, and underlines the importance we place on acting with the highest levels of integrity within a strong governance framework.

More information on our purpose and culture can be found on pages 3 and 38 to 41. Information on our Sustainability and Society strategy can be found on pages 29 to 31.

Engagement with our stakeholders

The success of our strategy is reliant on the support and commitment of all our stakeholders. Balancing stakeholders' needs and views is a key part of Board decision making.

The Board recognises the importance of two-way communications with our colleagues. The role of our Board Associate has been in place since 2017 and 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 creation of the Associates' Council last year has provided the Board with further insight from a colleague perspective on the consequences of strategic decisions in the long term as well as giving a clearer sense of the day-to-day colleague experience and how it can be enhanced.

Whilst for much of the year it has not been possible to meet physically with colleagues and other stakeholders, the Board has recently resumed face-to-face Board meetings and activities, and all Board members are looking forward to meeting and connecting more personally with stakeholders in a Covid-19 safe environment in the coming months.

Further details on how we have engaged with our stakeholders can be found on pages 88 to 95.

Board effectiveness

It is extremely important that the Board, its Committees and individual Directors rigorously review their performance and embrace the opportunity to develop, where necessary. This year an internal effectiveness review was undertaken with support from the Company Secretary. Progress on last year's areas of focus as well as the outcome of this year's effectiveness review can be found on pages 80 to 82. We expect to carry out an external effectiveness review in 2022 in line with the Code.

Directors' Remuneration Policy

Our proposed Directors' Remuneration Policy, which is intended to apply for the coming three years, will be put to our shareholders for their approval at the Annual General Meeting on 3 February 2022. The proposed policy has been designed to continue the close alignment between executive reward and the delivery of our business strategy, purpose and culture, with stakeholders' interests at the heart of the matter. Details of the proposed policy, the outcome of the shareholder consultation process and the implementation of the current policy during the year, can be found in the Directors' Remuneration Report on pages 120 to 157.

Looking forward

We will continue as a Board to maintain the highest standards of corporate governance across the Group, focus on delivery of our strategy and continue to promote and enhance the inclusive culture that management and their teams have worked so hard to establish.

I encourage all our stakeholders to take every opportunity presented to engage with the Company and, subject to any Covid-19 restrictions in place at the time, I would welcome you to attend, and in any case vote at, the forthcoming Annual General Meeting.

In closing, I would like to take the opportunity to thank Sir Donald Brydon for his exemplary leadership as Sage progressed in its transition to becoming a great SaaS business. I look forward to building on his legacy and working with the Board and Sage leadership team to continue building a sustainable business delivering on the interests of all our stakeholders whilst contributing to the communities and the wider society in which we operate.

Andrew Duff
Chair

The UK Corporate Governance Code 2018 – Compliance Statement

Sage applied the principles of the UK Corporate Governance Code 2018 (the "Code") and complied with all its provisions throughout FY21, with the exception of provision 38 (alignment of executive directors' pension contributions with those of the wider workforce). We are pleased to confirm that, since 1 October 2021, when the CEO's pension contribution was reduced from 15% to 10% of base salary, Sage has complied with all provisions of the Code. Further information on the Directors' Remuneration Policy 2022 and pension contributions of Executive Directors are in the Directors' Remuneration Report on pages 120 to 157.

In FY21 the Board has continued with its chosen approach to workforce engagement, through the Board Associate programme, and further enhanced by the Associates' Council, to deliver success in enabling efficient and effective engagement with our colleagues. 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. Further details on the Board Associate's role can be found on page 95.

We believe good corporate governance provides confidence in the delivery of our strategic performance to our stakeholders and is essential for the long-term sustainable success of our business. The table below shows the principles set out in the Code and where key content can be found in this report showing how we have applied those principles.

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

Board leadership and company purpose

	Pages
Purpose and culture	3, 38 to 41, 61 and 99
Shareholder engagement	89
Colleague engagement	90
Other stakeholder engagement	92 to 94
Conflicts of interest	83

Division of responsibilities

	Pages
The role of the Board	74
The role of the Committees	74 and 75
Board composition	75
Committee composition	84
Independence of Non-executive Directors	83
Time commitment	83

Composition, succession and evaluation

	Pages
Board composition and succession	104 and 105
Diversity and Inclusion	106 to 109
Annual re-election of Directors	83
Induction, Director training and development programme	78 and 79
Board effectiveness and evaluation	80 to 82

Audit, risk and internal control

	Pages
Significant reporting and accounting matters	112 to 115
Fair, balanced and understandable	116
Viability statement and going concern	113
Risk management and internal controls	116
Internal audit	117
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Principal and emerging risks	57, 111 and 116

Remuneration

	Pages
Remuneration principles	121
Remuneration Policy	130 to 139
Pension and benefits	149 and 150
Directors' shareholdings and share interests	153
External advisors	157

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. The open and transparent Board dynamic contributes to honest conversations to ensure effective decision making in full consideration of the impact on all stakeholders and long-term value creation.

Andrew Duff

N

Chair
Chair of the Nomination Committee

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

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

Effective leader with strategic insights and international experience

Strong focus on purpose, culture and customer-centricity, and delivering value for all stakeholders

Key previous experience
Non-executive chair of Elementis plc

Non-executive chair of Severn Trent plc

Non-executive director of Wolseley plc

Chief executive officer of npower

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

Sangeeta Anand

A

Independent Non-executive Director
Member of the Audit and Risk Committee

Appointed
1 May 2020

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

Deep operating experience in transforming complex product portfolios and go-to-market to capture the cloud opportunity

Technology and business experience includes cybersecurity, cloud, enterprise software, SaaS and application services

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

Senior Vice President, F5 Networks Inc (Listed on NASDAQ)

General Manager and Corporate Vice President, SafeNet (part of Thales Group)

Vice President, Cisco Systems

Key external commitments
None

Dr John Bates

N R

Independent Non-executive Director
Member of the Nomination Committee and the Remuneration Committee

Appointed
31 May 2019

Skills
Visionary technologist and highly accomplished business leader in the field of technology innovation including Artificial Intelligence and Machine Learning functionality to improve customer experience

Pioneer focusing on areas such as event-driven architectures, smart environments, business activity monitoring and evolution of platforms for digital business

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

Head of industry solutions and chief marketing officer of Software AG

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

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

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

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

Key external commitments
Executive chairman of SER Group Holding GmbH

Jonathan Bewes

A

Independent Non-executive Director
Chair of the Audit and Risk Committee

Appointed
1 April 2019

Skills
Has prior experience of serving as chair 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

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

Chartered accountant with KPMG

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

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

Annette Court

A R

Independent Non-executive Director
Chair of the Remuneration Committee and member of the Audit and Risk Committee

Appointed
1 April 2019

Skills
Has prior experience of serving as chair of a remuneration committee

Experience in executive and non-executive director roles at the highest levels including as chair of a FTSE 100 company

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

Key previous experience
Senior independent director of Jardine Lloyd Thompson Group

Chief executive officer of Europe General Insurance for Zurich Financial Services

Chief executive officer of the Direct Line Group

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

Key external commitments
Chair of Admiral Group plc

Drummond Hall

A N R

Senior Independent Director
Member of the Remuneration Committee, the Audit and Risk Committee and the Nomination Committee

Appointed
1 January 2014

Skills
Experienced non-executive director and board chair

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

Key previous experience
Senior independent director of WH Smith plc

Senior independent director of FirstGroup plc

Chair of Mitchells & Butlers plc

Chief executive officer of Dairy Crest Group plc

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

Key external commitments
None

Derek Harding

Independent Non-executive Director
Member of the Audit and Risk Committee

Appointed
2 March 2021

Skills
Significant financial experience including leading business transformations and sharp financial acumen

Broad experience across a range of commercially focused financial and operational roles including strategy, investor relations, mergers and acquisitions

Key previous experience
Chief financial officer at Senior plc

Group finance director at Shop Direct

Finance director of Wolseley UK

Key external commitments
Chief financial officer at Spectris plc

Steve Hare

Chief Executive Officer

Appointed
3 January 2014 as Chief Financial Officer ("CFO")

31 August 2018 as Chief Operating Officer, and as Chief Executive Officer ("CEO") on 2 November 2018

Skills
Significant financial, operational and transformation experience which includes driving change programmes in several of his previous roles

Broad knowledge of Sage, having joined the Board in January 2014 as CFO

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

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

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

Key external commitments
None

Changes to the Board during FY21 and the year to date:

- Derek Harding was appointed as an independent Non-executive Director on 2 March 2021
- Andrew Duff was appointed as an independent Non-executive Director on 1 May 2021 and as Non-executive Chair on 1 October 2021
- Sir Donald Brydon stepped down from the Board on 30 September 2021

Further information on the appointments and Board succession planning activities can be found on pages 104 and 105.

Further information on the composition of the Board can be found on page 75.

Jonathan Howell

Chief Financial Officer

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

Skills
Highly experienced group finance director as well as experience as a chairman and non-executive director

Significant financial and accounting experience gained across several sectors which allow him to provide substantial insight into the Group's financial reporting and risk management processes

Excellent working knowledge of Sage, having joined as an independent Non-executive Director and acting as the Chair of the Audit and Risk Committee for six years

Key previous experience
Group finance director of Close Brothers Group plc
Group finance director of London Stock Exchange Group plc

Non-executive director of EMAP plc

Chair of FTSE International

Key external commitments
Independent non-executive director of Experian plc

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

Experience in product development, creating brand identity, go-to-market strategy, customers' experiences, sales and support across diverse cultural regions

Key previous experience
President of GoDaddy EMEA and previously held the role of SVP and general manager for GoDaddy's Productivity business

Worked for Intuit and oversaw launch of QuickBooks POS with Mobile Payments integration

Product and development roles at Google and IBM

Key external commitments
Chief product officer of Typeform

Key

A Audit and Risk Committee
See pages 110 to 119

N Nomination Committee
See pages 102 to 109

R Remuneration Committee
See page 120 to 157

New appointment

Full biographies can be found on our website at sage.com.

Executive Committee

Steve Hare chairs the Executive Committee of which Jonathan Howell is also a member.

Derk Bleeker

Chief Strategy and Development Officer

Appointed
1 October 2019

Skills and Experience
Leads on overall strategic direction of the Group, M&A and business planning including portfolio simplification and driving the accelerated transformation of Sage's product portfolio to create a focused and high-growth SaaS company

Past responsibility for Commercial Finance and in-depth experience as a leader of corporate development gained from working for a global industrial and medical technology company

Additional experience in private equity and as an M&A specialist in investment banking

Vicki Bradin

General Counsel and Company Secretary

Appointed
1 October 2016

Skills and Experience
Leads the Legal, Company Secretariat, Cyber Security and Risk, Business Integrity and Assurance teams

Extensive corporate legal experience built over 20 years in global and magic circle law firms and in-house at large multi-nationals and UK-listed companies

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

Amanda Cusdin

Chief People Officer

Appointed
1 October 2017

Skills and Experience
Leads the People function and strategy to find and retain talent and drive inclusivity and diversity at Sage. Drives the Sustainability and Society strategy through leadership of the Sage Foundation team and Sustainability and Social Purpose team.

Extensive HR experience built over a period of 20 years across several global FTSE organisations in a variety of sectors

Experience in supporting executive leaders to drive change and transformation as well as HR aspects of M&A, growth in new geographies and working across cultures and matrix organisations

Passionate about developing talent and leadership and creating truly inclusive organisations which promote diversity

Sue Goble

Chief Customer Success Officer

Appointed
1 October 2019

Skills and Experience
Accountable for setting the strategy and governance for customer services and customer success on a global basis with a pinpoint focus on customer-centricity throughout the business

Broad experience including responsibility for business operations and executing major programmes successfully across the organisation

A distinguished career bringing valuable experience into Sage from a range of cloud companies and senior roles in customer relationship management

Aaron Harris

Chief Technology Officer

Appointed
1 April 2019

Skills and Experience
Responsible for Sage's technology strategy and architecture

More than 20 years of high-tech engineering experience in business applications and software development strategies

Founding team member and the CTO of Sage Intacct, establishing it as the innovation leader in cloud financial management solutions

Cath Keers

Chief Marketing Officer

Appointed
8 September 2020

Skills and Experience

Responsible for the global strategy and governance across all of Sage's marketing, including brand, communications, events, digital channels, and marketing operations

Valuable knowledge of digital and customer experience insights with a deep understanding of leveraging sales and marketing activity to build successful brands

Breadth of sector experience including retail, marketing and business development, with commercial roles at large and global businesses

Cath was previously a Non-executive Director of Sage, who was appointed on 1 July 2017 and stepped down from the Board on 30 June 2020

Lee Perkins

Chief Operating Officer

Appointed
25 January 2019

Skills and Experience

Leads Sage's regional businesses and Global Product Organisation comprising product marketing, product management and product engineering and go-to-market operations

Wealth of commercial and general management experience spanning 20 years in public and private equity-backed companies

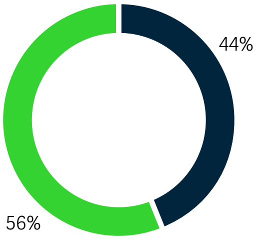
Deep understanding and relationships across the business to ensure progress in the product and sales functions

Changes to the Executive Committee during FY21 and the year to date:

- Robert Reid stepped down from the Executive Committee on 31 March 2021
- Keith Robinson stepped down from the Executive Committee on 2 July 2021

Executive Committee composition[1]

Gender

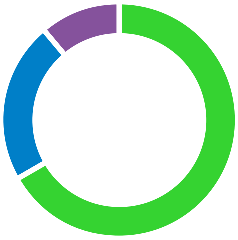


- Female: 4
- Male: 5

Experience

- Technology & Innovation: 11%
- Financial: 22.5%
- Sales & Marketing: 11%
- Customer Success: 22.5%
- Corporate Development & Strategy: 11%
- Culture, Diversity & Inclusion: 11%
- Legal & Governance: 11%

Tenure



- Less than 1 year: 0
- 1-3 years: 6
- 3-6 years: 2
- Over 6 years: 1

1. The Executive Committee composition data reflects the information as at the date of this report and includes our Executive Directors who are also members of the Executive Committee.

Our Governance framework

The Board provides entrepreneurial leadership and sets the Company's purpose, strategy and Values, ensuring these are aligned with our culture. It is responsible for monitoring progress against the strategic objectives and approving proposed actions. The Board is supported by its Committees, the CEO and the Executive Committee, while retaining exclusive control and oversight over the key decisions set out in the Matters Reserved for the Board. Further details on our governance framework are set out below:

Board of Directors

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

Board Committees

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

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 110 to 119.

Remuneration Committee

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

Please read Annette Court's Directors' Remuneration Report on pages 120 to 157.

Nomination Committee

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

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

Please read Andrew Duff's Nomination Committee Report on pages 102 to 109.

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

Chief Executive Officer (CEO)

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

Please see pages 77 for further details on the responsibilities of the CEO.

Executive Committee

Assists the CEO in implementing strategy, driving improved operating and financial performance and commercial objectives while remaining focused on long-term value creation

Please see pages 72 and 73 for further information on our Executive Committee.

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

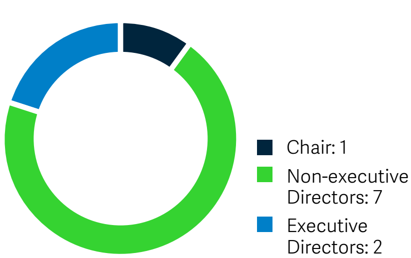
The Matters Reserved for the Board and the Terms of Reference of Board Committees are available on our website at sage.com.

Board composition[1]

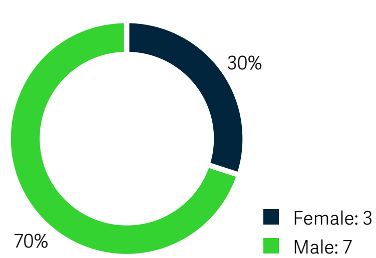
The composition of the Board is subject to ongoing review with the overriding objective of ensuring that the Board is diverse and maintains the correct balance of skills, experience, knowledge and tenure. All appointments result from a combination of comprehensive succession planning and formal and rigorous search, a responsibility delegated to the Nomination Committee.

It is recognised that a diverse Board, with a range of views, insights, perspectives, and opinions enhances Board decision making and effectiveness. The Board is satisfied that its current composition exhibits a diverse mix of skills, professional and industry backgrounds, geographical experience and expertise, gender, age, tenure and ethnicity. Please see page 76 for the skills and experience of the Board and pages 104 to 109 for more information on the Board Diversity, Equity and Inclusion Policy and on the succession planning activities of the Nomination Committee.

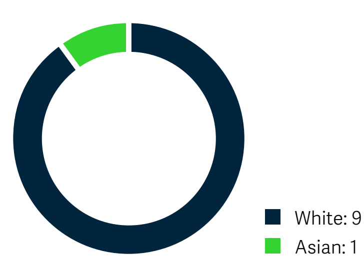
Directors by role



Gender

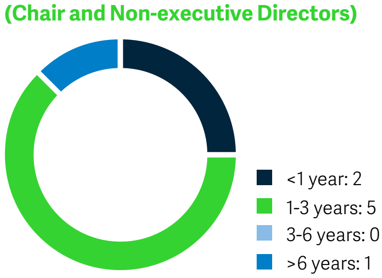


Ethnicity

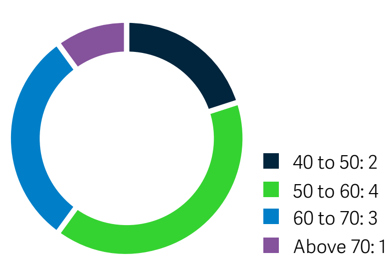


Tenure

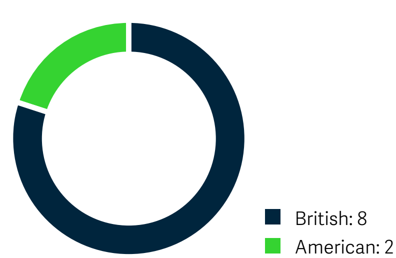
(Chair and Non-executive Directors)



Age



Nationality



1. The Board Composition data reflects the information as at the date of this report. On 30 September 2021 (prior to Sir Donald Brydon stepping down from the Board), there were 11 Directors on the Board and the gender balance was 27% female representation.

Directors' key skills and experience

The Board recognises the relationship between the delivery of the Company strategy and objectives and the skills needed on the Board now and in the future. The mix of key skills, experience and knowledge on the Board set out below provides insight for the Board and the Nomination Committee to ensure the Board and its Committees are optimally composed to maximise their effectiveness.

	Executive and strategic leadership	Financial acumen	Technology and innovation	Remuneration and people	Audit and risk	Sustainability and environment	Strategy and M&A	Customer centricity	International experience
Andrew Duff	●	●	●	●		●	●	●	●
Sangeeta Anand	●	●	●		●			●	●
Dr John Bates	●	●	●	●			●	●	●
Jonathan Bewes	●	●		●	●		●	●	●
Annette Court	●	●	●	●	●			●	●
Drummond Hall	●	●		●	●	●	●	●	●
Derek Harding	●	●	●		●		●	●	●
Steve Hare	●	●	●	●	●	●	●	●	●
Jonathan Howell	●	●	●	●	●	●	●	●	●
Irana Wasti	●		●				●	●	●

Roles and division of responsibilities

There is a clear and well-defined division of responsibilities between the Chair and the CEO, established and agreed by the Board. While both the Non-executive and Executive Directors have the same legal duties, they have different roles on the Board which ensure accountability and oversight.

Director	Responsibility
Chair Andrew Duff Andrew Duff was appointed as Independent Non-executive Director on 1 May 2021 and as Non-executive Chair with effect from 1 October 2021 Sir Donald Brydon retired from the Board on 30 September 2021	• Responsible for the leadership and effective operation of the Board in all aspects of its role • Sets the agenda for Board meetings to support sound decision making in consultation with the CEO, CFO and the Company Secretary • Ensures that the views of all stakeholders are understood and considered appropriately in Board discussions and decision making (please see pages 88 to 97 for more information) • Promotes a culture of openness in the Boardroom and encourages active and effective contribution, debate and engagement by all Directors • Responsible for the promotion of the highest standard of corporate governance, assisted by the Company Secretary
Senior Independent Director (SID) Drummond Hall	• Provides support and acts as a sounding board for the Chair • Serves as an intermediary for the Non-executive Directors • Acts as an alternative contact for our shareholders • Leads the Non-executive Directors in the evaluation of the performance of the Chair
Independent Non-executive Directors Sangeeta Anand, Dr John Bates, Jonathan Bewes, Annette Court, Derek Harding*, Irana Wasti *Derek Harding was appointed as an independent Non-executive Director with effect from 2 March 2021	• Constructively assist, challenge and monitor the delivery of strategic objectives and Group performance • Oversight of internal controls and Risk Management Framework to ensure they are robust • 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 • Have a key role in succession planning together with the Board Committees, Chair and SID • Serving on various Committees and contributing to the effectiveness of those Committees
Chief Executive Officer (CEO) Steve Hare	• Develop and propose corporate strategy for Board consideration and implementation of the strategy, as approved by the Board • Responsible for delivery of Sage's strategic priorities 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 and robust internal control environment • Identifies potential acquisitions and disposals and monitors the competitive environment • Ensures that Sage operates in line with its Values and Behaviours by fostering a culture of collaboration and empowerment
Chief Financial Officer (CFO) Jonathan Howell	• Manages the Group's financial affairs • Supports the CEO in the delivery of corporate strategy and operational performance • Engages with Sage's stakeholders including managing relationships in the investment community • Provides insights into the Group's commercial and financial position from within the business
Company Secretary Vicki Bradin	• Provides appropriate and timely information to the Board and its Committees in order for them to function effectively and efficiently • Ensures good information flow between the Board and its Committees and between senior management and Non-executive Directors • Advises the Board on legal, compliance and corporate governance matters • Supports the Chair with Board procedures by facilitating • The provision of inductions • Non-executive Directors' training and professional development • Effectiveness reviews and evaluation • Non-executive Directors' engagement plans with the business

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

Induction and development

We develop a comprehensive and tailored induction programme for each newly appointed Non-executive Director, based on their experience, background and the requirements of the role. The programme consists of meetings and main operating site visits as appropriate, designed to help the new Non-executive Director to get to grips with responsibilities as swiftly as possible and to help them to make a valuable contribution to the Board.

The programme is organised around three themes: business familiarisation, their role and corporate governance including director's duties and development. As part of business familiarisation, the Directors spend time with the Executive Committee members and senior management to gain deeper understanding and insight into the operation of relevant function lines and significant elements of the business.

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

- The Group's strategy and performance
- Governance documents including information on 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 new Non-executive Director is asked for regular feedback, so that the programme can be adapted if needed.

To assist the Board with their continuing knowledge, development and familiarity with the business, training and engagement activities are provided for all our Directors. The programme includes frequent and in-depth updates from the Executive Committee and senior management, professional advisers and subject matter experts, site visits and other informal briefings. In addition, the Company Secretary also provides regular updates to the Board and its Committees, on regulatory and corporate governance matters.

Induction Programme for Andrew Duff

Andrew Duff was appointed to the Board as a Non-executive Director on 1 May 2021 and assumed the role of Chair on 1 October 2021. Andrew Duff embarked on an induction programme which spanned across three months prior to him becoming Chair and included meeting many of our colleagues and key stakeholders and a visit to our office in Newcastle, which coincided with our September Board meeting.

The detailed induction programme for Andrew Duff is set out below:

People to meet	Key topics covered
Board Chair (Sir Donald Brydon)	Overview of the Board Overview of the Nomination Committee including role and remit, plan of work for the year and current issues
Senior Independent Director	One-to-one meeting
Chairs of the Audit and Risk Committee and the Remuneration Committee	Overview of the Committees including role and remit, plan of work for the year and current matters
Chief Executive Officer	One-to-one meetings to provide overview of the Group
Chief Financial Officer	Financial overview including financial reporting, tax, treasury and commercial finance
Executive Committee and senior management	Overview of their areas of responsibility: • Strategy overview and planning including People strategy and Reward strategy • Deep dive on corporate strategy • Sage marketing and brand • Cyber security • Risk and Assurance overview • Technology and products overview • Our approach to sustainability • Investor relations • Corporate affairs and external communications
Company Secretary	• Overview of the Disclosure Committee • Company secretariat and corporate governance framework
Board Associate	Introduction to our workforce engagement programme
Remuneration advisers Corporate brokers Corporate solicitors External auditors	One-to-one introductory meetings to provide overview of their roles and key issues
Independent Board Evaluation (External evaluator)	One-to-one meeting to discuss outcome of external Board evaluation held in FY19. Output from the internally facilitated FY20 Board evaluation was discussed separately
Operational site visits	Time spent at our new office location in Newcastle, including an informal lunch with UKI leadership team and participation in engagement sessions on execution of UKI strategic plans and meeting with our customer services team

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 evaluation process provides the Board with an opportunity to reflect on the quality and effectiveness of its decision making, the range and level of discussion and consider individual contributions and the collective contribution of the Board as a whole.

Below is a summary of the key findings identified from the internal review of the Board's effectiveness and that of its Committees and Directors in FY20 and progress made against them in FY21.

Key areas of focus identified in FY20	Progress in FY21
• Finding more opportunities for 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 distancing as a result of Covid-19	• Non-executive Directors held several one-to-one engagement sessions with colleagues from around the business. More formal engagement activitites were arranged with senior management in our Product and Customer Success teams and the UKI leadership team For further information see Stakeholder engagement pages 88 to 95 • Physical interaction has continued to be a challenge with Covid-19 restrictions, however the Board resumed meetings and engagement activities in person in a Covid-19 safe environment in the second half of the year
• Continuing the Board's focus on customer-centric culture, ways of working, processes and systems needed for Sage to become a great SaaS company • Enabling Directors to widen their understanding of the technology industry • 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	• Customer-centric culture, competitive differentiation and competitor analysis were a focus of Board meetings • Teach-in sessions demonstrating Sage's products and presentations on Sage's product portfolio were held • Listening to customer calls were held as part of Board engagement activities
• Within the Board annual agenda, creating space to accommodate deep dives on specific business areas and on Sage's corporate responsibility	• Deep dives on key business areas were held during the year • The Board approved Sage's Sustainability and Society strategy
• Continuing the focus on senior management and Board succession planning, including Chair succession	• Succession planning continued with appointment of Andrew Duff as successor to Sir Donald Brydon and the addition of Derek Harding to the Board • Talent deep dive on succession planning of Executive Committee and senior management was held

Similar to last year, in FY21 the Board carried out an internal review of its own effectiveness and that of its Committees and Directors. The internal evaluation process was conducted by the Company Secretary using the same online evaluation tool provided by Independent Audit Limited, previously used for FY20. Independent Audit Limited does not have any additional connection with the Group or any individual Director.

Our most recent externally facilitated Board evaluation was carried out by Independent Board Evaluation in FY19. In line with the recommendations of the Code, an independent formal external evaluation will be conducted in FY22.

Step 1

The outgoing Chair (Sir Donald Brydon) and the Company Secretary agreed on the scope, approach and the broad nature of the review. The broad topics were retained from the previous year to provide a benchmark against the responses received and to monitor progress.

The evaluation comprised six sets of online questionnaires tailored for Sage covering the Board, each of its Committees, the Chair and an individual performance review for each Director. All the Directors, the Company Secretary, and a selection of regular meeting participants were invited to respond. The Board also considered its performance against its FY21 objectives and provided feedback on its engagement activities. With Covid-19 restrictions, and the Board moving to virtual meeting and engagement sessions, the Board was also asked to reflect on their ways of working to help determine the most effective future arrangements for Board and engagement activities. The questionnaires were designed to be objective and specific to Sage and asked respondents to rate each question element on a sliding scale, with free text boxes encouraging respondents to expand on their thoughts candidly.

Step 2

The Company Secretary compiled the individual responses, including analysis of themes. A detailed report, setting out the findings was discussed with the Chair and with respective Committee Chairs.

Step 3

The final summarised report was discussed at the September Board meeting. Feedback on each Committee was provided to the Committee Chair and discussed at each Committee meeting. The Chair also met with each Director individually to discuss their performance.

The outgoing Chair's performance evaluation was led by the Senior Independent Director without the presence of the outgoing Chair.

Step 4

The Board identified and agreed on actions for its focus areas as highlighted on the following page which will be built into the Board's objectives for FY22. Progress against these will be reported in the FY22 Annual Report.

Board evaluation 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 including timing, preparation and content of Board packs

Effectiveness
Effectiveness of the Chair and each of the Committee Chairs

Performance
Individual Director performance and development opportunities. The Board also considered its performance against its FY21 objectives and provided feedback on the engagement activities that had taken place during FY21

Board evaluation outcomes

The Board considered the results of the evaluation and has separately assessed the independence and time commitment of each Director. It concluded that each Director's performance continues to be effective and that they demonstrate commitment to their roles. These findings are fully considered when making recommendations in respect of their election or re-election to the Board

The overall conclusion from this year's evaluation was that the Board, its Committees, individual Directors and the Chair continued to work well to achieve Group objectives and are operating effectively

The Board fosters a culture of open, constructive debate, underpinned by a cohesive and appropriately challenging Board. The Board Associate role and the Associates' Council continued during the year to provide valuable insight into colleagues' views leading to better Board decision making

Positive progress was noted in areas pertaining to risk strategy and cyber risk, defining Sage's competitive advantage, succession planning, monitoring of colleague and customer success and advancing Sage's sustainability and social purpose. Areas of continued focus related to Sage's M&A strategy, competitive differentiation, Artificial Intelligence/ Machine Learning roadmaps and product integration, partner ecosystem and overall competitor performance

Key areas of focus for FY22

- Monitor the investments, technology and talent needed to deliver the new strategic framework across the Group
- Understand execution challenges, key decisions to be taken and Sage's performance against its competitors over the short to medium term. Evolve Sage's annual Strategy Day to better meet these objectives
- Continue Board and executive succession planning, talent development and embedding of diversity, equity and inclusion objectives
- Determine the appropriate governance structures for Board and Board Committees to monitor the performance and delivery of Sage's Sustainability and Society strategy
- Continue to find opportunities for the Directors to spend time outside meetings with each other and also with senior management, customers and partners

Opening our doors at Cobalt

"I was blown away about how great the office looks and feels, seeing it for the first time in person. The local amenities are great, and I do enjoy going for a stroll at lunchtime."

Andrew James
Payroll

Move to Cobalt

In 2019, the Board concluded that a move of Sage's office to Cobalt Business Park from North Park would benefit our stakeholders and the business commercially.

Colleagues

In determining the office location, one of the principal guiding factors for the Board was the happiness of colleagues and taking into consideration their requirements, including the ease of access to the new site and the impact to colleagues of moving location. Continuous engagement with colleagues through various platforms was provided, including the ability to ask questions to the project team directly and holding town hall meetings and Q&A sessions for managers. These ensured that the UK leadership team had the opportunity to listen and address any concern raised on an individual basis.

Communities and the planet

The Board considered and reviewed the environmental assessment of the move to Cobalt Business Park, prior to giving its approval. Underpinning the strategic decision was a focus on sustainability, and the Board considered how energy-conscious technology would be used as well as the facilities which would be provided to encourage colleagues to make environmentally positive choices. Cobalt is helping Sage to reduce energy consumption significantly.

Covid-19

This development has been delivered entirely during the pandemic and almost exclusively managed by the Sage UK team remotely. The office has been open since July 2021 and colleagues have been booking desk space through our workspace app, with care taken to ensure that an enhanced colleague experience is delivered with colleague safety front of mind at all times.

An overwhelmingly positive response has been received from our colleagues on our new Cobalt office.

Annual re-election of Directors

Andrew Duff and Derek Harding will be proposed for election as Non-executive Directors by shareholders for the first time at Sage's Annual General Meeting ("AGM") on 3 February 2022. In compliance with Sage's Articles of Association, all other current Directors who wish to continue to serve will submit themselves for re-election.

Time commitment

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

The Board considered and approved the following new external commitments, being satisfied that the Directors would have time to fulfil their commitments at Sage:

- Jonathan Howell assumed the role of an independent non-executive director of Experian plc, effective 1 May 2021
- Dr John Bates assumed the role of chairman of the Advisory Board of the SER Group, effective 1 May 2021. From 1 November 2021 he transitioned to assume the role of executive chairman of SER Group Holding GmbH and is no longer chairman of the Advisory Board of the SER Group
- Jonathan Bewes was appointed as senior independent director of Next plc, effective 20 May 2021, where he already served as an independent non-executive director and chair of its audit committee

The Company Secretary maintains a register of Directors' commitments, which is reviewed at every Board meeting. The Board is satisfied that given the number of external positions held by the Directors, no instances of over-boarding were identified.

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

Independence of the Non-executive Directors

The Board considers all the Non-executive Directors to be independent in character and judgement. As recommended by the Code, both the newly appointed and the retired Chair were independent on appointment.

The independence of the Non-executive Directors is kept constantly under review by reviewing their external commitments and monitoring their behaviour 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.

Conflicts of interest

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

Board and Committee meeting attendance and cross-membership

The table below sets out the Board and Committee attendance at scheduled meetings during FY21. Additional meetings were held, and written resolutions were passed as and when required. The table also shows current membership of the Committees. The composition of all Committees complied with the Code throughout the year.

Directors	Position	Board	Nomination Committee	Audit and Risk Committee	Remuneration Committee
Andrew Duff[1] C C	Chair (from 1 October 2021)	3/3	–	–	–
Sir Donald Brydon[2]	Chair (until 30 September 2021)	5/5	1/2[3]	–	–
Sangeeta Anand[4]	Independent Non-executive Director	5/5	–	2/2	–
Dr John Bates	Independent Non-executive Director	5/5	2/2	–	6/6
Jonathan Bewes C	Independent Non-executive Director	5/5	–	4/4	–
Annette Court C	Independent Non-executive Director	5/5	–	4/4	6/6
Drummond Hall	Senior Independent Director	5/5	2/2	4/4	6/6
Derek Harding[5]	Independent Non-executive Director	3/3	–	2/2	–
Steve Hare	Executive Director and CEO	5/5	–	–	–
Jonathan Howell	Executive Director and CFO	5/5	–	–	–
Irana Wasti	Independent Non-executive Director	5/5	–	–	–
Vicki Bradin[6]	Company Secretary	5/5	2/2	4/4	6/6

Key

C Board Chair

C Audit and Risk Committee Chair

C Nomination Committee Chair

C Remuneration Committee Chair

Notes:
The maximum number of scheduled meetings held during the year that each Director could attend is shown next to the number attended. In FY21, there was 100% attendance to all Board meetings and Committee meetings by its members, except one Nomination Committee meeting that Sir Donald Brydon did not attend in relation to his succession.
Committee attendance as set out above reflects attendance by Committee members only.

1. Andrew Duff was appointed as Non-executive Director on 1 May 2021 and as Chair of the Board and the Nomination Committee on 1 October 2021.
2. Sir Donald Brydon stepped down as Chair of the Board and the Nomination Committee on 30 September 2021.
3. Sir Donald Brydon did not attend the Nomination Committee Meeting in relation to his succession.
4. Sangeeta Anand was appointed as a member of the Audit and Risk Committee on 21 April 2021.
5. Derek Harding was appointed as Non-executive Director and member of the Audit and Risk Committee on 2 March 2021.
6. The Company Secretary acts as a Secretary to the Board and all the Committees.

Board and Committee members are expected to attend every scheduled meeting. 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 and Committee papers to the Chair of the Board or Committee so that they may be shared with Directors at the meeting.

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, the majority of the Board and Committee meetings were held virtually. The Board and the Committees have demonstrated their ability to adapt in making full use of the technology available at Sage, thereby allowing Board and Committee meetings and other engagement activities to be conducted safely and efficiently.

The Board resumed physical meetings from July 2021 and in September 2021 visited our new Cobalt office in Newcastle, which included an informal lunch with the UKI leadership team, participation in engagement sessions on execution of UKI strategic plans and time spent with our customer services team.

There is a standing invitation to Directors to attend any Board Committee meeting they wish, 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 the Remuneration Committee presented at each subsequent Board meeting highlighting key strategic Committee decisions taken. To further assist information flows between the Board and its Committees, there are cross-memberships of the Committees as shown in the table on page 84.

Board meeting schedule

- 3 years	Dates and venues of Board meetings are set
- 1 year	A rolling calendar of standing and periodic agenda items for the following 12 months is compiled and updated whenever appropriate addressing key developments in the business
- 1 month	The agenda of the meeting is prepared by the Company Secretary in consultation with the Chair and CEO. Report writers are sent templates and guidelines addressing format, specific considerations and content required, reminders of the actions allocated to them and deadlines for submission of draft and final papers
- 7 working days	Papers are submitted to the Company Secretary for final review
- 5 working days	Papers are circulated electronically to the Board in real time via a secure web portal to allow Directors sufficient time to consider
Board meeting	
+ 10 working days	Minutes and 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

Informal Board interactions

In addition to routine and ad hoc Board meetings, the Board meets over informal Board dinners to connect and discuss wider business topics and help maintain successful relationships to promote a culture of openness. The Board is committed to effective engagement with all stakeholders at 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.

The Board continues to review strategic decisions throughout the year and holds a dedicated Strategy Day on an annual basis, where core strategic initiatives are discussed in depth with management.

Please see pages 88 to 95 for more information on our engagement activities with our stakeholders.

Engagement with investors

Regular and open 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. There is a dedicated investor relations programme managed by the VP, Investor Relations, who reports to the CFO. Further information regarding our engagement activities with our investors can be found on page 89.

Covid-19 and the Board's ways of working

This year, the Board was asked to reflect on their ways of working, adopted due to Covid-19 restrictions. Positive feedback was received from the Directors on virtual arrangements for meetings, engagement and induction sessions. The Board noted that it enabled time-efficient participation, whilst retaining focus and quality of information flow, for effective decision making.

As workplaces re-open, the Board will continue to assess its effective ways of working and balance its Board calendar to include physical and virtual participation, as appropriate.

Scheduled Board and Committee meetings timeline

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

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

- Board meeting
- Audit and Risk Committee meeting
- Remuneration Committee meeting

- Board meeting
- Remuneration Committee meeting

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

OCT NOV DEC JAN FEB MAR APR MAY JUN JUL AUG SEP

Disclosure Committee meeting

Disclosure Committee meeting

Disclosure Committee meeting

Disclosure Committee meeting

Scheduled Disclosure Committee meetings are for the purpose of approval of financial results and quarterly trading updates.

Annual General Meeting ("AGM")

The AGM provides us with a valuable opportunity to engage with our shareholders. In light of 'Stay at Home' restrictions imposed by the UK Government, the Board decided that the 2021 AGM would be held virtually with no physical presence, as permitted by the Corporate Insolvency and Governance Act 2020 at that time. Shareholders were provided with an opportunity to submit their questions about the business of the AGM in advance and responses were published on our website ahead of proxy deadlines to ensure shareholders could make informed voting decisions. Shareholders were also invited to listen to the AGM online and had the opportunity to submit questions on the day on any matter pertaining to the business of the AGM. All Directors joined the AGM virtually, along with our external auditors and senior management who were available to answer questions.

All resolutions at the 2021 AGM were voted on a poll. In view of the attendance arrangements, shareholders were asked to register their vote in advance of the AGM by appointing the Chair of the AGM as proxy, with voting instructions. We received voting instructions from over 81% of shareholders and all proposals were passed with over 89% of votes cast in favour.

Further details on our past annual general meetings and other information on AGM arrangements can be found on our corporate website at sage.com, which is the principal means we use to communicate with our shareholders.

Engagement with our Stakeholders

Section 172(1)

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

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

Stakeholder Engagement

We are committed to effective engagement with all our stakeholders and see this as a critical way of building a foundation of mutual respect, trust and understanding. Considering our stakeholders in key principal decisions is central to good governance and to the effective delivery of our strategy.

When preparing the annual Board agenda and the Non-executive Directors' engagement plan for FY21, the Board sought to ensure that it supported delivery of the Board's annual objectives by providing good coverage across all of our stakeholder groups. Engagement plans were designed to complement and enhance Board agendas and ensure the right mix, volume and range of activities were achieved. Key stakeholder considerations were also integrated into our Board papers to enable the Board to consider these in their discussions and decision making.

The Board reviews our key stakeholders each year to ensure our assessment of their needs and interests remains relevant and aligned with our strategy. This year the Board also considered our stakeholders in the context of our evolved strategic framework and updated these, as needed.

The following pages set out the forms of engagement with stakeholders undertaken by the Board collectively as well as the wider business and the impact of such engagement on activities conducted during the year. We also set out some of the key decisions taken by the Board in FY21, and how the Board sought to discharge its obligations in making those decisions. This is shown by section 172(1) icons, as found on this page.

Finally we have also set out our key activities of the Board throughout the year and their alignment with stakeholders and our risk management approach.

Our investors

Board engagement

- The Board receives regular updates from the Investor Relations team, including at each Board meeting
- Feedback from investor meetings is also circulated to the Board after our full-year and half-year results announcements and quarterly trading updates where relevant
- The Chair and other Non-executive Directors are available to attend meetings with major shareholders at the request of either party to gain an understanding of any issues or concerns
- At our AGM, all Board directors are present, which provides a key opportunity for the Board to engage with shareholders and for shareholders to vote on the resolutions put to them
- The Chair of the Remuneration Committee wrote to large investors regarding the Directors' Remuneration Policy, which will be proposed at the forthcoming AGM. Further details of this engagement and the Directors' Remuneration Policy can be found on pages 126 and 130 to 139

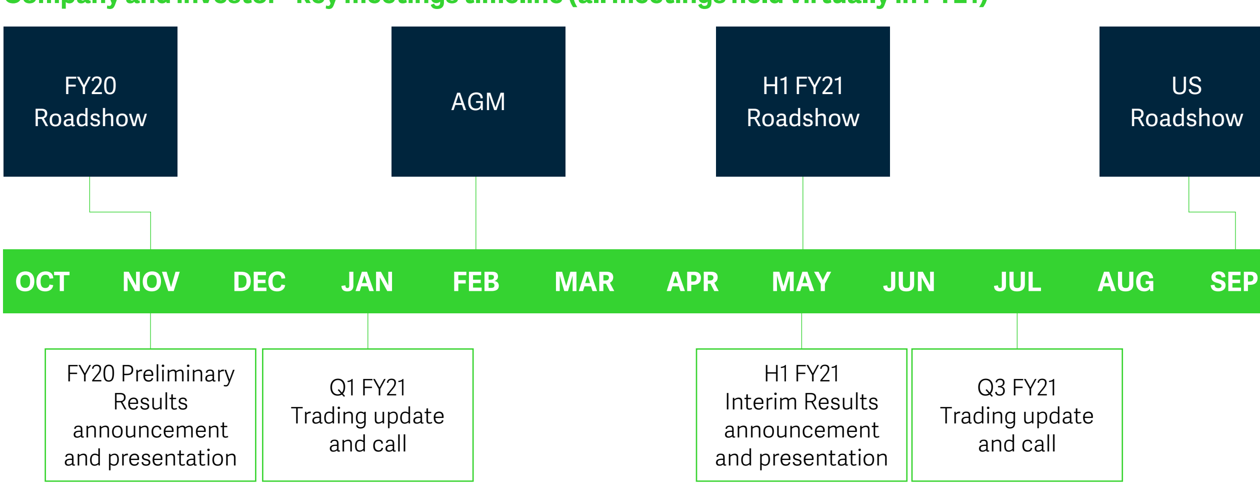
Company engagement

- Shareholder engagement is the responsibility of the Executive Directors and principally the day-to-day activity of the Investor Relations team who develop and manage Sage's external relationships with investors and analysts. The Board is regularly kept updated with significant feedback from our investors
- The announcements of the full-year and half-year results and trading updates, are prepared and published by the Investor Relations team. Analyst events are held to provide opportunities to ask questions
- Senior management are also available to meet investors, and did so virtually during the year, for example to discuss Sage's technology vision and strategy
- Our website sage.com/investors continues to be an important channel for communicating with all stakeholders, including investors

What we did in FY21

- Conducted an ongoing programme of dialogue with investors and analysts, where they discuss a wide range of issues including strategy, performance, management and governance
- Redesigned our investor relations web pages on our website, which provide up-to-date, detailed information about Sage and matters of interest to investors
- Paid an interim and recommended a final dividend and commenced share buyback programmes
- Received feedback from our large investors which helped shape our proposed Directors' Remuneration Policy to ensure that the policy is appropriate, aligned with the policy applied to our wider colleague base, and promotes Sage's long-term sustainable success
- Provided our shareholders with a valuable opportunity to engage by holding our 2021 AGM virtually. Further information on our 2021 AGM can be found on page 87

Company and investor - key meetings timeline (all meetings held virtually in FY21)



Our colleagues

Board engagement

- Interaction with our colleagues has benefitted from the appointment of our Board Associate bringing the colleague voice into the Boardroom and providing a two-way communication channel
- Our Board Associate programme has been enhanced by the formation of the Associates' Council designed to help the Board consider the likely consequences of strategic decisions in the long-term, from a colleague perspective
- Colleague engagement sessions held virtually three times a year
- Oversee embedding of our Sage DEI strategy to build a truly inclusive culture where all colleagues can feel they belong regardless of their race, age, gender, sexual orientation, socio-economic status, disability or neuro-diversity
- Oversee the health and safety performance and approach to monitoring and reporting of colleague incidents

Company engagement

- Our Code of Conduct provides unambiguous guidance for all colleagues on how we do the right thing and sets clear expectations across Sage for compliance with ethical standards
- Provision of an independent and anonymous whistleblowing hotline which is available 24 hours a day, 7 days a week. Calls are monitored by the Company Secretary, investigated by our Risk team and reported to the Audit and Risk Committee where needed
- Our Health and Safety and Wellbeing Policies are designed to ensure a healthy, safe and supportive working environment at Sage which protects the wellbeing of all of our colleagues
- Sage TV broadcasts presentations of strategy and quarterly performance updates by the CEO and CFO and other Executive Committee members
- Multimedia channels for sharing information and as a depository of in-house news items of interest

What we did in FY21

- Launched Flexible Human Work to shape how, where and when colleagues work to best serve customers and drive human connection
- In recognition of the ongoing efforts of Sage colleagues in light of Covid-19, all colleagues globally were offered three 'wellbeing days' in addition to annual leave, as well as access to the Headspace mindfulness app, funded by Sage
- We were awarded Comparably's Best Leadership Teams and Best Career Growth for 2021 in their Best Places to Work awards
- Our most recent Pulse Survey, in which 83% of colleagues took part, showed an increase overall in Employee Net Promoter Scores (eNPS) to +35 and employee satisfaction (eSat) remained at 81 points
- A key part of Board engagement is the focus on culture throughout the Group. Further details on how the Board monitors culture can be found on page 91

How the Board monitors culture

The Board recognises the impact of culture and the role it plays in delivering the long-term success of the Company. The following mechanisms are used by the Board in monitoring Sage's culture:

- Regular updates on and annual reviews of Sage's core compliance policies
- Colleague representation at Board meetings through the Board Associate and further engagement as part of the Board engagement programme to monitor colleague sentiment
- Bi-annual meetings with the Associates' Council
- The Board is regularly presented at Board meetings with reports detailing progress against culture objectives
- Approved the Board Diversity, Equity and Inclusion Policy, aligned with our Sage DEI strategy and Group-wide DEI Policy to set the tone at the top
- Progress against Sage's DEI strategy is reported annually
- Oversaw Sage Foundation activities through its annual review
- Received a deep dive on People strategy which includes metrics on colleague attrition, talent and succession for senior management, presented by the Chief People Officer
- Monitored senior leadership capability, development and succession
- Communicated with colleagues on engagement day programmes and small group sessions
- Oversaw progress against Colleague Success KPIs

Our customers

Board engagement

- Deep-dive on product segments to understand strategy and monitoring against deliverables with the aim of meeting customers' needs more effectively
- Oversight of Sage's objectives, investment and prioritisation of investment in Artificial Intelligence and Machine Learning
- Updates at each Board meeting on customer feedback, including monitoring of the Net Promoter Scores across segments and key geographies
- Monitoring of Sage Brand evolution and Customer Promises
- Discussed our strategy for Customer Success and received updates on a regular basis from the CEO on the operational priorities in place to deliver a high-quality customer experience
- Chief Customer Success Officer led a session on customer success team activities which included call listening
- Engagement day at the Newcastle office, spending time with customer services colleagues and participating in call listening
- Receiving publicly available competitor updates to understand Sage's competitive performance and its strengths and weaknesses

Company engagement

- 232 customer visits took place during FY21 Customer Connect Pilot, with more than 5,000 hours of customer-related activity, including customer experience activities such as closed loop calls and outreach
- Further digitisation of customer service functions by providing an enhanced range of contact options to customers to reduce call wait times and improve first-contact resolution
- Digital resources are made available to help customers get the most value from their Sage solutions, including community discussions (Sage City), learning opportunities (Sage University) and technical articles (Sage Knowledgebase)
- Sage Transform 2021 customer event for the Sage Intacct and Sage Intacct Budgeting and Planning communities held, providing customers, partners and prospects with education, inspiration, and collaboration to help their businesses thrive
- Sage Extended Leadership Team all committed to taking part in Customer Connect initiative, completing customer closed loop calls

What we did in FY21

- Launched the Customer Connect initiative in January 2021 to connect Sage colleagues with our customers and partners to help Sage better understand their needs and bring customer insight into the business
- Expanded the Customer marketplace, introducing colleagues to Sage customers and their products by providing every colleague with an opportunity to spend one Customer Day in FY21 on customer-related activities
- Built seamless integration of the end-to-end customer journey through the further digitisation of back-office services and systems
- Developed and deployed several advanced analytic capabilities powered by Artificial Intelligence and Machine Learning within the Sage Business Cloud suite of products
- Launched the Sage Executive Sponsor programme with the Executive Committee who have been assigned customers to build ongoing relationships with

Our partners

Board engagement
- Considered 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
- Received reports, including updates on performance and key partner issues, partner relationships, development and engagement

Company engagement
- The Sage Partner Summit 2021 welcomed over 2,000 Medium Segment partner attendees, virtually in May, designed to provide our Medium Segment partner community with the information and tools needed to build their business with Sage
- Our Partner Code of Conduct defines our expectations of responsible business and behaviour and underlines our strategic focus on customer needs
- Launched Sage Dev Stream, a new series of events designed to help app developers develop their apps
- Sage Partner Hub offers one portal to partners providing access to sales and marketing materials, news, events and the ability to share and track opportunities digitally
- A combination of organic development and partnerships enabled Sage to continue to broaden our value proposition for mid-sized businesses with new cloud native services

What we did in FY21
- Established the Partner Centre of Excellence function, working to drive our business performance and support partner success
- Transferred the Expert and Learning Services team into the Partner organisation to help drive faster partner engagement
- Launched YourCause Partner Volunteer Platform as part of Sage Foundation providing Partners a platform to find and create events, using a fundraising tool and collaborate with Sage colleagues and partners
- Expanded the Sage Partner Cloud Programme to drive cloud transformation and empower our partners to support our joint customers with moving to the cloud
- Developed a new partnership with Tide, offering a tightly integrated banking and accounting product for Tide members

Communities and the planet

Board engagement

- Ensures Sage Foundation's plans focus on what matters most to Sage's colleagues and communities, and receives regular updates on its activities and plans
- Continued to promote and endorse a culture where all colleagues are actively encouraged to take their volunteer days as part of Sage Foundation activities in order to give back time, skills and technology
- Oversaw the development and approved Sage's Sustainability and Society strategy and attended its launch (along with other colleagues) in June
- The Board made commitments at the Company's 2021 AGM to support TCFD and SASB disclosure recommendations

Company 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
- Sage Foundation celebrated its fifth anniversary in FY21. To date, colleagues spent a total of 110,000 days volunteering, the value of Sage Foundation's volunteer hours reached £14m, 600 grants were awarded to non-profits and 2,000 non-profits have benefitted from discounted software
- 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
- Sage also continues to participate in the Carbon Disclosure project and is fully compliant with the Streamlined Energy and Carbon Reporting requirements

For further information about Sage's strategy and commitment regarding the environment, see pages 29 to 37 of the Strategic Report.

What we did in FY21

- Approved the adoption of an ambitious new Sustainability and Society strategy, for more information please see our Sustainability and Society Report on our website
- Signed up to the United Nations Global Compact 'Business Ambition for 1.5^{o}C', the United Nations Climate Change 'Race to Zero' and the commitments of the Science Based Targets initiative
- Adopted a robust sustainability reporting framework with industry-specific SASB standards and continued to enhance our TCFD disclosures
- Colleagues spent a total of 22,055 days volunteering as part of Sage Foundation in FY21

FY21 through the lens of our Board Associate, Pamela Novoa Ralli

The Board Associate programme, first adopted in 2017, continues to be an effective and efficient alternative method of colleague engagement, as permitted by the Code. The Board Associate attends all scheduled Board meetings, has direct access to all Board Directors and is entrusted to bring the colleague voice into the Boardroom. Colleagues are encouraged to reach out to the Board Associate directly with their views and virtual round table discussions are held on specific topics. This ensures that the Board is appropriately informed and that the interests of our colleagues are considered in all key decision making. The Board considers that the Board Associate role has also been successful in increasing awareness of the role of the Board with colleagues and thereby providing a successful and effective two-way communication channel.

Colleague engagement by the Board has been further enhanced by the formation of Associates' Council in FY20 comprising past and present Board Associates and selected candidates from the most recent Board Associate appointment process.

Almost 18 months into the role of Board Associate, Pamela Novoa Ralli, our third Board Associate, reflects on her key highlights:

Our colleagues: This has been a hard year for everyone, leading to unprecedented human and humanitarian challenges. Covid-19 and Black Lives Matter (BLM) have been two major global events that have deeply affected our colleagues and the wider community at large. For me, Sage has led the way, acting swiftly to safeguard our colleagues and their wellbeing based on colleague engagement through Sage Belong listening sessions, localised support groups, Wellbeing Days, Flexible Human Work and the Global DEI Accountability Board amongst other initiatives. I have been able to canvass colleague views on topics of focus such as barriers to execution and creating an inclusive culture by reflecting upon how colleagues have felt on the matters mentioned above.

Sustainability and Society strategy: Our commitment to doing the right thing is not new to Sage, but the launch of our Sustainability and Society strategy is, I feel, an important moment in our journey and a step further in the right direction. It showcases our determination to knock down barriers to digital equality and to protect the climate.

I have observed the active support received from the Board, constructively challenging and building on the strategy presented, so Sage can action our commitment.

Board Associates' Council: Set up in June 2020 to canvass a broader range of colleague views, the Council has met with the Board twice since its inception. A range of topics has been discussed, such as accountability, DEI and views on Company strategy and colleagues have been encouraged to speak openly and honestly. I feel the evolution of this forum and the way it operates is evidence of a great company culture and shows how we truly live our Values.

The Board Associate role has been transformational for me. I have regularly updated the Board and made targeted contributions to bring an insight on colleagues' views to the Board deliberations. It has also made me deeply appreciate the role of the Board and how its consideration of our stakeholders in decision making has influenced the Company's strategy, Values, and our culture.

Over this period, I have undertaken several activities to bring the role of our Board and its Directors to our colleagues. I have regularly blogged on Sage's intranet site on the activities of the Board. Colleague engagement was further enhanced by seeking active participation from our colleagues, asking them to choose Non-executive Directors they would like to hear from. Based on such feedback, the Non-executive Directors shared their views and insights on topics related to innovation, opportunities in Machine Learning and the role of good corporate culture.

FY21 Key principal decisions

We set out below some of the key principal decisions and details of how the Board has considered our stakeholders in light of section 172 (1) of the Companies Act 2006. For further details on other FY21 Board activities and decisions, please refer to pages 98 to 101.

	Principal decision by the Board	Board considerations	Outcome
M&A **Stakeholders considered** • **Investors** • **Colleagues** • **Customers**	In December 2020, the Board approved the sale of Sage's businesses in Asia and Australia (excluding global products) to The Access Group. Sage retained its global products in the regions which are core to its growth strategy.	The Board noted that the disposal provided the Company with an opportunity to realise significant value for our investors at an attractive valuation. The Board also concluded that The Access Group would be a good home for customers and colleagues in the region, with Sage's regional management team also supportive of the transaction.	After consideration of the interests of relevant stakeholders and the strategic objectives of the Company, the Board approved the sale of the business to The Access Group. The sale has resulted in a simplified Group structure, with management and capital resources focused on fewer, larger geographies.

	Principal decision by the Board	Board considerations	Outcome
Society and Sustainability strategy **Stakeholders considered** • **Communities and the planet** • **Investors** • **Colleagues** • **Customers**	In June 2021, the Board approved Sage's Society and Sustainability strategy.	The Board is cognisant of its role in bringing to life Sage's goal to tackle societal and economic inequality and the climate crisis. Working towards achieving this ambition, the Board considered the proposed strategy and its impact on all relevant stakeholders prior to its launch in June. The Board noted the focus on three strategic pillars which aim to knock down the barriers that hinder access to opportunity, equality and sustainability. The three pillars have been chosen to align with our customers and what matters to them, as well as the expectations they have on providers such as Sage to make a difference. The Board also considered how the strategy would resonate with our colleagues and be communicated to them. Finally, the Board reviewed which reporting frameworks would be most appropriate to enable Sage to demonstrate its progress over time to investors and the governance community, and how the strategy would be included within incentive plans for Executive Directors and colleagues to drive its delivery.	The Board concluded that the strategy is beneficial for all relevant stakeholders, is aligned to our evolved strategic framework and will support a new generation of diverse and sustainable businesses. Sage pledged business mentoring, advice and support for over 1.2 million people from under-represented groups around the world. Sage has also committed to being Net Zero by 2040 and, as an interim step, to halve emissions by 2030. Our external reporting in line with the recommendations of the Task Force on Climate-related Financial Disclosures and the Sustainability Accounting Standards Board Standards has also been enhanced.

	Principal decision by the Board	Board considerations	Outcome
Share buyback **Stakeholders considered** • **Investors** • **Colleagues** • **Customers**	In March and September 2021, the Board approved capital returns of up to £600m in aggregate. Both capital returns were executed via share buyback.	In March FY20 the Company announced that it would enter into a share buyback programme. However, shortly thereafter the Board cancelled this programme in order to preserve a high level of liquidity given the uncertainty of market conditions due to Covid-19. The Board subsequently considered the launch of a new share buyback programme taking into account the Group's capital allocation policy, sale proceeds received from disposals, Sage's strong ongoing cash generation and the stabilising market conditions regarding Covid-19.	The Board approved a new share buyback programme in March 2021 and a further buyback programme in September 2021. Shares purchased under the first and second share buyback programmes are held in treasury and used to meet obligations arising from share option programmes, or other allocations of shares to colleagues. Sage continues to have considerable financial flexibility to drive the execution of its growth strategy, supported by its robust financial position. Please see page 161 of the Directors' Report for further information on the matter.

	Principal decision by the Board	Board considerations	Outcome
Transforming the business to deliver on strategic priorities **Stakeholders considered** • **Colleagues** • **Customers** • **Investors** • **Partners**	In September 2021, the Board approved the simplification of the Group's organisational structure with the removal of c.800 positions from the business globally.	The Board invested significant time to consider this decision. In doing so, the Board focused on the strategic rationale for the changes, principally the need for Sage to rebalance its investments towards its strategic priorities and to simplify the business in order to continue being successful in the medium to long term. Given the importance of our colleagues to Sage, time was spent understanding the process and timeline of communication with affected colleagues, including redeployment and severance packages, and the overall alignment of the approach being adopted with our Values. Views of the Board Associate were also taken into consideration as part of the Board decision making. The Board continues its oversight with regular updates provided by management.	The Board believes these changes will enable the Company to simplify and invest in the business in ways that will be transformative for all stakeholders. The simplification will enable Sage to go faster and make it easier for customers to buy and use Sage solutions, and for our colleagues to serve those customers. It will help Sage get into the best shape possible to meet our customers' needs in the future while staying focused on supporting our partners and our colleagues. The Board recognised that the decision could risk colleague morale and engagement in the short term but is confident that the long-term benefits will ultimately enhance Sage's culture and performance and support the long-term success of the Group.

Section 172(1) 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

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

Activities of the Board

Board activities are structured to develop and support the Group's strategy and to enable the Executive Committee and senior management to assist its delivery within a transparent governance framework. The table below sets out the key areas of Board focus during the year aligned with the Group strategy and our 12 principal risks. For further information on our Risk Management Framework and principal risks please refer to pages 50 to 64. Sage's key stakeholders and their differing perspectives are taken into account as part of Board discussions as illustrated by the examples of principal decisions on pages 96 and 97.

Principal risks

1 Understanding Customer Needs	5 Customer Success	9 Cyber Security and Data Privacy
2 Execution of Product Strategy	6 Third-Party Reliance	10 Data Strategy
3 Innovation	7 People and Performance	11 Live Services Management
4 Route to Market	8 Culture	12 Environment, Social and Governance

Strategy and Group structure

Key stakeholders considered

- **Investors**
- **Colleagues**
- **Customers**
- **Partners**
- **Communities and the planet**

Strategy

The Board monitored execution against its strategy and received regular updates via the CEO and senior management on customers, colleagues, technology and innovation and corporate development. The competitive landscape and Sage's market share and positioning were discussed, as was how Sage is evolving and adapting its strategy to meet the changing needs of customers. Regional 'Win Plans' and Sage Business Cloud product roadmaps were also shared. A Board Strategy Day is held each year dedicated to considering and discussing in-depth the key strategic choices, priorities and investments being made.

In FY21, the Board approved the adoption of our Sustainability and Society strategy. For more information please see our Sustainability and Society Report on our website.

Principal risks:
1 2 3 4 5 7 8 9 10 11 12

Acquisitions and disposals

The Board determines the Group's approach to M&A activity and product portfolio management, in order to accelerate strategic delivery.

- In December 2020, the Board approved the sale of Sage's Polish business to funds advised by Mid Europa Partners LLP. The transaction completed in March 2021
- In December 2020, the Board approved the sale of Sage's business in Asia and Australia (excluding global products) to The Access Group. The transaction completed in May 2021
- In March 2021, the Board approved the sale of Sage's Swiss business to Infoniqa. The transaction is expected to complete within 12 months of signing
- In September 2021, the Board approved the acquisition of GoProposal, a UK-based provider of proposal management software for small and mid-sized accountancy firms
- During FY21, Sage made minority investments in Brightpearl (December 2020), Countingup (March 2021) and Bench Accounting (May 2021). Sage also acquired certain assets of Task Sheriff in March 2021

Culture and leadership

Principal risks:
1 7 8

Key stakeholders considered

- **Investors**
- **Colleagues**

Corporate culture

The Board continued to receive regular updates on how culture and Values are embedded for colleagues across the Group and its wider stakeholders. The Board continued to hear about the colleague experience from the Board Associate and Associates' Council during FY21. Further infomation on how the Board monitors culture is found on page 91.

Succession and talent

The Board, supported by the Nomination Committee, continued to focus on succession planning for the Board and Executive Committee and monitored talent development for senior management. Changes to the Executive Committee, Board and Committee composition were also made during the year. Further details are provided in the Nomination Committee Report on pages 102 to 109.

Customers and innovation

Principal risks:
1 2 3 4 5 8 9 10 11

Key stakeholders considered

- **Customers**
- **Partners**

Strategic focus on customer experience and satisfaction and product innovation was maintained by the Board with regular updates from the CEO and Board sessions with the Chief Customer Success Officer, senior Product leadership and the Chief Technology Officer. Customer success sessions took place during the year, along with demonstrations of Sage's product portfolio.

The Board reviewed the competitor analysis and monitored the Sage brand evolution.

Investment in our cloud native and cloud connected solutions and the development and deployment of several advanced analytic capabilities powered by Artificial Intelligence and Machine Learning within the Sage Business Cloud suite of products also formed part of Board oversight.

Further information on how Sage is addressing and adapting to customer macrotrends can be found in our Strategic Report on pages 14 and 15.

Finance and risk management

Principal risks:
6 7 9

Key stakeholders considered

- **Investors**
- **Colleagues**
- **Customers**
- **Partners**

The Board closely monitored reports relating to the financial position of Sage throughout the year. The Board was responsible for considering, reviewing and evaluating the FY22 budget, annual business plan and three-year financial plan, FY21 half-year and full-year results (including going concern and viability assessments) and the publication of trading statements during the year.

One of the key activities undertaken by the Board was the oversight and approval given to the issuance of a debut £350m 10-year bond which successfully launched in February 2021.

Further information on these matters can be found in the CFO report on pages 42 to 49 and the going concern statement on page 158 of the Directors' Report.

Capital allocation

The Board continued to review Sage's capital allocation strategy. Details on approval and recommendation of dividends and returning surplus capital to shareholders via the share buyback programme commenced in FY21 are detailed on page 161.

Risk management

The Board regularly reviewed its risk profile and emerging risk themes as well as reviewing updates on the internal control and risk framework and determining its effectiveness. Further details can be found in our risk management report on pages 50 to 56 and in the Audit and Risk Committee Report on pages 110 to 119.

Governance

Principal risks:
7 8 9 12

Key stakeholders considered

- **Investors**
- **Colleagues**
- **Customers**
- **Partners**
- **Communities and the planet**

Compliance

The Board is committed to fully complying with all laws and regulations and has high standards of governance and compliance. The Board conducted its annual review of Sage's core corporate policies and procedures, including the Share Dealing Code, Code of Conduct, Anti-Bribery and Corruption Policy, Whistleblowing Policy and updated them in accordance with legal and regulatory requirements.

Throughout the year the Board received regular updates of legal and regulatory matters including litigation matters at each Board meeting.

The Board also conducts an annual review of Matters Reserved for the Board and the Board Committees' Terms of Reference.

Board evaluation

A robust internal Board evaluation process took place as set out on pages 80 to 82 with outcome of the review and next steps discussed.

AGM

The Board held the 2021 AGM via electronic means, details of which can be found on page 87.

Cyber threat

Key stakeholders considered

- **Investors**
- **Colleagues**
- **Partners**

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 our products.

Principal risks:
1 2 3 5 6 9 10 11

These included:

- Overview of incidents, lessons learned and continual improvement
- Implementation of refreshed product security standards and an improved data picture of products' compliance with these
- Introduction of enhanced threat detection capabilities to Sage's cloud and data centre hosting environments
- Preparedness for ransomware attacks, including technical mitigation strategy, third-party support arrangements and Sage's cyber crisis exercise programme

The Board's key areas of activities

The Board adopts a written set of objectives for each financial year, based on corporate strategy, key responsibilities of its role and its promises to its stakeholders. 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 98 to 100.

- Strategy and group structure 24%
- Culture and leadership 25%
- Customer and innovation 10%
- Finance and risk management 17%
- Governance 17%
- Cyber threat 7%

Looking forward to 2022

In 2022, the Board intends to focus on realising Sage's ambition to be the trusted network for SMBs and deliver on our promises to customers, colleagues, society and our shareholders. In order to do so, the Board will:

- Assess how we are continuing to build a high-performance, high- engagement culture, reflective of our Values and our global Diversity, Equity and Inclusion strategy
- Monitor our talent identification and development within Sage and ensure a diverse and inclusive talent pipeline
- Continue to monitor how our investments in Sage Business Cloud solutions and our customer experience are differentiating us from the competition and enabling our network to scale
- Focus on ensuring our investments in Artificial Intelligence and Machine Learning technologies, and their integration within our Sage Business Cloud products, are serving our customers by removing friction and delivering insights
- Continue to assess those inorganic opportunities which will enable us to scale and grow the business in line with our M&A strategy
- Maintain our focus on customer-centricity and developing deep and enduring relationships with our customers and our partners
- Maintain focus on understanding our defence against cyber attacks and keep abreast of cyber risks as an integral part of building a trusted network
- Continue to evolve our Board Associate role to help the Board make better decisions and enhance colleague engagement through our Board Associate
- Create a more sustainable future for our colleagues, customers, communities and the planet through the implementation of our Sustainability and Society strategy

Further information on the Board's key areas of focus are set out on page 82.

Nomination Committee Report

Andrew Duff
Chair of the Nomination Committee

Dear shareholder

I am pleased to introduce my first report as Chair of the Nomination Committee (the "Committee") covering both the role of the Committee and the work it has undertaken during the year.

The Committee has continued to play a critical role in supporting the Board in discharging its succession planning responsibilities and in championing Sage's diversity, equity and inclusion strategy and its delivery. During the year a key area of the Committee's focus has been on Board and Board Committee composition and on ensuring the most appropriate balance of skills, knowledge, experience and diversity in terms of their membership. The Chair succession process, led by our Senior Independent Director Drummond Hall, culminated in my appointment to the Board as a Non-executive Director and Chair Designate in May 2021. Derek Harding was appointed as Non-executive Director and member of the Audit and Risk Committee in March 2021. Further details on both appointments are set out on pages 104 and 105 of this report.

As well as these specific appointments, much focus continued to be given to working with the whole Board on Company succession planning and overseeing the development of talent from within Sage as well as promotions within the Executive Committee.

With diversity, equity and inclusion firmly on the Committee's agenda, a recommendation was made during the year for the Board to adopt its own Diversity, Equity and Inclusion Policy which it duly did in July and of which further details are set out on pages 106 to 109 of this report. I recognise that further progress needs to be made in relation to the level of our female Board representation which, owing to changes in Board composition during the year, has fallen below our diversity aims. The Board and the Committee remain committed to minimising the period for which this is the case and will continue to monitor the composition and balance of the Board overall.

This year the Company undertook an internal effectiveness review and evaluation of the Board, its Committees, individual Directors and the Chair. Further information on the outcome of the annual evaluation can be found on pages 80 to 82. We expect to conduct an externally facilitated evaluation in line with the Code in FY22.

My transition to Chair was greatly supported by our outgoing Chair Sir Donald Brydon, the Board and the Company Secretary, which ensured continuity during this period of change. I am excited to have been given the opportunity to lead the Sage Board and I am very thankful for all their support.

Andrew Duff
Chair of the Nomination Committee

Role of the Committee

The Committee is responsible for reviewing the structure, size and composition of the Board and ensuring that the Board and Board Committees have the most appropriate balance of skills, knowledge, experience and diversity. The Committee also oversees succession planning and ensures appropriate procedures are in place for annual evaluation and the nomination, induction and training of Directors.

Committee composition and meetings

The Committee is composed of two independent Non-executive Directors, Drummond Hall and Dr John Bates, and is chaired by our Non-executive Chair, Andrew Duff. There was a change in Committee membership at the end of FY21 with Sir Donald Brydon stepping down, with effect from 30 September 2021, and being replaced as Chair by Andrew Duff, with effect from 1 October 2021. Details of the skills and experience of the Committee members can be found in their biographies on pages 70 and 71 and on page 76.

The Committee held two scheduled meetings during FY21. Additional meetings were held and written Committee resolutions passed as and when required, for example in relation to the Committee's Chair succession planning activities. Details of individual attendance at scheduled meetings are set out on page 84.

Activities of the Committee at a glance

Allocation of time

28%	37%	15%	20%

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	• Reviewed the skills, knowledge, experience, independence and diversity on the Board and considered changes to further strengthen the Board's collective capability and enhance Board and Committee composition	The Committee made the below recommendations to the Board during the year: • Appointment of Derek Harding as an independent Non-executive Director and member of the Audit and Risk Committee with effect from 2 March 2021 • Appointment of Andrew Duff as an independent Non-executive Director with effect from 1 May 2021 and his appointment as Chair of the Board and Chair of the Committee with effect from 1 October 2021 Sangeeta Anand was appointed to the Audit and Risk Committee with effect from 21 April 2021
Succession planning	• Leading the succession planning and selection process to find a new Non-executive Director and Non-executive Chair	Please see pages 104 and 105 for further information on the Committee's succession planning activities
Corporate governance	• Considered the outcome of its annual evaluation • Reviewed the Committee's Terms of Reference to ensure they are fit for purpose	Please see page 105 for further information on the FY21 Committee effectiveness review and evaluation Revised Terms of Reference were recommended by the Committee for Board approval and were approved by the Board in May 2021 ***The Committee's Terms of Reference is available on our website at sage.com.***
Diversity, Equity and Inclusion (DEI)	• Formalising a DEI policy for the Board • Reviewing Sage's progress towards building a diverse, equitable and inclusive culture in line with our Sage Belong strategy	The Board Diversity, Equity and Inclusion Policy ("Board DEI Policy") was recommended by the Committee for Board approval and was approved by the Board in July 2021 The Board received regular updates from members of the Executive Committee and senior management on Group-wide DEI initiatives and considered the progress made across diversity, equity and inclusion at Sage with the focus on gender and ethnic equality, building an inclusive culture and health and wellbeing of our colleagues

Board and Board Committee composition

During the year, the Committee focused on the structure, size and composition of the Board and its Committees. It considered the length of service of the members of the Board, the combined capabilities, experience and knowledge of the Directors and Committees, and made recommendations to the Board as appropriate.

The process for making new appointments to the Board is usually led by the Chair, except when the Committee is dealing with the Board Chair succession. The Committee has procedures for appointing a new Non-executive and Executive Director which are clearly set out in its Terms of Reference, which are reviewed annually to ensure they remain suitable.

When considering new appointments, all recommendations to the Board are made on merit against objective criteria which take into account experience, skills and an appropriately diverse balance, in the broadest sense, in the resulting membership of the Board. Time commitment, independence and potential conflicts of interest are considered before any recommendation is made to the Board. Any candidates who are shortlisted are interviewed by the Board Chair and other Directors. The Board is updated on the progress of the selection process and receives recommendations from the Committee for appointment.

Succession planning for a new Non-executive Director

The selection and appointment procedure for the appointment of Derek Harding as Non-executive Director commenced with the agreement of the role profile. An external search agency, Lygon Group, was instructed to assist with the search. Lygon Group has no other connection with the Company or with individual Directors other than to provide recruitment services and has signed up to the Voluntary Code of Conduct.

A diverse longlist of candidates was prepared and considered by the Committee. The Committee, upon discussion, then shortlisted the candidates, and agreed to hold one-to-one candidate interviews with Board members. The Committee reviewed and considered the interview feedback, external references, assessment of skills and experience, cultural fit and diversity. Taking into consideration Derek Harding's financial acumen, commercial expertise and experience of leading business transformation, and with a view to further strengthening the depth of existing Board capabilities, the Committee recommended Derek's appointment which the Board approved with effect from 2 March 2021.

Succession planning for the Chair

During the year, one of the key activities of the Committee was the Chair succession.

A formal, rigorous and transparent selection process was led by Drummond Hall, Senior Independent Director and assisted by his fellow Committee member Dr John Bates, the Company Secretary and the Board. A summary of the process overseen by Drummond Hall is set out below:

1. Obtain views of the Board members on skills, personal attributes and experience being sought, in order to prepare a role profile
2. The role profile was prepared by the Senior Independent Director in collaboration with the Committee and the Company Secretary
3. The Committee, without the retiring Chair, discussed at length the role profile and the merits, skills, experience and leadership attributes being sought and the views of the Board members were taken on board
4. As part of the external search process, an executive search firm, Lygon Group, was instructed to assist with the search. Lygon Group has no other connection with the Company or individual Directors and has signed up to the Voluntary Code of Conduct
5. The Committee and the Company Secretary held meetings with Lygon Group regularly on the longlist of candidates prepared and provided other Board members with updates
6. Following conversations between the Senior Independent Director and Dr John Bates, the diverse longlist of candidates was narrowed into a shorter list of candidates

In making its recommendation, the Committee also satisfied itself that Derek Harding met the independence criteria of the Code and took into account his other significant commitments and the time involved, as disclosed to the Committee.

Succession planning for the Executive Committee and senior management

When considering succession planning for the Executive Committee and senior management, the Board focuses on supporting and developing Sage's diverse 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 works alongside the Executive Committee and senior management to further develop them throughout the year. This will continue to be an area of focus during FY22 and beyond.

Committee effectiveness and evaluation

The Board conducts a formal and rigorous evaluation of its performance including the performance of its Committees, individual Directors and the Chair annually.

In FY21, an internal effectiveness review and evaluation was carried out. The report on the outcome of the evaluation of the Committee was received and discussed at the September 2021 Committee meeting. The Company last conducted an external evaluation in FY19 and, in compliance with the Code, anticipates conducting an external evaluation next year in FY22.

The overall conclusion from this year's internal evaluation was that the Committee continues to work well and is operating effectively.

For further information on the evaluation of the Board, the Committees and individual Directors, including details of the evaluation process, questions asked, participants, outcome and next steps, please refer to pages 80 to 82.

7
A sub-Committee including the Senior Independent Director, CEO, Chair of the Remuneration Committee and Chair of the Audit and Risk Committee was formed to interview the final shortlist of candidates

8
The sub-Committee members held face-to-face interviews and reported back to the Committee on those interviews

9
Extensive external referencing was sought and discussed, and feedback considered by the Committee

10
Following detailed discussions and careful consideration including time commitment, independence and potential conflicts of interest, the Committee recommended to the Board the appointment of Andrew Duff as a Non-executive Director with effect from 1 May 2021 and that he assume the role of Chair with effect from 1 October 2021

11
The recommendation was approved by the Board for an initial term of three years, subject to annual re-election by shareholders. The Chair was independent on appointment

Andrew Duff was considered to have met the role profile very favourably. He brings with him a wealth of experience and a successful track record as a Non-executive Chair, with a strong focus on culture, purpose, customer-centricity and sustainability

Diversity, equity and inclusion (DEI)

DEI remains an area of focus at Sage. The Board and the Committee are committed to fostering a culture of diversity, equity and inclusion across the Group and promoting a healthy and supportive corporate culture by setting the tone from the top.

Strategy

As we continue our journey with the Group-wide Diversity, Equity and Inclusion strategy ("DEI strategy") called "Sage Belong", we are making diversity, equity and inclusion in its widest sense a greater focus for all colleagues, through awareness, training and transparency. Please see pages 38 to 40 for more information.

The Board and the Committee are advocates of our Sage Belong strategy and as an extension of our DEI initiatives to wider stakeholders, the Board also endorsed our Sustainability and Society strategy launched in June 2021. Our Sustainability and Society strategy aims to tackle societal and economic inequality so that everybody has the opportunity to thrive. It is recognised by the Board that knocking down barriers will enable us to support a generation of diverse and sustainable businesses, helping our customers, colleagues, communities and wider society to thrive. Please see pages 29 to 31 of the Strategic Report and the Sage Sustainability and Society Report on our website for more information on sustainability at Sage.

Board DEI objective

To help reinforce the Board's commitment in this area and to further enhance its drive, the Board added 'ensuring diversity and inclusion objectives are embedded in the Group' as one of its FY21 Board objectives. This continues to be an area of focus for FY22.

Board DEI oversight

The Board receives regular updates from members of the Executive Committee and senior management on Group-wide DEI initiatives and monitors progress against DEI objectives. In FY21 the Board was pleased to see amongst other achievements:

- The increase in female representation in leadership roles in the business with the gender balance of our Executive Committee and their direct reports currently standing at 42%, an increase of 5% since last year. Further information on gender diversity can be found on page 39
- The decrease in gender pay gap in the UK, demonstrating the good progress we are making against our Sage Belong strategy and the steps we are taking towards gender equality at Sage. Further information can be found on page 39
- The appointment of our new VP Sage Belong and formation of a Global DEI Accountability Board consisting of members of the Extended Leadership Team, the EVP Talent, Capability and Culture and the VP Sage Belong focusing on driving Sage's DEI strategy and execution. The Global DEI Accountability Board replaced our Global D&I Council. In addition, a Global DEI Advisory Board was formed, chaired by the Chief People Officer and consisting of external experts, the EVP Talent,

Capability and Culture, the VP Sage Belong and a rotation of Colleague Success Network leads, to provide new insights from lived experiences, stimulate debate and challenge thinking

- The success of our Colleague Success Networks continued. Our Colleague Success Networks are voluntary groups created and led by colleagues committed to creating an inclusive culture focusing on a specific intersection of diversity, shared identity or lived experience, fostering connection and a sense of community
- The newly launched Sage Reverse Mentoring pilot which has already offered valuable insight into the lived experiences of colleagues
- The implementation of our Flexible Working Policy enabling flexibility for all colleagues balanced with delivering high performance and great customer outcomes
- The recognition of our DEI efforts through external awards, most recently the 2020 Comparably Award for Best Company for Women and Sage winning the Diversity in Tech Employer of the Year Award at the Women Tech Awards 2020

Board DEI Policy

The Committee recommended (and in July 2021 the Board approved) the adoption of a formal Board DEI Policy.

The Board DEI Policy is available on our website at sage.com.

The Board DEI Policy applies only to the Board but it forms part of, and is aligned to, our Sage Belong strategy, and sits alongside our Group-wide Diversity, Equity and Inclusion Policy, Code of Conduct and associated global policies, which set out our broader commitment to diversity, equity and inclusion.

The purpose of the Board DEI Policy is to set out the approach to diversity, equity and inclusion for the Board itself with the intention of supporting the succession planning work of the Committee in creating and maintaining the appropriate Board and Committee composition.

Even though the Board DEI Policy was formalised recently, its objectives have already been guiding the Board and the Committee in their activities throughout FY21. The objectives of the Board DEI Policy, their implementation and progress made against each of them are set out on pages 108 and 109.

The Board and the Committee will continue to monitor progress against the Board DEI Policy to provide meaningful disclosure in the Annual Report and Accounts on its implementation and progress in meeting its objectives. The Board and the Committee will review the Board DEI Policy and its effectiveness annually.

<table>
<tr><th>Board DEI Policy objectives</th><th>Implementation and progress against objectives</th></tr>
<tr><td>All appointments to the Board should be made on merit against objective criteria which take into account experience, skills, and the need to ensure an appropriately diverse balance in the resulting membership of the Board.</td><td>The Board and the Committee strongly believe that a diverse Board, sharing a range of views, insights, perspectives, and opinions will improve its decision making and effectiveness. The Board and the Committee are committed to ensuring the composition of the Board exhibits a diverse mix of skills, professional and industry backgrounds, geographical experience and expertise, gender, age, tenure, ethnicity and independence of thought.

In FY21 the Committee reviewed the composition of the Board in the context of the annual Board effectiveness review. The overall conclusion from this year's evaluation was that the Board, its Committees, individual Directors and the Chair continue to work well to achieve Group objectives and are operating effectively.

Please see pages 80 to 82 for further information on this year's annual effectiveness review and evaluation.

The recommendations of the Committee in respect of the two Board appointments made in FY21 were conducted in full consideration of the Code, relevant regulatory guidance, our Sage Belong strategy and applicable internal policies.

• The appointment of Derek Harding as an independent Non-executive Director brought varied and rounded operational and financial experience. The appointment of Derek Harding and Sangeeta Anand to the Audit and Risk Committee further enhanced its composition and capabilities. For further information on their key skills please refer to page 76.
• The appointment of Andrew Duff as an independent Non-executive Director and Chair of the Board and the Committee brought significant experience in transforming high-profile international businesses and strong focus on purpose, culture and customer-centricity to the Board's deliberations together with non-executive Chair experience and leadership attributes.</td></tr>
</table>

Board DEI Policy objectives	Implementation and progress against objectives
Consider candidates for appointment to the Board from as diverse a pool of applicants as possible and ensuring that the recruitment and selection process has been reviewed to mitigate bias.	The Board and the Committee seek a wide and diverse list of candidates for Board appointments, including in terms of gender, social and ethnic background, experience (including those with no previous public listed company non-executive experience), knowledge and skills, always with the aim of securing the very best candidate for the position.
Respect the conclusions of the Hampton-Alexander and Parker Reviews as far as possible, recognising that there may be temporary periods when meeting targets set by these reviews is not possible; such periods should be minimised.	The Board and the Committee are mindful of the recommendation of the Parker Review to have at least one Board member from an ethnic minority background by 2021 and are satisfied that the Board currently meets this recommendation. Details of Board composition can be found on page 75. The Board met the recommendations of the Hampton-Alexander Review and maintained a gender balance of 33% female representation on the Board throughout FY20 and as at the date of its 2021 AGM. The gender balance of the Board as at the end of FY21 was 27% female representation as a result of the appointment of an additional Non-executive Director in March 2021 and the appointment of the new Chair designate in May 2021. After Sir Donald Brydon's retirement at the end of September 2021, the gender balance has increased and is currently at 30% female representation. The Board and the Committee are cognisant that as a result of Board changes made during the year, we have slightly fallen short of the gender diversity aim publicly stated in our Board DEI Policy and the expectation of our relevant stakeholders. We remain committed to minimising the period for which this is the case but believe that the recent change of Chair means the Board and Committee would benefit from a period of reflection to appropriately assess how best to meet this aim. We remain committed to ensuring that all Board appointments are made on merit, against objective criteria which take into account experience, knowledge, skills, and the need to ensure an appropriately diverse balance in the resulting membership. Sage is strongly committed to ensuring a diverse workforce and to promoting and fostering a culture of diversity, equity and inclusion across the Group. Our progress is reflected in the current gender balance of our Executive Committee and their direct reports, senior leadership and total workforce. This information can be found on page 39.
Engage executive search firms who have signed up to the voluntary Code of Conduct on both gender and ethnic diversity and best practice, and utilise an open recruitment process for non-executive roles.	The Board and the Committee engaged with Lygon Group, in search of its two Board appointments this year. The Lygon Group is an executive search firm that has signed up to the voluntary code of conduct on both gender and ethnic diversity and best practice and, is able to demonstrate a commitment to gender and ethnic diversity as part of its role in identifying suitable candidates. The Board and the Committee will utilise an open recruitment process for non-executive roles, as appropriate.
Ensure advertisements, role descriptions and longlists reflect the Board's diversity commitments in respect of gender and ethnicity, as set out in the Board DEI policy.	

Audit and Risk Committee Report

Jonathan Bewes
Chair of the Audit and Risk Committee

"We remain firmly focused on ensuring that Sage's risk management procedures and internal controls remain robust and fit for purpose as our business model evolves."

Dear shareholder

I am pleased to present the Annual Report of the Audit and Risk Committee ("the Committee") for 2021. This report explains the Committee's responsibilities and shows how it has delivered on these, whilst also considering and responding to how the business has evolved during the year. In view of the ongoing Covid-19 pandemic, specific consideration has been given by the Committee to its impact on Sage's operations, risks and controls throughout the year.

Jonathan Bewes
Chair of the Audit and Risk Committee

Allocation of time

- Financial Reporting
- Risk Management and Internal Control
- Internal Audit
- External Audit
- Incident Management and Whistleblowing
- Other Matters

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 2021 Board evaluation process. Following consideration of the findings of the review of the Committee, the Directors were satisfied that it was operating effectively.

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

Role of the Committee

The Committee is an essential part of Sage's overall governance framework. The Board has delegated to the Committee the responsibility to oversee and assess the integrity of the Group's financial reporting, risk management and internal control procedures, and the work of both the internal audit function and the external auditor, EY. These responsibilities are defined in the Committee's Terms of Reference, which were reviewed and approved by the Committee and the Board in May 2021.

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 this requirement is met, with the Chair of the Committee being a qualified chartered accountant and experienced Audit Committee Chair following 25 years in financial services as a corporate finance advisor in the investment banking sector.

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. During the year, Sangeeta Anand and Derek Harding were appointed to the Committee. Sangeeta Anand was appointed as a Non-executive Director in the prior year and is a senior software technology leader with an extensive understanding and knowledge of transforming product portfolios. Derek Harding, who was appointed as a Non-executive Director this year, joins the Committee with a strong finance-related background and is a chartered accountant currently serving as Chief Financial Officer at Spectris plc.

Activities during the year

The Committee held four scheduled meetings during the year in line with its Terms of Reference. There were no unscheduled meetings during the year. Details of individual attendance at scheduled meetings are set on page 84. The Chair 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 and Executive Vice President ("EVP") Group Financial Controller were also present at all four meetings, alongside the Vice President ("VP") Assurance. Since his appointment to the role in January 2021, the EVP Chief Risk Officer has attended all meetings.

The Chair of the Committee reported to the Board on key matters arising after each Committee meeting. At certain meetings, the Committee met with the external auditor and the VP Assurance, without management being present. Outside these formal Committee meetings, the Chair of the Committee met regularly with the Chief Financial Officer, the external auditor, the VP Assurance, the EVP Group Financial Controller, the EVP Chief Risk Officer and the General Counsel and Company Secretary.

Key activities during the year included ongoing monitoring of the impact of the Covid-19 pandemic on risks, controls and operations, the effectiveness of internal controls and further embedding of the Enterprise Risk Management Framework including risk appetite, tolerance and emerging risks. In addition, the Committee has overseen the preparation of the financial statements and the application of significant reporting and accounting matters, which are set out in further detail below.

During the year, the Committee received, challenged and considered:

- Scheduled finance updates on business performance and significant reporting and accounting matters from the EVP Group Financial Controller;
- The Group's half-year results and Annual Report and Accounts, as well as the accompanying press release, ahead of their review by the Board;
- Scheduled risk updates, including risk dashboards outlining both principal and any escalated risks. The Committee also received summary reports and supplementary briefings from management on selected principal risks and other 'in-focus' reviews;
- The development of Group and principal risk appetites with specific consideration to the assessment of emerging risks;
- The prominence of the new principal risk relating to Environmental, Social and Governance (ESG) matters alongside updates relating to the Group's overall ESG response and Sustainability and Society strategy;
- Summary reports of escalated incidents and instances of whistleblowing and fraud, together with status of investigations and, where appropriate, management actions to remediate issues identified;
- The Internal Audit plan and subsequently progress against the plan and results of internal audit activities, including Sage Assurance and management reports on internal control and the implementation of management actions to remediate issues identified and make improvements to internal controls;
- The External Audit plan and subsequently updates on delivery of the external audit and reports from the external auditor on the Group's financial reporting and observations on the internal financial control environment in the course of their work;
- Updates on the legal and regulatory frameworks relevant to the Committee's areas of responsibility, including a standing update from the EVP Chief Risk Officer on information security, cyber risk and GDPR; and
- Updates from the EVP Group Financial Controller on the UK Government's proposed reforms to audit and corporate governance with consideration to the Group's current internal controls framework.

Financial reporting, including significant reporting and accounting matters

The agenda for every Committee meeting includes a formal finance update from the EVP Group Financial Controller. This informs the Committee about developments in the Group's reporting and accounting environment, and compliance with relevant reporting standards. During the year, the Committee considered how these developments were addressed in preparing the Group's financial statements, ensuring that applicable requirements were appropriately reflected.

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

Significant reporting and accounting matters

During the year, the Committee considered a number of significant reporting and accounting matters which impacted the Group's financial statements. The Committee's response and challenge over these matters is set out below:

Significant reporting and accounting matters	Response and challenge	Cross reference
Revenue recognition Revenue recognition continues to be an important area of focus for the Group. The Group has a detailed revenue recognition policy for each category of revenue. This includes the application of rules relating to the various ways in which the Group sells its products. Key judgements are on (i) determining whether the business partner is a customer of the Group and (ii) recognition and deferral of revenue on on-premise subscription offerings.	The Committee continues to oversee management's application of revenue recognition policies and during the year has continued to monitor compliance with financial reporting and accounting controls linked to revenue recognition. During the year there have been no changes to the Group's revenue recognition policies. In light of the Group's acceleration in growth of cloud-based solutions, the Committee continues to review the appropriateness of management's application of revenue recognition policies. As part of the preparation for the interim and annual financial statements, the Committee obtained reports from both management and EY which set out the application of accounting and reporting treatment against the detailed revenue recognition policy. EY provided an update to the Committee on the nature, extent and findings from its procedures over revenue recognition during the year.	See note 3.1 in the financial statements on page 190.

Significant reporting and accounting matters	Response and challenge	Cross reference
Carrying value of goodwill Given the Group's goodwill balance of £1,877m 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. With effect from 1 October 2020, the goodwill acquired with the acquisition of the Sage Intacct business in 2017 is monitored as a group of CGUs comprising both Sage's Business Solutions Division (SBS) and Sage Intacct business in North America. This decision has been taken following strategic and operational changes made during the year, as a result of which the North American business is now managed, and performance monitored, on a combined basis.	• The Committee reviewed and considered the methodology applied, and challenged the key inputs into the impairment model including forecast cash flows, forecast timeframe, discount rates and long-term growth rates. • Where appropriate, the Committee acknowledged the use of external specialists to support and corroborate management's inputs, particularly in relation to discount rate and long-term growth rates. • The Committee further enquired as to whether any other reasonable changes in assumptions would result in a material impairment and therefore require sensitivity disclosure in the financial statements. The Committee agreed with management's conclusion that a sensitivity disclosure should be included for the Iberia business in relation to a reasonably possible change in revenue growth and discount rate. • During the year, the Committee challenged the appropriateness of management's decision to monitor the goodwill from the North America and Intacct businesses on a combined basis. The Committee agreed with the conclusion reached by management following the decision to manage the North America business as a single operational unit which was a distinct change in approach from the prior year.	See note 6.1 in the financial statements on page 202.
Going concern and viability assessment Both the going concern and viability assessment are key areas of focus for the Committee due to the level of management judgement required. In preparing these assessments, consideration was given to the continuing and possible future impact of the Covid-19 pandemic. The Committee received a detailed update from management during the year which included both reverse and scenario-specific stress testing.	• The Committee reviewed management's process for assessing the Group's longer-term viability, 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. • In light of the ongoing impact of the Covid-19 pandemic, the Committee reviewed the key assumptions underpinning management's longer-term forecasting, and the sufficiency and adequacy of future funding requirements. As part of this review, the Committee considered the level of available liquidity and covenant compliance over the forecast period. • The Committee reviewed the results of management's scenario-specific stress testing for both going concern and viability, as well as reverse stress testing, the result of which demonstrated the resilience of the Group's business model. • It was noted that under scenario-specific stress testing, the Group maintains sufficient available liquidity and covenant compliance over the forecast period. The results of reverse stress testing highlighted that such a scenario would only arise following a catastrophic deterioration in performance, well in excess of the assumptions in the scenario-specific stress testing. • As part of its review and challenge, the Committee took into consideration updates provided by the EVP Chief Risk Officer with respect to the Group's principal and emerging risks. • The Committee approved the disclosures in relation to both the going concern and viability assessment, and recommended to the Board the preparation of the financial statements under the going concern basis.	The Group's going concern and viability statements can be found on pages 158 and 65 to 66, respectively.

Significant reporting and accounting matters	Response and challenge	Cross reference
Alternative Performance Measures (APMs) The Committee closely monitors management's interpretation and definition of Alternative Performance Measures (APMs), in particular Annualised Recurring Revenue (ARR). In addition, the Committee considers the presentation of APMs in the Group's Annual Report and Accounts in the context of the requirement that they be fair, balanced and understandable.	• The Committee continues to review and challenge management's use of APMs and, as part of the preparation for the interim and annual financial statements, requests a clear reconciliation between key APMs and statutory reporting measures. • There is a continued focus by the Committee on the ARR APM given its importance as a key measure of business performance. At each Committee meeting, an update on ARR performance is provided. No changes to APM definitions have been made during the year. • The Committee has challenged the sufficiency, adequacy and clarity of disclosures related to APMs in the Annual Report and Accounts and considers them to be appropriately disclosed. • At the request of the Committee, and on behalf of the Remuneration Committee, EY performed a set of agreed-upon procedures over the mathematical calculation of ARR. In doing so, EY considered the appropriateness of the calculation against the defined policy and reviewed in detail any proposed adjustments. • The Committee also reviewed supplementary information issued alongside the financial statements, including the Group's press release, to ensure consistency in the way APMs are disclosed and presented on a balanced basis alongside statutory reporting measures.	The definition of APMs can be located in the glossary on pages 249 to 250. 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 42.
Disposal activity During the year the Group completed the disposal of its businesses in Poland, Australia, and Asia Pacific, for £169m of cash proceeds. The Group's business in Switzerland continues to be classified as held for sale at the end of FY21.	• The Committee considered the accounting and reporting for these disposals, with a particular focus on the profit recognised on the disposal and concluded that the approach taken by management in performing this calculation was appropriate. • The Committee challenged the continued appropriateness of the classification as held for sale for the business in Switzerland and noted this approach is supported by the fact that a sale agreement has been reached and the disposal is expected to complete in early FY22. • The Committee agreed with management that the profit recognised on the disposal of businesses be reported as a non-recurring item, in line with previous years, and reflecting the fact that disposal of businesses is not an underlying operating activity. • The Committee also considered the view of EY over the disposal accounting and held for sale classification.	See note 16.2 in the financial statements on page 236.

Significant reporting and accounting matters	Response and challenge	Cross reference
Restructuring programme In light of the Group-wide restructuring programme announced at the end of FY21, a detailed update was provided to the Committee which outlined the appropriateness of the reporting and accounting treatment. As a result of the restructuring programme, a charge of £67m has been recognised in the financial statements as a non-recurring item.	• The Committee challenged the appropriateness of recognising a provision in the financial statements for the announced restructuring programme. Based on the relevant criteria being met, the Committee agreed with the decision to recognise a provision. • Given the materiality by both nature and size of the restructuring programme, and reflecting its one-off nature, the Committee agrees with the decision to report the restructuring cost as a non-recurring item.	See note 3.6 in the financial statements on pages 196 to 197.
Tax provisions The Committee received regular updates from the EVP Group Financial Controller on the appropriateness of recognised tax provisions in respect of open tax matters given the degree of estimation and uncertainty.	• 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 (EC) State Aid ruling. During the year, the Committee discussed the progress on the EC State Aid ruling and the updates received by the Group from the relevant tax authorities on the matter. • 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 view of EY and noted its use of tax specialists for certain key matters.	See note 4 in the financial statements starting on page 198.

Fair, balanced and understandable

Each year, the Committee advises the Board on whether the Annual Report and Accounts taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess Sage's position, performance, business model and strategy. In reaching its conclusion, the Committee considered the results of management's assessment of going concern and viability, reviewed the Annual Report and Accounts as a whole, and assessed the results of processes undertaken by management to provide assurance that the Group's financial statements were fairly presented.

These processes included an analysis of how the key events in the year had been described and presented in the Annual Report and Accounts, how APMs had been defined and presented, and the outcome of representations received from country management teams on the application of a range of financial controls. The Committee also considered the perspective of the external auditor.

Risk management and internal controls

The Committee assists the Board in its monitoring of the Company's internal control and risk management systems, and in its review of their effectiveness. This monitoring includes oversight of all material controls, including financial, operational, regulatory and compliance controls, and assessing whether the control systems are fit for purpose and whether any corrective action is necessary. As part of the Group's continuing evolution of its approach to risk management and internal controls, the Risk and Assurance (Internal Audit) functions have been separated during the year. As such, the Risk function now reports into the EVP Chief Risk Officer, with the Assurance function reporting directly to the Committee and administratively into the General Counsel and Company Secretary.

During the year, the Committee:

- Reviewed the principal risks, their evolution during the year, and the associated risk appetites and metrics, challenging and confirming their alignment to the continued achievement of Sage's strategic objectives. At each meeting, the Committee considered and challenged the ongoing overall assessment of each risk, their associated metrics and management actions and mitigations in place and planned;
- Supported the General Counsel and Company Secretary in the recruitment process for the newly appointed VP Assurance;
- Reviewed and considered an assessment of the effectiveness of risk management more broadly, and reviewed summary reports from Sage Business Integrity and Sage Legal on the Group's adherence to policies, including Conflicts of Interest, Anti-Money Laundering, Sanctions, Competition Law, Anti-Bribery and Corruption and Modern Slavery;
- Reviewed updates from the Sage Business Integrity team on the operating effectiveness of controls within the Sage Business Control Framework;
- Received reports from Sage Assurance and management on internal control and monitored the implementation of management actions to remediate issues identified and make improvements. The Committee also satisfied itself that management's response to any financial reporting or internal financial control issues identified by the external auditor was appropriate;
- Reviewed at each Committee meeting any escalated incidents and any instances of whistleblowing and management actions to remediate any issues identified (see Incident management, fraud and whistleblowing paragraph below for further details); and
- Considered individual incidents and associated actions to assess whether they demonstrated a significant failing or weaknesses in internal controls, of which none were identified.

For further details on the Group's risk management and internal control systems, its risk-informed decision-making process and its principal risks and uncertainties, refer to the Risk Management section on pages 50 to 56.

Specific areas of focus

The Committee spent time on the following specific areas of focus during the year to consider and challenge relevant, current and important issues:

- At each Committee meeting, consideration was given to the impact of Covid-19 on the Group's operations, risks and controls. Specifically, this included consideration of the impact upon the Group's wider Enterprise Risk Management Framework, emerging risks, business continuity planning (BCP) strategy and significant reporting and accounting matters;
- Received a briefing on the process undertaken to document the Group's viability assessment. In doing so, specific focus was given to the determination of the severe but plausible viability scenarios and the key assumptions used in determining the resilience of the business to the downside scenarios identified;

- Received updates on the new principal risk related to ESG matters to ensure that the Group has appropriate mitigations or a plan to introduce mitigations to enable successful development and execution of the Group's Sustainability and Society strategy;
- Learnt about the ways in which the Group is continuing to build and enhance its BCP strategy and increase overall levels of cyber resilience with a specific focus on using the experience learnt throughout the Covid-19 pandemic; and
- Received an update from the EVP Group Financial Controller and EVP Chief Risk Officer on the key elements of the UK Government's *Restoring trust in audit and corporate governance* recommendations which impact the Group, as well as a readiness assessment and an early view on the Group's implementation plans.

Incident management, fraud and whistleblowing

The Committee considered the suitability and alignment of the Incident, Emergency and Crisis Management and Whistleblowing policies and confirmed the effectiveness of these policies in facilitating appropriate disclosure to senior executive management and the Committee. At each meeting, the Committee received a summary report of any escalated incidents and instances of whistleblowing and, together with management, considered whether there were any thematic issues and identified remediating actions. As part of this reporting process, the Committee was notified of all whistleblowing matters raised, including any relating to financial reporting, the integrity of financial management or that included any allegations relating to fraud, bribery or corruption. The Committee was also notified of all non-whistleblowing incidents exceeding an agreed materiality threshold.

Internal audit

Internal audit is delivered by the in-house Sage Assurance function. Reporting directly to the Committee and administratively to the General Counsel and Company Secretary, its remit is to provide independent and objective assurance over the Group's operations and activities, to assist management and colleagues in fulfilling their responsibility to develop and maintain appropriate internal controls.

The specific objectives, authority, scope and responsibilities of Sage Assurance are set out in more detail in the Internal Audit Charter, which is reviewed annually by the Committee. The Committee also considers and evaluates the level of Sage Assurance resource and its quality, experience and expertise, supplemented as appropriate by third-party support and subject matter expertise, to ensure it is appropriate to provide the required level of assurance over the principal risks, processes and controls throughout the Group.

Additionally, in line with the Institute of Internal Auditors' (IIA) Code of Practice, the effectiveness of Sage Assurance is reviewed by the Committee on an annual basis and is also subject to a five-yearly external quality assessment (EQA). In 2021, PwC was appointed to conduct the latest EQA, after a tender process led by the Group Counsel and Company Secretary. Feedback from the EQA was positive and noted conformance with the IIA International Standards for the Professional Practice of Internal Auditing (IPPF), with the team viewed as being well-respected and valued, with very strong foundations. The EQA report was presented to the September 2021 Committee meeting, its findings discussed, and the Committee endorsed these conclusions.

The Committee reviewed and approved the nature and scope of the work of Sage Assurance, and the Sage Assurance plan was approved by the Committee at the beginning of the financial year, along with any subsequent quarterly updates. Specific consideration was given to the impact of the Covid-19 pandemic, which was closely monitored throughout the year, with no significant or adverse impact on the business's control environment identified. In particular, the Internal Audit plan was adjusted to reflect the change in risk due to shifting working patterns, with more people now working from home, for example through enhanced coverage of end-user IT controls and colleague health and safety. Operationally, the function also showed flexibility to adapt to a predominantly remote delivery model, allowing internal audit coverage to be maintained throughout the year.

Progress against the plan and the results of Sage Assurance's activities, including the quality and timeliness of management responses, is monitored at each Committee meeting. This includes consideration of a summary of report findings against the internal audit plan, reported at each meeting by Sage Assurance, as well as an executive summary for each individual internal audit.

Following its review of the Company's internal control systems, the Committee considered whether any matter required disclosure as a significant failing or weakness in internal control during the year. No such matters were identified.

External audit

The Group's current external auditor is EY. Each year, the Committee makes a recommendation to the Board with regard to whether the external auditor should be 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 seven years since the formal tender process conducted in 2014. Kathryn Barrow was appointed as lead audit partner in 2020 and will continue in her role for the next financial year.

The Company is, and has been throughout the year under review, in compliance with the requirements of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014. In accordance with the terms of this Order, Sage anticipates that it will conduct a competitive tender process in respect of the external audit no later than 2024. This allows for any potential new audit firm to take up the role for the year ending September 2025. The Committee believes this approach is in the best interest of shareholders, as over this period the Group will benefit from an efficient and effective audit, whilst receiving fresh challenge following the change of lead auditor in 2020.

Auditor effectiveness

The Committee is responsible for assessing the effectiveness of the external auditor. In doing so, the Committee considers the independence, objectivity and level of professional scepticism exercised by the external auditor, as well as the results of the annual auditor effectiveness review. To fulfil its responsibility for oversight of the external audit process, the Committee reviewed and agreed:

- The terms, areas of responsibility, associated duties and scope of the audit as set out in the external auditor's engagement letter;
- The overall work plan and fee proposal;
- The issues that arose during the course of the audit and their resolution;
- Key accounting and audit judgements;
- The level of errors identified during the audit; and
- Control recommendations made by the external auditor.

In addition to the above, specific considerations made by the Committee during the year included:

- The findings published by the Financial Reporting Council (FRC) into their view on the effectiveness of EY's audits;
- The experience and expertise demonstrated by the auditor in its direct communication with, and support to, the Committee;
- The content, quality of insight and added value provided by EY's reports;
- Robustness and perceptiveness of EY in its handling of key accounting and audit judgements; and
- The interaction between management and the auditor.

EY presented the strategy and scope of the audit for FY21 in the Committee's May meeting and highlighted key areas of audit focus, which were updated in subsequent meetings in response to a change in risk assessment. The Committee acknowledges EY's consideration of the Covid-19 pandemic in the planning of their audit, especially conducting an audit in a remote working environment. Overall, no required improvements were noted with regard to EY's judgement and communication, particularly as to technical issues, estimates and discussing potential issues openly. At certain Committee meetings a separate private meeting was held between Committee members and the lead audit partner, Kathryn Barrow, to encourage open and transparent feedback. The Chair of the Committee also met with the external auditor outside of Committee meetings supporting effective and timely communication.

During the year the Committee also received feedback from the businesses evaluating the performance of each assigned audit team. Management's report to the Committee included a summary of the findings of a survey of key Sage colleagues on the quality of the EY's delivery, communication and interaction with the various finance teams across the Group. Management concluded that the working relationship between finance functions and EY across the Group was effective and the audit had been carried out in an independent, professional, organised and constructive manner, with an appropriate level of challenge and scepticism over management's treatment of significant reporting and accounting matters.

Auditor independence

The Committee is responsible for the development, implementation and monitoring of policies and procedures to ensure auditor independence. At Sage this is governed by the Auditor Independence Policy (the "Policy"). The Policy has been in place throughout the year. It specifies the role of the Committee in reviewing and approving non-audit services in order to ensure the ongoing independence of the external auditor. A summary of non-audit fees paid to the external auditor is provided to the Committee on a quarterly basis.

The Policy states that Sage will not use the external auditor for non-audit services, except in limited circumstances, and as permitted by the Ethical Standard, where non-audit services may be provided by the external auditor with pre-approval by the Committee unless clearly trivial. This is provided that the approval process set out in the Policy is adhered to and that potential threats to independence and objectivity have been assessed and safeguards applied to eliminate or reduce these threats to an appropriate level. Any non-audit services individually in excess of £75,000 require pre-approval by the Chair of the Committee, as do any non-audit services where the cumulative total of previously approved non-audit services in the financial year exceed £75,000.

The Committee considered the application of the Policy with regard to non-audit services and confirms it was properly and consistently applied during the year. The Policy also requires that the ratio of audit fees to non-audit fees must be within Sage's pre-determined ratio, and non-audit fees for the year must not exceed 70% of the average of the external audit fees billed over the previous three years. In 2021, the ratio of non-audit fees to audit fee was 8% (2020: 5%), principally reflecting the fee paid for the half-year interim review and permitted assurance services relating to a bond issuance during the year as well as a set of agreed-upon procedures over the mathematical calculation of ARR. A breakdown of total audit and non-audit fees charged by the external auditor for the year under review is shown in note 3.2 to the financial statements.

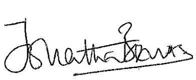
The Committee has also considered the independence of the external auditor's partners and staff involved in the audit of Sage. EY has confirmed that all its partners and staff complied with their ethics and independence policies and procedures that are consistent with the FRC's ethical standards including that none of its employees working on the audit hold publicly listed securities issued by Sage. In addition, the Committee acknowledges management's internal assessment that no employee in a key financial reporting oversight role has a close relationships with any EY employee which may impact their independence.

Auditor re-appointment

Having considered the summary set out above relating to the effectiveness and independence of EY, the Committee has recommended to the Board that a resolution to re-appoint EY be proposed at the 2022 AGM which the Board has accepted and endorsed.

Evaluation of the performance of the Committee

The evaluation of the Committee for the year was completed as part of the 2022 Board evaluation process. An explanation of how this process was conducted, the conclusions arising from it and the action items identified are set out on pages 80 to 82. The Committee has considered this in the context of the matters that are applicable to the Committee.



Jonathan Bewes
Chair of the Audit and Risk Committee

Remuneration Committee

Annette Court
Chair of the Remuneration Committee

"We are seeking shareholder approval for our new remuneration policy at our forthcoming AGM."

Dear shareholder

On behalf of the Remuneration Committee ("the Committee"), it is my pleasure to present the Directors' Remuneration Report (the "Report") for the year ended 30 September 2021.

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:

- The Directors' Remuneration Policy (the "Policy") (pages 130 to 139).
- The Directors' Annual Remuneration Report (pages 140 to 157). This section sets out details of how the 2019 Policy was implemented for the year ended 30 September 2021 and how we intend the revised Policy to apply for the year ending 30 September 2022 subject to shareholder approval at the 2022 Annual General Meeting (the "AGM").

Objectives and responsibilities

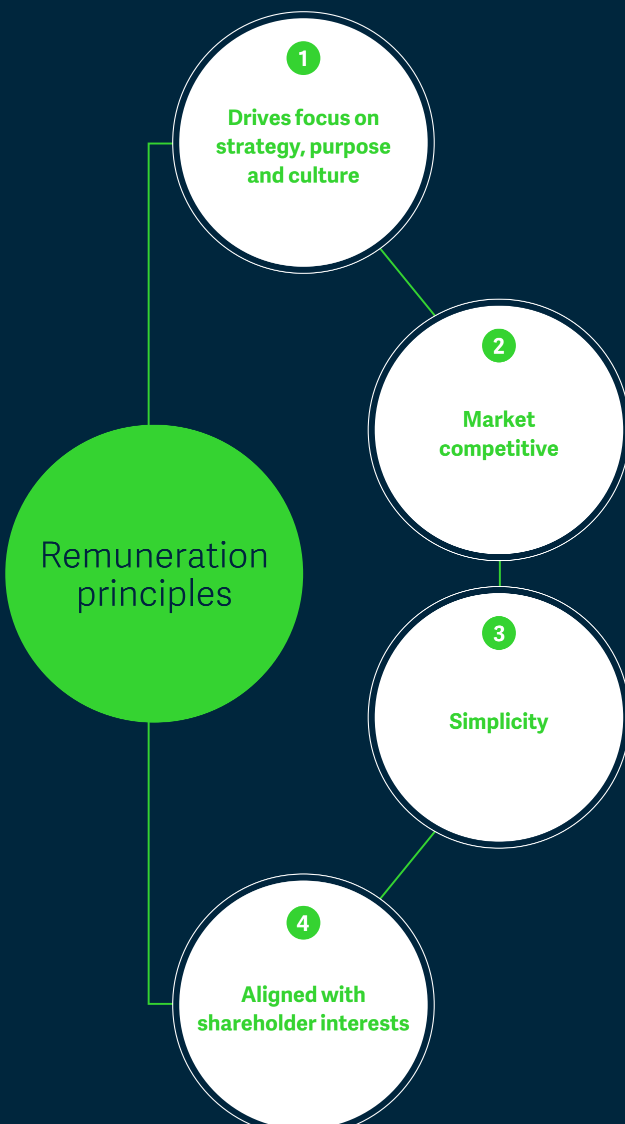
The Remuneration Committee's main objective is to determine the framework, broad policy and levels of remuneration for the Group's Chief Executive Officer, the Group's Chief Financial Officer, the Chair of the Company and other executives as deemed appropriate, ensuring compliance with legal and regulatory requirements and striving to enhance Sage's long-term development.

This framework includes, but is not limited to, establishing stretching performance-related elements of reward and is intended to promote the long-term success of the Company. We achieve this through:

- Providing recommendations to the Board, within agreed terms of reference, on Sage's framework of executive remuneration;
- Determining the contract terms, remuneration and other benefits for each of the Executive Directors, including performance share awards, performance-related bonus schemes, pension rights and compensation payments and aligning such to the Company's purpose, Values and culture;
- Reviewing workforce remuneration and related policies across the Group and the alignment of incentives and rewards with culture, taking these into account when setting the Policy for Executive Directors;
- Determining remuneration for senior executives below Board level;
- Approving share awards; and
- Ensuring the Policy promotes long-term shareholdings by Executive Directors by ensuring share awards granted are released on a phased basis and subject to a total vesting and holding period of five years.

Our remuneration principles

Our remuneration principles have been refreshed for 2022 to further align with the requirements of the 2018 UK Corporate Governance Code. The principles apply across our entire workforce and are designed to drive the behaviours and results required to support our short- and longer-term business strategy as outlined in the Strategic Report.



Drives focus on strategy, purpose and culture

Allows the Committee to give appropriate reward for achievements that support delivery of strategic goals and wider social purpose through a remuneration approach that is consistent with that in place for colleagues across Sage.

Market competitive

Reward opportunity aligned to relevant competitive markets, recognising wider context of geographies in which we operate.

Simplicity

Clarity and simplicity of design enables transparency for all stakeholders.

Aligned with shareholder interests

Close alignment of reward outcomes and value created for shareholders through material 'skin in the game' for executives; mitigates against excessive risk-taking that can arrive from target-based incentive plans and ensures no reward for failure.

Principles are underpinned by compliance with corporate governance guidelines and specifically with Provision 40 of the 2018 UK Corporate Governance Code:

Clarity – should be transparent and promote effective engagement with shareholders and the workforce.

Simplicity – should avoid complexity and their rationale and operation should be easy to understand.

Risk – should ensure reputational and other risks from excessive rewards, and behavioural risks that can arrive from target-based incentive plans, are identified and mitigated.

Predictability – the range of possible values of rewards and any limits or discretion should be identified and explained at the time of approving the policy.

Proportionality – the link between individual awards, the delivery of strategy and the long-term performance of the company should be clear.

Alignment to culture – incentive schemes should drive behaviours consistent with company purpose, values and strategy.

FY22 remuneration priorities

As outlined in the Strategic Report, we have made significant progress in delivering the strategy we set out at the start of FY19. Three years on, our context and purpose have evolved: with the growth opportunity in the digital economy, we aim to knock down barriers so everyone can thrive. We will do this through being the trusted network for SMBs and delivering on our five strategic priorities, which underpin our promises to customers, colleagues, society and shareholders. SMBs play a crucial role in the global economy and in communities. If we apply our innovation to help them be more efficient and more productive, they create a ripple effect within their communities bringing prosperity and wellbeing to those around them. Further details can be found on page 18.

The digital network plays a key role in delivering on our purpose; it is about creating relationships between businesses and everyone they need to connect with. The digital network is the architecture of the future that will enable us to meet expectations of a digitally transformed world. Adding more customers, end users and ecosystem participants will improve the network effect and allow Sage to scale new value propositions and deliver sustainable growth. Sage Business Cloud penetration is a strategic KPI that measures our progress in the transition of business to the Sage Business Cloud, which includes both cloud native and cloud connected solutions, and is key to us creating value through the digital network opportunity.

To ensure that senior executive remuneration remains aligned to our evolved strategic focus, our external operating environment and UK corporate governance requirements, we are proposing several changes to FY22 remuneration arrangements:

1) Reshaped FY22 performance measures.

2) Increasing the alignment of the CEO's remuneration to sustainable long-term value creation and the external executive talent market.

3) Amendments to 2022 Directors' Remuneration Policy.

1) Reshaped FY22 performance measures

FY22 award	FY22 measures	Why the Remuneration Committee has adopted the measure in FY22	How it will be measured	How value will be created for stakeholders
Annual bonus – incentivises management to scale the business	**Removal of duplication of measures and focusing on our annual growth model:** • 70% of bonus based on ARR growth* • 10% based on customer NPS • 20% based on personal strategic goals aligned to strategy execution * Payout is subject to the achievement of an underlying operating margin underpin.	To incentivise management to deliver the annual growth model with steadily improving margin. **ARR is a strategic KPI as detailed on page 24.**	• ARR is defined on page 250 • NPS is measured on a closing-quarter basis • Personal strategic goals are set with reference to indicators in the strategy and budget and disclosed at the end of the performance period	ARR is a forward-looking indicator of reported recurring revenue growth, linking directly to Sage's investment proposition.
Performance Share Plan (the "PSP") – incentivises management to scale the business sustainably over the long term	**Creating sustainable long-term growth:** 55% of the FY22 PSP will be measured by Sage Business Cloud penetration, balanced with cloud native penetration and absolute growth. Any payout would be subject to the achievement of Return on Capital Employed (ROCE) and cloud native penetration underpins, with this element of the award not vesting unless organic revenue has grown in absolute terms at the end of the performance period.	The focus of our medium-term strategy is the growth of Sage Business Cloud in both cloud native and cloud connected solutions. Adopting Sage Business Cloud penetration as a measure ensures that management is rewarded for creating value through the Digital Network opportunity, measuring the transition of the business to the Sage Business Cloud and our Digital Network. **Sage Business Cloud penetration is a strategic KPI as detailed on page 25.**	• Sage Business Cloud penetration is defined on page 250 and the definition will not change over the performance period • ROCE is defined on page 250 • Cloud native penetration is defined on page 150 • Organic revenue is defined on page 249 How the Remuneration Committee proposes to consider acquisitions and disposals for this measure is set out on page 150.	By increasing the proportion of recurring revenue from Sage Business Cloud, Sage can leverage the Digital Network to deliver true digital transformation for our customers and create sustainable growth and competitive advantage by scaling new propositions. This is key to creating long-term sustainable growth. Cloud native solutions remain a critical component of Sage Business Cloud and ARR growth and is retained as an underpin. ROCE ensures capital is invested for value.

1) Reshaped FY22 performance measures *continued*

FY22 award	FY22 measures	Why the Remuneration Committee has adopted the measure in FY22	How it will be measured	How value will be created for stakeholders
Performance Share Plan (the "PSP") *continued*	15% of the FY22 PSP will be based on the following measures aligned to our Sustainability and Society strategy: • 7.5% is based on delivering impact in society through our strategic pillars of Tech for Good and Fuel for Business • 7.5% is based on the impact of our Sustainability and Society strategy against our most material issues Beyond FY22, the Committee intends to increase the weighting of ESG measures to 20% and will include metrics such as our progress in reducing carbon emissions against an SBTi-approved Net Zero Plan and ensuring our products enable SMBs to address their own sustainability goals, as the Sustainability and Society strategy evolves. 30% of the FY22 PSP will be based on relative TSR.	We announced our new Sustainability and Society strategy in June, and have articulated our new social purpose – full details can be found on page 29 and in our Sustainability and Society Report. Each of the proposed FY22 Sustainability and Society measures represents a meaningful ambition linked to our three Sustainability and Society pillars of Tech for Good, Fuel for Business and Protect the Planet, to ensure that management is incentivised to knock down barriers.	Delivering impact in society: • Volunteering hours from our Sage Foundation ecosystem (colleagues, friends and family, customers, partners) • Individuals supported through the provision of substantive business skills or experience Impact of our Sustainability and Society strategy: • Achieving certified verification of ESG process effectiveness and performance impact Qualitative assessments on the impact of volunteering hours and individuals supported will be conducted to ensure value is created for stakeholders. Outturns will be independently verified. Measures are further defined on page 151.	Sage, with our thousands of colleagues and millions of customers, and with Sage Foundation at the heart of our Sustainability and Society strategy, is uniquely positioned to help create a more equitable and sustainable future, tackling economic inequality by developing digital and business skills in under-represented groups, helping to build and support the next generation of more diverse and sustainable businesses.

The full set of annual bonus and PSP measures and related targets for FY22 are set out on pages 150 and 151.

2) Increasing the alignment of the CEO's remuneration to sustainable long-term value creation and the external executive talent market

The growth in the digital economy and the opportunity this unlocks for Sage, its shareholders and wider stakeholders as outlined in our Strategic Report is significant. This digitisation is also placing high demand on executive talent with the skillset to successfully maximise the opportunity. Within this context, we have reviewed the competitiveness of the CEO's total remuneration package against our internal executive team and externally against similar roles in companies of similar scale and complexity and propose to increase the CEO's PSP award from 200% of base salary to 250% of base salary (within the existing Policy limit of 300% of base salary). To further enhance alignment with shareholders, there will be an accompanying increase in the CEO's shareholding requirement from 250% to 300% of base salary.

3) Amendments to 2022 Directors' Remuneration Policy

At the AGM, shareholders will be asked to support our Directors' Remuneration Policy (the "2022 Policy") when it is subject to its triennial vote. The 2022 Policy is set out on pages 130 to 139 with the key amendments from the existing Policy outlined on page 130. As well as enabling the implementation of the aforementioned FY22 remuneration priorities, the 2022 Policy contains additional features, namely:

- Alignment with the Investment Association guidance on post-employment shareholding guidelines (the lower of the shareholding requirement (being 300% of base salary for the CEO and 250% of base salary for other Executive Directors) immediately prior to departure or the actual shareholding on departure to be held for at least two years after stepping down as a Director);
- Pension provision of Directors is fully aligned with the workforce, accordingly the CEO's pension has reduced from 15% to 10% of salary with effect from 1 October 2021;
- Flexibility to set and measure bonus targets otherwise than on an annual basis. There is currently no intention to use this for FY22. It is expected that use of this flexibility will be reserved for exceptional circumstances, for example where there is limited visibility to set robust 12-month targets; and
- Flexibility to make additional travel allowance payments to Non-executive Directors for time spent travelling internationally on Company business due to the increasing level of time commitment required from a Non-executive Director in our internationalised business.

Delivering our remuneration principles in FY22

The table below summarises the remuneration arrangements for our current Executive Directors in FY22 in accordance with the proposed 2022 Policy, pending shareholder approval on 3 February 2022. Alignment to our remuneration principles is also denoted.

Element of Policy	Purpose	Implementation in FY22
Base salary 1 2	Enables Sage to attract and retain Executive Directors of the calibre required to deliver the Group's strategy.	CEO: £809,000 (3% increase) CFO: £555,000 (1.8% increase) The equivalent average increase for colleagues eligible for an annual pay award is 3.2% (in respect of colleagues based in the United Kingdom).
Pension 1 2 3	Provides a competitive post-retirement benefit, in a way that manages the overall cost to the Company.	10% of base salary for both the CEO and CFO The CEO's pension reduced from 15% to 10% of base salary on 1 October 2021.
Benefits 2	Provide a competitive and cost-effective benefits package to Executive Directors to assist them in carrying out their duties effectively.	Standard benefits package plus costs of travel, accommodation and subsistence for the Executive Directors and their partners on Sage-related business.
Annual bonus 1 2 3 4	Rewards and incentivises the achievement of annual financial and strategic targets. A minimum of one-third deferral into shares for three years is compulsory, with the remainder delivered in cash.	Maximum 175% of base salary 70% based on Annualised Recurring Revenue (ARR) growth (with an underlying operating profit margin underpin), 10% on customer Net Promoter Score and 20% based on strategic goals.
Performance Share Plan (PSP) 1 2 3 4	Supports achievement of our strategy by targeting performance under our key financial performance indicators. Vesting is after three years, and awards are subject on vesting to a holding period for two years before being released.	Face value of 250% of base salary for the CEO Face value of 200% of base salary for the CFO 55% based on Sage Business Cloud penetration with cloud native penetration, ROCE and absolute growth underpins, 30% based on relative Shareholder Return performance and 15% based on ESG basket of measures.
All-employee share plans 1	Provides an opportunity for Executive Directors to voluntarily invest in the Company.	Eligible to participate up to the tax-efficient limit of £500 per month.
Chair and Non-executive Director fees 2	Provide an appropriate reward to attract and retain high-calibre individuals.	***See page 152 of this Report for a list of Non-executive Director fees.***
Shareholding guideline 4	The shareholding guideline for the CEO is 300% of base salary and 250% for the CFO. Achievement of this is expected within a maximum of five years from the time the Executive Director became subject to the guideline. The post-employment shareholding guideline requires Executive Directors to retain shares following cessation of employment as a Director in line with Investment Association guidelines.	Shareholding at 30 September 2021 (inclusive of deferred shares held, net of tax at the current estimated marginal tax withholding rate). Steve Hare 405% of base salary Jonathan Howell 256% of base salary. ***See page 152 for more information on the shareholding guideline.***

Key: Our remuneration principles

1 Drives focus on strategy, purpose and culture

2 Market competitive

3 Simplicity

4 Aligned with shareholder interests

FY21 single figure for total remuneration summary:

Director	2021 Total £'000	2020 (restated) Total[6] £'000
Executive Directors		
S Hare	**2,453**	1,557
J Howell	**1,652**	1,091
Non-executive Directors		
Sir D Brydon[1]	**428**	436
S Anand[2]	**60**	25
J Bates	**60**	60
J Bewes	**77**	77
A Court	**77**	77
D Hall	**77**	77
I Wasti[3]	**60**	25
D Harding[4]	**35**	–
A Duff[5]	**25**	–

Notes:

1. Sir Donald Brydon stepped down as Chair of the Sage Board on 30 September 2021.
2. Sangeeta Anand was appointed as a Non-executive Director on 1 May 2020.
3. Irana Wasti was appointed as a Non-executive Director on 1 May 2020.
4. Derek Harding was appointed as a Non-executive Director on 2 March 2021.
5. Andrew Duff was appointed as a Non-executive Director on 1 May 2021.
6. 2020 values are restated. Full details are provided in the footnotes to the full single figure for total remuneration table on page 140.

Key remuneration outcomes for FY21

2021 bonus: 60.2% to 61.0% of potential payable

The 2021 bonus was aligned to our strategy of accelerating our move to a cloud business with an increased pace of digitisation among small and medium businesses with 50% of bonus potential based on cloud native ARR growth ("CNARR") and 20% of bonus potential based on ARR growth with an underlying operating profit (UOP) margin underpin applicable to both measures. 10% of bonus potential was based on customer Net Promoter Score to reflect the criticality of maintaining and improving the experience for Sage customers. CNARR growth of 43.6% (slightly below the target set) and ARR growth of 7.8% (between target and stretch) were achieved; the UOP margin of 19.6% met the underpin level. There was an annual increase in the Net Promoter Score to 21.3. The remaining 20% is determined by assessments of individual Executive Directors' performance against their goals. In summary:

- For the CEO, 60.2% would be payable
- For the CFO, 61.0% would be payable

The Remuneration Committee determined that the formulaic outcome is appropriate therefore no discretion has been applied, so between 60.2% and 61.0% of maximum bonus will be payable. Further detail is set out on page 141.

2019 Performance Share Plan (PSP): 33.5% of the total shares under award vesting

PSP awards granted in February 2019 were based on ARR growth (with a Return on Capital Employed (ROCE) underpin) and relative Total Shareholder Return (TSR) performance measured over the three-year performance period from 1 October 2018 to 30 September 2021. 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, so 33.5% of the total number of shares under award will vest in December 2021, subject to a two-year holding period for both Executive Directors. Further detail is set out on page 143.

Engagement with stakeholders

The Committee values input from shareholders and is committed to ensuring open and transparent dialogue between parties in regards to executive remuneration. Where appropriate, the Committee seeks the views of the largest shareholders individually and others through shareholder representative bodies when considering any significant changes to the Policy. Any feedback received is thoughtfully reviewed and where appropriate changes are implemented. Ahead of the 2022 AGM, the Committee consulted individually with Sage's top 17 shareholders and proxy agencies on the proposed 2022 Policy. This was initially in written format and included a number of virtual meetings. In response to the feedback received from a small number of shareholders, we have: addressed duplication of measures in the annual bonus and PSP; strengthened the PSP measures, including introducing long-term ESG metrics, to ensure they directly align to our strategy of creating long-term sustainable growth and reward for impact achieved. We hope the clear articulation of the 2022 Policy and implementation changes provide a clear understanding of how our plans will reward executives for the value created for stakeholders.

Colleague Success is critical for Sage and engaging with the workforce in meaningful, two-way dialogue underpins this. The CEO hosts frequent 'All-Hands' calls for the whole workforce, during which he provides Company performance updates explaining how this translates to the bonus plan. Colleagues are encouraged to ask questions and the CEO provides open and transparent answers. Additionally, Company performance at a Group and regional/functional level and bonus updates are periodically provided on our intranet site and by email, this ensures that colleagues are able to understand how the business is performing during the financial year and the impact that can have on their reward package.

Colleagues have the opportunity to share their thoughts and feedback on all topics, including our remuneration policies and practices, through our 'Always Listening' survey. Originally launched during 2020 in response to the pandemic, this is a continuous feedback survey which colleagues can access at any time. Our bi-annual colleague 'Pulse' surveys and CEO round tables also provide opportunities for colleagues to provide feedback.

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 and of our PSP through our colleague intranet.

Corporate governance code considerations

From 1 October 2021, we are fully compliant with the 2018 UK Corporate Governance Code. When reviewing the Policy for Executive Directors and determining the approach to pay, in line with the Code, the Committee gives consideration to the following:

Clarity	**Code provision:** remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	Engaging with stakeholders effectively, in a timely, transparent and relevant manner is important for the Company. Further details on how we engage with stakeholders can be found on page 126. The purpose, strategic alignment and structure of each element of pay is provided in the Policy and easily accessible on our Company website.
Simplicity	**Code provision:** remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	Simplicity is one of our remuneration principles and guides the design of our remuneration structures. Remuneration arrangements in place for Executive Directors are not complex: executives are eligible for an annual bonus and a long-term incentive award under our PSP, the metrics of which are aligned to the Company's strategy. Salaries are reviewed annually across the whole workforce and benefits are provided in line with local market norms. The pension provision for Executive Directors is 10% of salary. This policy was applied for the first time to the appointment of Jonathan Howell as CFO in December 2018 and the CEO's pension reduced from 15% of base salary to 10% of base salary with effect from 1 October 2021. This Report provides open and transparent disclosure of executive remuneration for our workforce and our shareholders.
Risk	**Code provision:** remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	There is an appropriate mix of fixed and variable pay and financial and non-financial measures and goals in our remuneration plans. There are mechanisms in place to ensure alignment with long-term shareholder interests and the ongoing performance of the business; one third of annual bonus is deferred into Sage shares, a holding period of two years is applicable to the PSP and Executive Directors are required to build up and maintain a significant holding of Sage shares both whilst an Executive Director (300% of salary for the CEO and 250% of salary for the CFO) and for a two-year period after stepping down from that position (100% of their 'in-employment' guideline for two years after stepping down as a Director). The Committee is able to exercise discretion over the formulaic outcomes of the bonus and PSP to ensure outturns reflect performance of Executive Directors and the business. Malus and clawback provisions are applicable to these plans in the event of a trigger event.
Predictability	**Code provision:** the range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy.	The illustrations provided on page 136 detail the potential future reward based on different performance scenarios under the proposed 2022 Policy. Incentive opportunities are capped with clearly defined payout schedules, deferral requirements and holding periods.

Proportionality	**Code provision:** the link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance.	Executive Directors' total remuneration package is designed to ensure that remuneration increases or decreases in line with business performance and aligns the interests of Executive Directors and shareholders, specifically with the annual bonus and PSP rewarding over the short and long term. Stretching targets over an annual (applicable to annual bonus) and three-year performance period (applicable to the PSP) are approved by the Committee and assessed at the end of the respective performance period, taking into account the wider business performance and the internal and external context. The Committee has overriding discretion over the formulaic outcomes of the bonus and PSP to ensure outturns reflect performance of Executive Directors, the business and the shareholder experience, ensuring that poor performance is not rewarded.
Alignment to culture	**Code provision:** incentive schemes should drive behaviours consistent with the company purpose, values and strategy.	Incentive schemes are aligned to Sage's culture. The bonus plan is split between Company performance and achievement of personal strategic goals which incorporate non-financial metrics such as employee engagement, leadership development, inclusion, diversity, talent development and the community. The Company performance measures are central to the strategic progression of Sage and the personal goal assessments are completed taking into account outputs and how they have been delivered in respect of the Company's Values and Behaviours. The Performance Share Plan measures align to the Company's strategic priorities in addition to the wider shareholder experience through Total Shareholder Return (TSR). The proposed introduction of ESG measures into the PSP will drive achievement of the new Sustainability and Society strategy announced in June 2021. Full details of the proposed measures can be found on page 150.

The Remuneration Committee in 2021 undertook a review of remuneration and related policies for the wider workforce and deemed that remuneration for Executive Directors is aligned to the wider workforce. This is achieved by consistent performance measures in the annual bonus plan, pay principles that are applicable across the entire workforce and application of the annual pay review process consistently across all colleagues. Additionally, Save and Share, our all-colleague Share Plan, generates Colleague Success through fostering colleagues as shareholders at all levels across the business. In 2021, the take-up rate was 31% of eligible colleagues.

The Remuneration Committee reviewed the implementation of the Policy over 2021 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 2022 AGM. As ever, the Remuneration Committee welcomes any questions or comments from shareholders.

Annette Court
Chair of the Remuneration Committee

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. Details of the skills and experience of the Remuneration Committee members can be found in their biographies on pages 70 to 71.

The Committee held six scheduled meetings during FY21. There was one unscheduled meeting during the year. Details of individual attendance at scheduled meetings is provided on page 84. The Committee also held a number of working sessions on the 2022 Directors' Remuneration Policy over the course of FY21.

Activities and evaluation

Details of the Remuneration Committee's activities are set out below.

Activities of the Committee at a glance

Allocation of time

Activities of the Committee

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

Key area of activity	Matters considered	Outcome
Determining the Policy and its implementation	• Determined bonus targets and outcomes for 2020 and PSP outcomes for the 2018 award. • Reviewed content of 2020 Directors' Remuneration Report. • Adjustments required to the 2022 Policy to ensure Executive Directors' remuneration is aligned to the strategic requirements and long-term goals of the business.	• 2020 bonus determined at 18.4% to 19% of potential, as disclosed in last year's Report. • 2018 PSP determined at 27.4% of the overall award for vesting, as disclosed in last year's Report. • Approved the 2020 Directors' Remuneration Report. • Approved the 2022 Policy and consulted with shareholders for implementation in FY22 pending approval at the 2022 AGM.
Reviewing the effectiveness of the Policy	• Reviewed performance against in-flight incentive plans and the forecast single figure of remuneration for Executive Directors. • Reviewed remuneration-related risks. • Reviewed the structure of remuneration. • Discussed the bonus and PSP structure for 2022.	• Determined that the Policy was operating as intended for FY21.
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 Report for 2020. • 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 Report. • Reviewed the Committee's Terms of Reference. • Reviewed workforce remuneration and related policies.	• 2020 Directors' Remuneration Report approved in November 2020. • 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. • Considered the implementation of the 2022 Policy in light of workforce remuneration.

Remuneration Policy 2022

The current Policy was approved by our shareholders at the 2019 AGM and can be found in full in the 2018 Annual Report, a copy of which can be downloaded from www.sage.com/investors.

We are required by law to put a Policy (the "2022 Policy") to our shareholders for approval at the 3 February 2022 AGM. The 2022 Policy is set out on pages 131 to 139 of this Report and, subject to shareholder approval, will take effect immediately after the AGM.

The Remuneration Committee discussed the 2022 Policy over a series of meetings which considered the strategic priorities of the business, talent requirements, stakeholder views and evolving market practice. Input was sought from the CEO and members of the People team, while ensuring that conflicts of interest were suitably mitigated, but enabling consideration of the wider workforce when evaluating remuneration. An external perspective was provided by our major shareholders and our independent advisors, Deloitte.

The key proposed changes from the previous Policy are as follows:

- The post-employment shareholding guideline has been updated to align to Investment Association guidance and increased to 100% of Directors' 'in-employment' guideline for two years after stepping down as a Director, further enhancing the long-term alignment of Directors and shareholders;
- The CEO's shareholding requirement will increase to 300% of salary;
- The Committee has the flexibility to set and measure bonus targets other than on an annual basis. It is expected that use of this flexibility will be reserved for exceptional circumstances, for example where there is limited visibility to set robust 12-month targets;
- Pension provision for Executive Directors will be aligned in the 2022 Policy with the rate available to the majority of the workforce (currently 10% of salary). The CEO's existing pension provision of 15% of salary reduced accordingly with effect from 1 October 2021; and
- In recognition of the increasing level of time commitment required from a Non-executive Director in our internationalised business, the 2022 Policy will provide flexibility to make additional travel allowance payments to Non-executive Directors for time spent travelling internationally on Company business.

Remuneration policy table

The table below sets out the Policy that the Company will apply from 3 February 2022, subject to shareholder approval.

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
Base salary Supports the recruitment and retention of Executive Directors of the calibre required to deliver the Group's strategy. Rewards executives for the performance of their role. Set at a level that allows fully flexible operation of our variable pay plans.	Normally reviewed annually, with any increases applied from January. When determining base salary levels, consideration is given to the following: • Pay increases for other employees in major operating businesses of the Group; • The individual's skills and responsibilities; • Pay at companies of a similar size and international scope to Sage, in particular those within the FTSE 100 (excluding the top 30); and • Corporate and individual performance.	Ordinarily, salary increases will be in line with increases awarded to other employees in major operating businesses of the Group. However, increases may be made above this level at the Remuneration Committee's discretion to take account of individual circumstances such as: • Increase in scope and responsibility; • The individual's development and performance in role (e.g. for a new appointment where base salary may be increased over time rather than set directly at the level of the previous incumbent or market level); and • Alignment to market level. Accordingly, no monetary maximum has been set.	None, although overall performance of the individual is considered by the Remuneration Committee when setting and reviewing salaries annually.
Pension Provides a competitive post-retirement benefit, in a way that manages the overall cost to the Company.	Defined contribution plan (with Company contributions set as a percentage of base salary). An individual may elect to receive some or all of their pension contribution as a cash allowance.	The Company contribution rate for Executive Directors is aligned with the rate available to the majority of the workforce (currently 10% of salary).	None.

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
Benefits Provide a competitive and cost-effective benefits package to executives to assist them to carry out their duties effectively.	The Group provides a range of benefits which may include a car benefit (or cash equivalent), private medical insurance, permanent health insurance, life assurance and financial advice. Additional benefits may also be provided in certain circumstances which may include relocation expenses, housing allowance and school fees. Other benefits may be offered if considered appropriate and reasonable by the Remuneration Committee.	Set at a level which the Remuneration Committee considers: • Appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market; • Provides a sufficient level of benefit based on the role and individual circumstances, such as relocation. As the costs of providing benefits will depend on the Director's individual circumstances, the Remuneration Committee has not set a monetary maximum.	None.
Annual bonus Rewards and incentivises the achievement of financial and strategic targets over the year. An element of compulsory deferral provides a link to the creation of sustainable long-term value.	Performance measures, weightings and targets are set and payout levels are determined by the Remuneration Committee based on performance against those targets. The Remuneration Committee may, in appropriate circumstances, override the formulaic outcome and amend the bonus payout should this not, in the view of the Remuneration Committee, reflect overall business performance or individual contribution. A minimum of one third of any annual bonus earned by Executive Directors is delivered in deferred share awards with the remainder delivered in cash. The deferral period will usually be a minimum of three years.	175% of salary Up to 50% of the bonus can be paid for delivering a target level of performance.	• At least 70% of the bonus will be determined by measure(s) of Group financial performance; • No more than 30% of the bonus will be based on pre-determined financial, strategic, ESG or operational measures appropriate to the individual Director. The measures that will apply for the financial year 2022 are described in the Directors' Annual Remuneration Report.

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
Performance share plan (PSP) Motivates and rewards the achievement of long-term business goals. Supports the creation of shareholder value through the delivery of strong market performance aligned with the long-term business strategy. Supports achievement of our strategy by targeting performance under our key financial performance indicators.	Awards vest dependent upon the achievement of performance conditions measured over a period of at least three years. Following the end of the performance period, the performance conditions will be assessed and the percentage of awards that will vest will be determined. The Remuneration Committee may decide that the shares in respect of which an award vests are delivered to participants at that point or that awards will then be subject to an additional holding period before participants are entitled to receive their shares. A holding period will normally last for two years, unless the Remuneration Committee determines otherwise. The Remuneration Committee has discretion to decide whether and to what extent the performance conditions have been met and, in appropriate circumstances, to override the formulaic outcome. If an event occurs that causes the Remuneration Committee to consider that an amended or substituted performance condition would be more appropriate and not materially less difficult to satisfy, the Remuneration Committee may amend or substitute any performance condition.	Awards vest on the following basis: • Threshold performance: 20% of the maximum shares awarded; • Stretch performance: 80% of the maximum shares awarded; • Exceptional performance: 100% of the shares awarded with straight-line vesting between each level of performance; • Overall individual limit of 300% of base salary under the rules of the plan. Implementation for FY22 is outlined on page 150. The Remuneration Committee retains the discretion to make awards up to the individual limit under the PSP and, as stated in previous remuneration reports, would expect to consult with significant investors if awards were to be made routinely above current levels.	Vesting will be subject to performance conditions as determined by the Remuneration Committee on an annual basis. The performance conditions will initially be Sage Business Cloud penetration, relative TSR and ESG, although the Remuneration Committee will retain discretion to include additional or alternative performance measures which are aligned to the corporate strategy. At its discretion, the Remuneration Committee may elect to add additional underpin performance conditions. Details of the targets that will apply for awards granted in 2022 are set out in the Directors' Annual Remuneration Report.
All-employee share plans Provide an opportunity for Directors (as well as the general workforce) to voluntarily invest in the Company.	UK-based Executive Directors are entitled to participate in an HMRC-approved all-employee plan, The Save and Share Plan, under which they can make monthly savings over a period of three or five years linked to the grant of an option over Sage shares with an option price which can be at a discount of up to 20% of the market value of shares on grant. Options may be adjusted to reflect the impact of any variation of share capital. Overseas-based Executive Directors are entitled to participate in any similar all-employee scheme operated by Sage in their jurisdiction.	UK participation limits are those set by HMRC from time to time. Currently this is £500 per month (or foreign currency equivalent). Limits for participants in overseas schemes are determined in line with any local legislation.	None.

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
Chair and Non-executive Director fees Provide an appropriate reward to attract and retain high-calibre individuals. Non-executive Directors do not participate in any incentive scheme.	Fees are reviewed periodically. The fee structure is as follows: • The Chair is paid a single, consolidated fee; • The Non-executive Directors are paid a basic fee, plus fees for additional responsibilities or time commitments such as chairing (and, where appropriate, membership) of Board Committees and to the Senior Independent Director; • Fees are currently paid in cash but the Company may choose to provide some of the fees in shares. Additional travel allowance payments may be made to the Chair and Non-executive Directors for time spent travelling internationally on Company business, for example to attend a Board meeting. Non-executive Directors may be eligible for benefits such as company car, use of secretarial support, healthcare or other benefits that may be appropriate including where travel to the Company's registered office is recognised as a taxable benefit in which case a Non-executive Director may receive the grossed-up costs of travel as a benefit.	Set at a level which: • Reflects the commitment and contribution that is expected from the Chair and Non-executive Directors; • Is appropriately positioned against comparable roles in companies of a similar size, complexity and international scope to Sage, in particular those within the FTSE 100 (excluding the top 30). Overall fees paid to Directors will remain within the limit stated in our articles of association, currently £1.25m. Actual fee levels are disclosed in the Directors' Annual Remuneration Report for the relevant financial year.	None.
Shareholding guideline Aligns the interests of Executive Directors and shareholders and encourages a focus on long-term performance.	Whilst in employment, Executives Directors are expected to build up a shareholding worth 300% of salary in respect of the CEO and 250% of salary in respect of other Executive Directors over five years from the Director becoming subject to the guideline. The Remuneration Committee will review progress towards the guideline on an annual basis and has the discretion to adjust the guideline in what it feels are appropriate circumstances. Executive Directors are also expected to remain compliant with this guideline or, if lower, their actual shareholding at leaving for two years post-cessation of employment. Shares acquired by an Executive Director in their personal capacity at any time, or shares released to an Executive Director prior to 11 September 2019 are exempt from this guideline. The Committee retains discretion to waive this guideline if it is not considered appropriate in the specific circumstances.		None.

Notes:

- Annual bonus and PSP performance measures and targets are selected each year so as to align with key financial and operational objectives.
- Awards granted under the deferred bonus plan and the PSP may:

a. Be made in the form of conditional awards or nil-cost options and may be settled in cash on vesting;
b. Incorporate the right to receive an amount (in cash or shares) equal to the dividends which would have been paid or payable on the shares that vest in the period up to vesting (or, where PSP awards are made subject to a holding period, the end of the holding period). This amount may be calculated assuming the dividends were reinvested in the Company's shares on a cumulative basis; and
c. Be adjusted in the event of any variation of the Company's share capital, demerger, delisting, special dividend, rights issue or other event which may, in the opinion of the Remuneration Committee, affect the current or future value of the Company's shares.

Provisions to withhold (malus) or recover (clawback) sums paid under the annual bonus and PSP in the event of material negative circumstances, such as a material misstatement in the Company's audited results, serious reputational damage or significant financial loss to the Company (as a result of the participant's conduct), an error in assessing the performance metrics relating to the award or the participant's gross misconduct are incorporated into the PSP, the annual bonus and the deferred bonus plan. These provisions may apply up to three years from the release date of a PSP award or three years from the date a cash bonus is paid or a deferred share award is granted. Details of the proposed implementation of those provisions in the forthcoming year are set out in the Directors' Annual Remuneration Report.

All Directors submit themselves for re-election annually.

The Remuneration Committee intends to honour any commitments entered into with current or former Directors on their original terms, including outstanding incentive awards, which have been disclosed in previous remuneration reports and, where relevant, are consistent with a previous policy approved by shareholders. Any such payments to former Directors will be set out in the Remuneration Report as and when they occur.

The Remuneration Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above, where the terms of the payment were agreed (i) before the Policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved Remuneration Policy in force at the time they were agreed; or (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Remuneration Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes "payments" includes the Remuneration Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

The Remuneration Committee may make minor amendments to the Policy (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

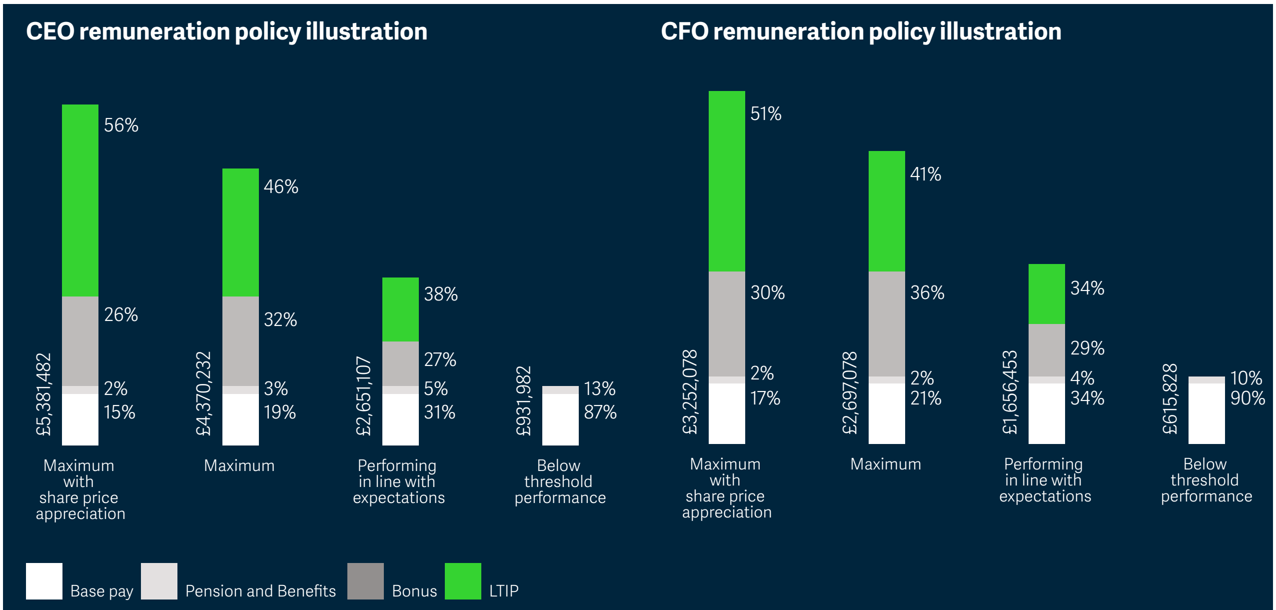
Illustration of 2022 Policy

The charts on page 136 set out an illustration of the 2022 Policy and include base salary, pension, benefits and incentives. The charts provide an illustration of the proportion of total remuneration made up of each component of pay and the total potential value available to the Directors under the Policy. The charts do not take into account dividends or, unless stated otherwise, share price appreciation.

In these illustrative charts, salaries are those applying from 1 January 2022, pension provision is 10% of salary and benefits have been estimated using the figure included in the 2021 single figure of remuneration.

For illustrating the potential value from incentives, four scenarios have been illustrated for each Executive Director:

Below threshold performance	No bonus payout. No vesting of PSP awards.
Performing in line with expectations	87.5% of salary payout in annual bonus (50% of maximum opportunity). PSP vested shares equivalent to 125% of salary for the CEO and 100% of salary for the CFO (50% of total shares available).
Maximum	175% of salary payout in annual bonus (100% of maximum opportunity). PSP vested shares equivalent to 250% of salary for the CEO and 200% of salary for the CFO (100% of total shares awarded).
Maximum with share price appreciation	Maximum scenario with the additional assumption of 50% share price appreciation during the PSP vesting period.



Note:

1. Assumes share price appreciation of 50% during the relevant performance period.

Development of our Policy

Consistency with remuneration for the wider Group

The Policy for our Executive Directors is designed in line with the remuneration philosophy and principles that underpin remuneration for the wider Group. The remuneration arrangements for employees below the main Board reflect the seniority of the role and local market practice and therefore the components and levels of remuneration for different employees will differ from the Policy for executives as set out above.

Consideration of pay and conditions for the wider Group

The Remuneration Committee reviews annually the remuneration and related policies prevailing for the wider Group workforce, taking them into account when determining the Remuneration Policy and pay for the main Board Directors and the Executive Committee. In the course of setting the 2022 Policy, the Remuneration Committee discussed the alignment of remuneration and related policies with culture and strategy, the progress made in key initiatives to enhance such alignment during the year and priorities for FY22, and the alignment of pay and conditions for the wider Group workforce with executives. Colleagues were not consulted in the formulation of the 2022 Policy.

Communication with our shareholders

The Remuneration Committee is committed to an ongoing dialogue with shareholders and seeks the views of significant shareholders when any major changes are being made to remuneration arrangements. The Remuneration Committee takes into account the views of significant shareholders and shareholder representative bodies such as Institutional Shareholder Services, the Investment Association and Glass Lewis when formulating and implementing the policy. A consultation process was undertaken with our largest shareholders and shareholder representative bodies ahead of the introduction of this revised policy.

Recruitment remuneration arrangements

In the event of hiring a new Executive Director, the Remuneration Committee will seek to align the remuneration package with our Policy, which may include the elements outlined in the Policy table above. However, the Remuneration Committee retains the discretion to make appropriate remuneration decisions outside the standard policy to meet the individual circumstances of the recruitment. This may, for example, include the following circumstances:

- An interim appointment is made to fill an Executive Director role on a short-term basis;
- Exceptional circumstances require that the Chair or a Non-executive Director takes on an executive function on a short-term basis;
- An Executive Director is recruited at a time in the year when it would be inappropriate to provide a bonus or PSP award for that year as there would not be sufficient time to assess performance. The quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis;
- An executive is recruited from a business or location that offered some benefits that the Remuneration Committee might consider appropriate to buy out but that do not fall into the definition of "variable remuneration forfeited" that can be included in the buyout element under the wording of the regulations;
- The executive received benefits at their previous employer which the Remuneration Committee considers it appropriate to offer; and
- The Remuneration Committee may alter the performance measures, performance period and vesting period of the annual bonus or long-term incentive, subject to the rules of the plan, if the Remuneration Committee determines that the circumstances of the recruitment merit such alteration. The rationale will be clearly explained in the relevant Directors' Remuneration Report.

In determining appropriate remuneration arrangements on hiring a new Executive Director, the Remuneration Committee will take into account relevant factors; this may include the calibre of the individual, local market practice, the existing remuneration arrangements for other executives and the business circumstances. The Remuneration Committee seeks to ensure that arrangements are in the best interests of both Sage and its shareholders and seeks not to pay more than is appropriate.

The maximum level of variable pay which may be awarded to new Executive Directors in respect of their recruitment, excluding buy-out arrangements, is 500% of base salary in the first year of employment. Variable pay in subsequent years will be in line with the Policy table above.

The Remuneration Committee may make awards on hiring an external candidate to buy out remuneration arrangements forfeited on leaving a previous employer. In doing so the Remuneration Committee will take account of relevant factors including any performance conditions attached to these awards, the form in which they were granted (e.g. cash or shares) and the timeframe of awards. The Remuneration Committee will generally seek to structure buyout awards on a comparable basis to awards forfeited.

In order to facilitate the variable pay opportunity and buyout awards mentioned above, the Remuneration Committee may rely on exemption in LR 9.4.2. of the Listing Rules which allows for the grant of awards to facilitate, in exceptional circumstances, the recruitment of a Director. The Remuneration Committee may also rely on the rules of the PSP which permit the grant of two PSP awards in the first year of employment, with the individual limit from the plan rules applying separately to each PSP award.

Where an Executive Director is an internal promotion, the normal policy is that any legacy arrangements would be honoured in line with the original terms and conditions. Similarly, if an Executive Director is appointed following Sage's acquisition of or merger with another company, legacy terms and conditions would be honoured.

In the event of the appointment of a new Non-executive Director, remuneration arrangements will normally be in line with the structure set out in the policy table for Non-executive Directors.

Change of control

The rules of the PSP provide that, in the event of a change of control, unvested awards would vest to the extent determined by the Remuneration Committee taking into account the extent to which it determines the performance conditions have been satisfied (based on all factors it considers relevant) at the date of such event. The extent to which the Remuneration Committee allows awards to vest would also, unless it determines otherwise, take into account the period of time that has elapsed between the grant of the award and the date of the change of control as a proportion of three years (or such other period the Remuneration Committee considers to be appropriate). However, the Remuneration Committee may vary the level of vesting of awards if it believes that exceptional circumstances warrant this; awards that are subject to a holding period at the time of the change of control will be released at that time.

Awards granted under the deferred bonus plan will vest in full upon a change of control. Awards held under all-employee plans would be expected to vest on a change of control and those which have to meet specific requirements to benefit from permitted tax benefits would vest in accordance with those requirements.

Alternatively, the Directors may exchange their awards over Company shares for equivalent awards in shares of the acquiring company if the terms of the offer allow this.

If the Company is wound up or in the event of a demerger, delisting, special dividend or other event which, in the Remuneration Committee's opinion, would materially affect the current or future value of the Company's shares, the Remuneration Committee may allow deferred share and PSP awards to vest and be released early on the same basis as for a change of control.

Executive Director service contracts

All current Executive Directors have service contracts, which may be terminated by the Company for breach by the executive or by giving 12 months' notice by the Company or the individual.

Service contacts for new Directors will generally be limited to 12 months' notice. However, the Remuneration Committee may agree a longer period, of up to 24 months initially, reducing by one month for every month served until it falls to 12 months.

Terms and conditions for Non-executive Directors

The appointment of the Non-executive Directors (including the Non-executive Chair) is for a fixed term of three years, during which period the appointment may be terminated by the Board on up to six months' notice. There are no provisions on payment for early termination in letters of appointment.

The letters of appointment of Non-executive Directors and service contracts of Executive Directors are available for inspection at the Company's registered office during normal business hours and will be available at the Annual General Meeting.

Payments to departing Directors

There are no pre-determined special provisions for Directors with regard to compensation in the event of loss of office; compensation is based on what would be earned by way of salary, pension entitlement and other contractual benefits over the notice period. In the event that a contract is to be terminated, and a payment in lieu of notice made, payments to the Executive Director may be staged over the notice period, at the same interval as salary would have been paid. If applicable, during that period the Executive Director must take all reasonable steps to obtain alternative employment and payments to the Executive Director by the Company will be reduced to reflect payments received in respect of that alternative employment.

The Remuneration Committee reserves the right to make any other payments in connection with a Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a compromise or settlement of any claim arising in connection with the cessation of a Director's office or employment. Any such payments may include, but are not limited to, paying any fees for outplacement assistance and/or the Director's legal and/or professional advice fees in connection with his cessation of office or employment.

There is no automatic entitlement to an annual bonus. Executive Directors may receive a bonus in respect of the financial year of cessation. The payment of any annual bonus will be at the Remuneration Committee's discretion, based on the individual circumstances, and would usually be pro-rated for the period of service and may be paid entirely in cash. In determining the level of bonus to be paid, the Remuneration Committee may, at its discretion, take into account performance up to the date of cessation or over the financial year as a whole based on appropriate performance measures as determined by the Remuneration Committee. The treatment of leavers under our long-term incentive plans is determined by the rules of the relevant plans.

Deferred bonus plan

If an Executive Director ceases to hold office or employment within the Group during the vesting period of a deferred share award as a result of their death, their award will vest on the date of death. If the reason for their cessation of employment is injury, ill health, disability or retirement, because their employing company or business is sold out of the Group or in any other circumstances the Remuneration Committee determines, their award will vest on the normal vesting date unless the Remuneration Committee determines the award should vest following their cessation of office or employment. Awards will normally be accelerated in the event of a participant's death. If the individual ceases to hold office or employment with a member of the Group in any other circumstances, any unvested deferred share awards they hold will lapse.

PSP

If the Director ceases to hold office or employment within the Group during the Performance Period as a result of their death, their award will vest on the date of death. If the reason for their cessation of employment is ill health, injury or disability, because their employing company or business is sold out of the Group or in any other circumstances the Remuneration Committee determines, any unvested awards will vest (and be released from any holding period) at the same time as if the individual had not left the Group, unless the Remuneration Committee determines the award should vest (and be released) following their cessation of office or employment.

The extent to which awards vest in these circumstances will be determined by the Remuneration Committee taking into account the extent to which it determines the performance conditions have been satisfied at the end of the original performance period or following the Director's cessation of office or employment (as appropriate) and, unless the Remuneration Committee determines otherwise, the period of time that has elapsed between the grant of the award and the date of the cessation of office or employment as a proportion of three years (or such other period the Remuneration Committee considers to be appropriate).

Unvested PSP awards will lapse in any other circumstances (e.g. if the Executive Director leaves as a result of their termination for cause).

Where an Executive Director leaves whilst holding vested PSP awards that are subject to a holding period, those awards will normally be released at the end of the relevant holding period, unless the Remuneration Committee determines the award should be released following their cessation of employment. If, however, an Executive Director is summarily dismissed, any outstanding PSP awards they hold will lapse.

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 2022 Policy for Executive and Non-executive Directors for 2022

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 2020 and 2021.

	(a) Salary/fees[6] £'000		(b) Benefits[7] £'000		(c) Bonus[8] £'000		(d) PSP awards[9] £'000		(e) Pension[10] £'000		Total fixed remuneration[11] £'000		Total variable remuneration[12] £'000		Total[13] £'000	
Director	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020 (restated)	**2021**	2020	**2021**	2020	**2021**	2020 (restated)	**2021**	2020 (restated)
Executive Directors																
S Hare	**785**	781	**42**	119	**827**	252	**681**	288	**118**	117	**945**	1,017	**1,508**	540	**2,453**	1,557
J Howell	**545**	543	**5**	6	**582**	180	**473**	315	**47**	47	**597**	596	**1,055**	495	**1,652**	1,091
Non-executive Directors																
Sir D Brydon[1]	**400**	400	**28**	36	**–**	–	**–**	–	**–**	–	**428**	436	**–**	–	**428**	436
S Anand[2]	**60**	25	**–**	–	**–**	–	**–**	–	**–**	–	**60**	25	**–**	–	**60**	25
J Bates	**60**	60	**–**	–	**–**	–	**–**	–	**–**	–	**60**	60	**–**	–	**60**	60
J Bewes	**77**	77	**–**	–	**–**	–	**–**	–	**–**	–	**77**	77	**–**	–	**77**	77
A Court	**77**	77	**–**	–	**–**	–	**–**	–	**–**	–	**77**	77	**–**	–	**77**	77
D Hall	**77**	77	**–**	–	**–**	–	**–**	–	**–**	–	**77**	77	**–**	–	**77**	77
D Harding[3]	**35**	–	**–**	–	**–**	–	**–**	–	**–**	–	**35**	–	**–**	–	**35**	–
A Duff[4]	**25**	–	**–**	–	**–**	–	**–**	–	**–**	–	**25**	–	**–**	–	**25**	–
I Wasti[5]	**60**	25	**–**	–	**–**	–	**–**	–	**–**	–	**60**	25	**–**	–	**60**	25

Notes:

1. Sir Donald Brydon stepped down as Chair of the Sage Board on 30 September 2021.
2. Sangeeta Anand was appointed as a Non-executive Director on 1 May 2020.
3. Derek Harding was appointed as a Non-executive Director on 2 March 2021.
4. Andrew Duff was appointed as a Non-executive Director on 1 May 2021.
5. Irana Wasti was appointed as a Non-executive Director on 1 May 2020.
6. 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 149 of this Report.
7. Benefits provided to the Executive Directors included: car benefits or cash equivalent (Steve Hare only), private medical insurance, permanent health insurance, life assurance, financial advice and, where deemed to be a taxable benefit, the grossed-up costs of travel, accommodation and subsistence for the Directors and their partners on Sage-related business if required. Benefits exclude items subject to tax where they are in the nature of business expenses. In prior years, a large proportion 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. Due to Covid-19, this event did not take place in FY21.
   Sir Donald Brydon's car benefit ceased in July 2021 and has been pro-rated accordingly.
8. Further information about how the level of FY21 bonus award was determined is provided in the additional disclosures below.
9. The 2021 PSP value for Steve Hare and Jonathan Howell is based on the PSP award granted in financial year 2019 which is due to vest in December 2021. The performance conditions applicable to the awards are outlined on page 144 of this Report. The value is based on the number of shares vesting under the 2019 PSP award multiplied by the average price of a Sage share between 1 July and 30 September 2021, which was £7.204, plus dividend equivalents accrued. For Steve Hare, £133,693 of the value is attributable to movement in the share price between grant and vesting and for Jonathan Howell £92,892 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 value of Steve Hare's 2018 PSP for 2020 has been updated. The change in value is as a result of changes in the share price reported in 2020 in line with the methodology set out in the 2013 Reporting Regulations (£7.204) and the share price actually achieved at vesting (£5.716).
10. Pension emoluments for Steve Hare from his appointment as CEO on 2 November 2018 were equal to 15% of base salary and have reduced to 10% of base salary with effect from 1 October 2021. Pension emoluments for Jonathan Howell were equal to 10% of base salary (less a deduction for Employer National Insurance Contributions). Both elected to receive them as a cash allowance. Maximum pension contribution levels for the wider workforce in the UK is 10% of salary, subject to contributions from the colleagues themselves.
11. Total fixed remuneration is inclusive of salary/fees, benefits and pension.
12. Total variable remuneration is inclusive of bonus and PSP awards.
13. Total remuneration for Directors in 2021 was £5,004,000 compared to £4,114,000 in 2020 (updated from the 2020 Directors' Remuneration Report).

Additional disclosures for single figure for total remuneration table (audited information)

Annual bonus 2021

The bonus targets for FY21 were set by reference to the strategy for FY21, in particular the achievement of cloud native ARR growth, ARR growth and customer Net Promoter Score taking into account the Company's annual budget and historical performance in determining the payout curve.

Bonus measure	% weighting	Threshold performance	Target performance	Stretch performance	Actual performance (at budget foreign currency exchange rates)	% of maximum bonus payable
Cloud native ARR growth	50%	30.0% (15% of bonus payable)	50.0% (25% of bonus payable)	59.3% (50% of bonus payable)	43.6%	21.8%
ARR growth	20%	4.0% (6% of bonus payable)	6.5% (10% of bonus payable)	8.0% (20% of bonus payable)	7.8%	18.7%
Net Promoter Score	10%	20 (3% of bonus payable)	25 (5% of bonus payable)	26.5 (10% of bonus payable)	21.3	3.5%
Strategic measures	20%	The assessment of strategic measures is set out below this table (between 0% and 20% of bonus payable)				Steve Hare (CEO): 16.2% of maximum Jonathan Howell (CFO): 17.0% of maximum
Total						Steve Hare: 60.2% of maximum bonus (105.4% of salary) Jonathan Howell: 61.0% of maximum bonus (106.8% of salary)

Notes:

- Payment of a bonus for CNARR and ARR growth was subject to the achievement of an underpin condition of Group underlying operating profit margin. Group underlying operating profit margin was 19.6%, which exceeded the underpin target of 15%.
- CNARR, ARR growth and underlying operating profit margin are defined on pages 8, 250 and 249 respectively. 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 linked to the execution of the 2021 budget and long-term strategy plan. These were: (1) Demonstrate steps to evidence progress to being a great SaaS company (15% weighting); (2) Build the leadership team of the future (15% weighting); (3) Show evidence of progress in Strategic Priorities (15% weighting); (4) Continue to reshape the portfolio (10% weighting); (5) Demonstrate progress in competitive differentiation (15% weighting); (6) Engender a culture that contributes to our communities (10% weighting); (7) Deliver year one of Sage's Cyber Security Strategy (10% weighting); and (8) Demonstrate that the operating model is functioning with clarity and effectiveness (10% weighting).

The Committee took into account the following performance against those goals:

1. Demonstrate steps to evidence progress to being a great SaaS company: Customers - achieved an NPS of +21.3 for SBC solutions and personally spent time interacting with customers and the customer services team, meeting the targets set. Colleagues - voluntary attrition of 9.6% achieved, which exceeded the target set. An eNPS of +35 was achieved, and personally Steve Hare completed three days volunteering for Sage Foundation, narrowly missing the targets set. Innovation - delivered a clear product roadmap for Sage Business Cloud (SBC) for the next 12 months, including prioritising delivery of cloud native solutions. Personally, completed five days supporting innovation and experimentation, which met the targets set.
2. Build the leadership team of the future: Succession plans developed to build the leadership team for 2025 and beyond, including emerging talent and contingency plans for pivotal roles. Overall the targets were exceeded.
3. Show evidence of progress in Strategic Priorities: In the US and UK strong new customer acquisition and increase in market share of new business. Strategies for value creation developed in international territories, which met the targets set.
4. Continue to reshape the portfolio: Assets held for sale at the end of FY20 are progressing or transactions have completed. Progress has been made in the depth and breadth of the SBC digital environment and through thoughtful partnerships and incremental M&A- within Sage's financial constraints. The targets were therefore exceeded.
5. Demonstrate progress in competitive differentiation: Brand transformation work undertaken and the launch of a new positioning for the Sage brand in the market is planned for FY22, exceeding the target set. The data strategy for Sage is at the concept phase, meaning that this target was partially met.
6. Engender a culture that contributes to our communities: Sustainability and Society strategy launched in June 2021 and Diversity, Equity and Inclusion strategy launched. The Executive Team (ET) is currently 40% female. Overall, the targets were exceeded.
7. Deliver year one of Sage's Cyber Security Strategy: Increased security standards for the highest-risk products and a mature state in crisis preparedness have been achieved, which met the targets set.
8. Demonstrate that the operating model is functioning with clarity and effectiveness: The Committee is satisfied that the operating model is functioning effectively, driving high performance and evolving as required, therefore this target has been met.

In consideration of these factors and overall performance of the business, the Committee determined that a bonus of 16.2% of the maximum 20% for this element was an appropriate award.

Jonathan Howell, CFO

Jonathan Howell was set a range of goals linked to the execution of the 2021 budget and long-term strategy plan. These were: (1) Ensure a customer-centric approach continues to be embedded across Finance and the business and commence the development of a three-year environmental strategy (15% weighting); (2) Develop a diverse and inclusive culture, focused on recognition and empowerment (20% weighting); (3) Deliver appropriate P&L performance and returns in line with budget and guidance, and closely monitor commercial finance business drivers, to support investment in innovation (25% weighting); (4) Embed and operationalise Salesforce Einstein and CAC/LTV (25% weighting); and (5) Report performance to the market in a clear, consistent and transparent format (15% weighting).

1. Ensure a customer-centric approach continues to be embedded across Finance and the business and commence the development of a three-year environmental strategy: Clear customer-centric success metrics and commentary are in place as part of regular management reporting. Personally spent five days interacting with customers. The Eco Act sustainability roadmap has been prepared and phase one launched in FY21, which met the targets set.

2. Develop a diverse and inclusive culture, focused on recognition and empowerment: Coaching and guidance provided to the Finance Leadership team to aid their personal development. Colleague engagement scores in the Finance function of +48 and voluntary attrition Group-wide of 9.6%. Personally completed five Sage Foundation volunteering days. Overall, targets were deemed to have been exceeded.
3. Deliver appropriate P&L performance and returns in line with budget and guidance, and closely monitor commercial finance business drivers, to support investment in innovation: High-quality and accurate reporting has been delivered on time. Significant progress on cash collections and repatriations with a reduction in debtor days by 40%. Successful launch of debut £350m Sterling bond, at coupon rate of 1.625%, the lowest ever ten-year coupon from a debut issuer in Sterling. £300m share buyback completed in September 2021 with successful extension of second tranche of £300m share buyback. Capital structure plan in place aligned to the capital allocation policy to increase leverage to medium-term target of 1-2x net debt. Very effective balance sheet management with the third consecutive year of cash conversion greater than 100%. The targets were therefore exceeded.
4. Embed and operationalise Salesforce Einstein and CAC/LTV: Salesforce Einstein is fully operational across all remaining territories and CAC/LTV measures are used across all regions, segments and products as part of monthly business reviews, management accounts and in the FY22 budget process to enable data-driven insights. Overall, the targets have been exceeded.
5. Report performance to the market in a clear, consistent and transparent format: Trading updates provide clear and consistent message to the market on strategy, operational execution and financials. Significant valuation re-rating in the year and improvement in sell-side recommendations. Two US roadshows held in FY21 and US representation on the register has increased by 5ppts in FY21, with the number of shares held by US institutions up by 18%, which met the targets set.

In consideration of the above and overall performance of the business, the Committee determined that a bonus of 17.0% of the maximum 20% for this element was an appropriate award.

PSP awards

Awards granted under the PSP to Steve Hare and Jonathan Howell in February 2019 vest depending on performance against two measures, measured over three years, from 1 October 2018 to 30 September 2021:

70% annualised recurring revenue growth with underpin for Return on Capital Employed (ROCE).

30% relative TSR performance against the FTSE 100 (excluding financial services and extracting companies).

For each measure, three levels of performance are defined below, with straight-line vesting between each level of performance: target, stretch and exceptional.

Measure	Between target (20% vests) and stretch (80% vests)	Between stretch (80% vests) and exceptional (100% vests)
Annualised recurring revenue growth (Compound Annual Growth Rate ("CAGR"))	Between 8% and 10% (with ROCE of 12%)	Between 10% and 11% (or above) (with ROCE of 12%)
Relative TSR	Between median and upper quartile	Between upper quartile and upper decile (or above)

Measure	Achieved	Vesting
Annualised recurring revenue growth (CAGR)	8.3%	20.3%
Relative TSR	60th percentile	13.2%
Total		33.5%

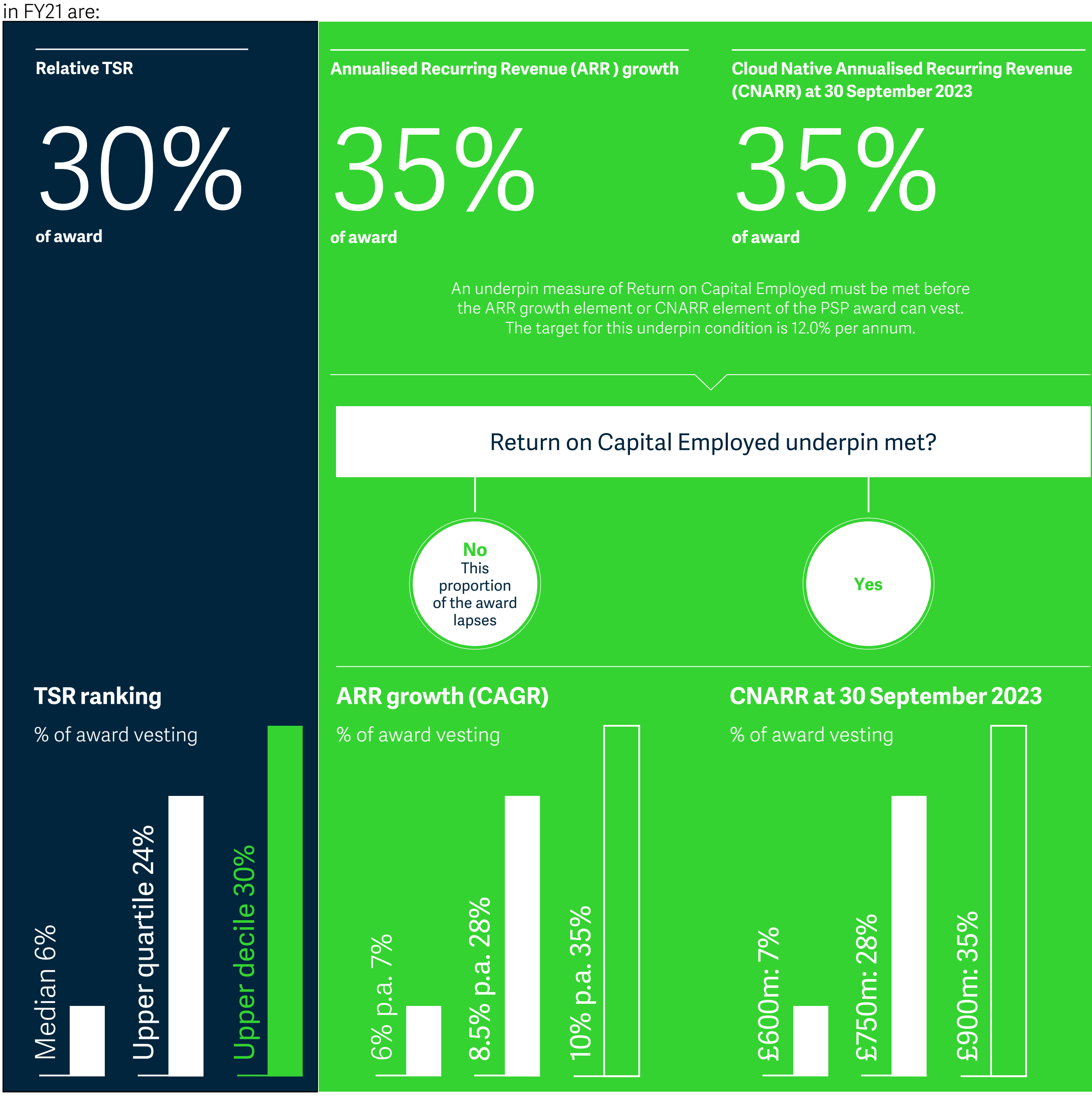
The Return on Capital Employed was 19.8% (compared to 12.0%), meaning that the underpin condition was achieved.

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, 33.5% of the total award will vest.

Awards are scheduled to vest on 4 December 2021, and for Steve Hare and Jonathan Howell, be subject to a two-year holding period and released on 4 December 2023.

PSP awards granted in FY21 (audited information)

Awards were granted under the PSP on 2 December 2020 at a market value of £5.880 to Executive Directors in the form of conditional share awards. In alignment with our business strategy for FY21, performance conditions for awards granted in FY21 are:



Vesting is on a straight-line basis 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.
- Cloud native ARR aligns to our prioritisation of accelerating strategic focus on cloud native opportunity given the pace of digital transformation among small and medium businesses.
- 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 and cloud native 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 2023. 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	267,006	1,570,000	200%	20%	30 September 2023
Jonathan Howell		185,374	1,090,000	200%	20%	30 September 2023

Note:

1. The face value of the PSP awards has been calculated using the market value (middle market quotation) of a Sage share on 1 December 2020 (the trading day prior to the grant for all eligible colleagues) of £5.880.

Change in remuneration of Directors compared to colleagues

The table below shows the annual percentage change in total remuneration of Directors with colleagues employed by the Sage Group plc. who are not also Directors of the Group.

	% change 2020/2021			% change 2019/2020		
	Salary/fees[1]	**Taxable benefits[2]**	**Annual incentive[3]**	Salary/fees[1]	Taxable benefits[2]	Annual incentive[3]
Executive Directors						
S Hare	**0.5%**	**-65%**	**229%**	2%	14%	-80%
J Howell	**0.5%**	**-6%**	**223%**	25%	37%	-75%
Non-executive Directors						
D Brydon	**0%**	**-23%**	**–**	0%	7%	–
S Anand	**140%**	**–**	**–**	–	–	–
J Bates	**0%**	**–**	**–**	197%	–	–
J Bewes	**0%**	**–**	**–**	100%	–	–
A Court	**0%**	**–**	**–**	100%	–	–
D Hall	**0%**	**–**	**–**	-6%	–	–
I Wasti	**140%**	**–**	**–**	–	–	–
D Harding[4]	**–**	**–**	**–**	–	–	–
A Duff[5]	**–**	**–**	**–**	–	–	–
Colleagues of the Company	**5%**	**29%**	**6%**	9%	37%	-10%

Notes:

- This information was published for the first time in 2020. Over subsequent years this will build up to a rolling five-year period.
- The change in fees for the Non-executive Directors is reflective of their start dates.
- The change in annual incentives for the Executive Directors is driven largely by an increase in the annual bonus outturn for FY21. As reported in the 2020 Directors' Remuneration Report, Covid-19 affected the economic landscape in FY20 meaning the threshold level of financial bonus was not met and only a portion of the CEO's bonus paid out in respect of resilient performance and the achievement of key strategic milestones last year.

1. 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. Salaries and fees for Directors for 2021 are as set out on page 140 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 and Sir Donald Brydon's taxable benefits for 2021 are as set out on page 140 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 and Jonathan Howell for 2021 are as set out on page 140 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.
4. Derek Harding was appointed as a Non-executive Director on 2 March 2021 accordingly no comparison can be drawn.
5. Andrew Duff was appointed as a Non-executive Director on 1 May 2021 accordingly no comparison can be drawn.

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 2021, consistent with The Companies (Miscellaneous Reporting) Regulations 2018. As outlined in the Remuneration Committee Chair's letter, the treatment of colleagues has provided important context for the Committee's decisions on executive remuneration in 2021 and the Committee is consequently satisfied that the median pay ratio for 2021 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)
2021	A	70 : 1	46 : 1	31 : 1	Total remuneration	£34,807	£53,304	£79,739
					Salary only	£29,700	£42,103	£79,091
2020	A	55 : 1	36 : 1	23 : 1	Total remuneration	£29,865	£45,942	£71,524
					Salary only	£27,955	£36,116	£56,983
2019	A	95 : 1	62 : 1	38 : 1	Total remuneration	£26,463	£40,385	£66,095
					Salary only	£20,281	£34,184	£51,087

The change in the pay ratio in 2021 is driven largely by an increase in the annual bonus outturn for FY21. As reported in the 2020 Directors' Remuneration Report, Covid-19 affected the economic landscape in FY20 meaning the threshold level of financial bonus was not met and only a portion of the CEO's bonus paid out in respect of resilient performance and the achievement of key strategic milestones last year.

Notes:

- Under method A, colleague data is based on full-time equivalent pay for UK colleagues as at 30 September 2021. 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 140 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 FY21 is set out on pages 141-143 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.

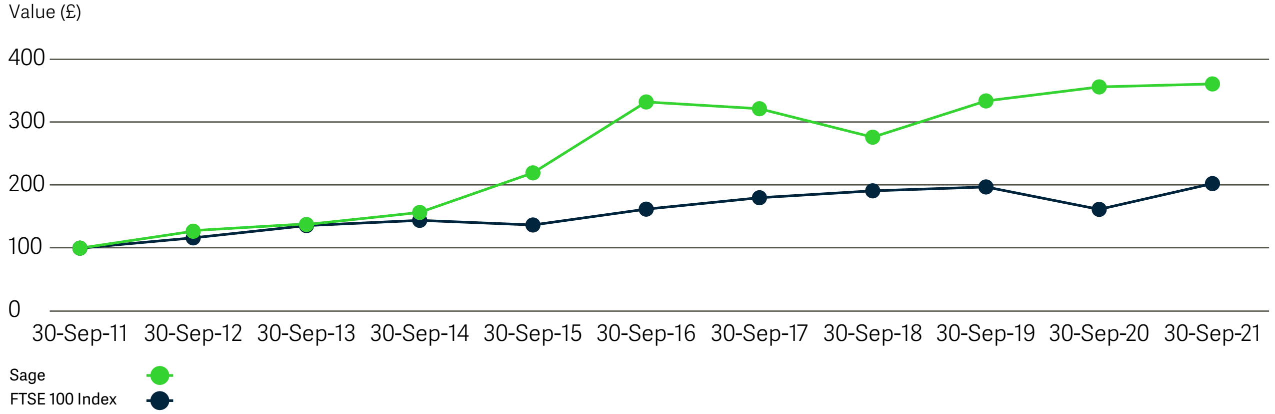
	CEO	2012	2013	2014	2015	2016	2017	2018	2019	2020	**2021**
CEO single figure of remuneration (in £'000)	Steve Hare[1]	–	–	–	–	–	–	98	2,495	1,557	**2,453**
	Stephen Kelly[2]	–	–	–	1,521	1,723	3,547	1,690	–	–	**–**
	Guy Berruyer[3]	1,196	1,670	1,616	108	–	–	–	–	–	**–**
Annual bonus payout (as % maximum opportunity)	Steve Hare	–	–	–	–	–	–	0%[4]	94%	18%	**60%**
	Stephen Kelly	–	–	–	67%	69%	19%	0%	–	–	**–**
	Guy Berruyer	21%	72%	55%	0%	–	–	–	–	–	**–**
PSP vesting (as % of maximum opportunity)	Steve Hare	–	–	–	–	–	–	29%	15%	27%	**34%**
	Stephen Kelly	–	–	–	–	–	66%	29%	–	–	**–**
	Guy Berruyer	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 2021, of £100 invested in The Sage Group plc. on 30 September 2011 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 FY21, Stephen Kelly's PSP award granted on 7 December 2017 vested on 7 December 2020 on the same basis as other Executive Directors as outlined on page 139 of the 2020 Annual Report. The performance conditions for Stephen's PSP recruitment award due to vest on 12 January 2021 were not met and the award lapsed in full on this date.

As reported in the 2020 Annual Report, Blair Crump retains interests in the Company's PSP and DSBP. He is eligible to receive a pro-rated proportion of the PSP awards granted during the 2018 and 2019 financial years that remained unvested on his retirement date of 31 March 2020. His DSBP award will not be subject to time pro-rating. The awards vesting are subject to the PSP and DSBP plan rules and compliance with certain post-termination covenants, including the post-cessation shareholding requirement set out on page 145 of the 2020 Annual Report. In FY21, his PSP award granted on 7 December 2017 vested on 7 December 2020 on the same basis as other Executive Directors as outlined on page 137 of the 2020 Annual Report, except that no holding period applies to his award, which was granted prior to his appointment as an Executive Director.

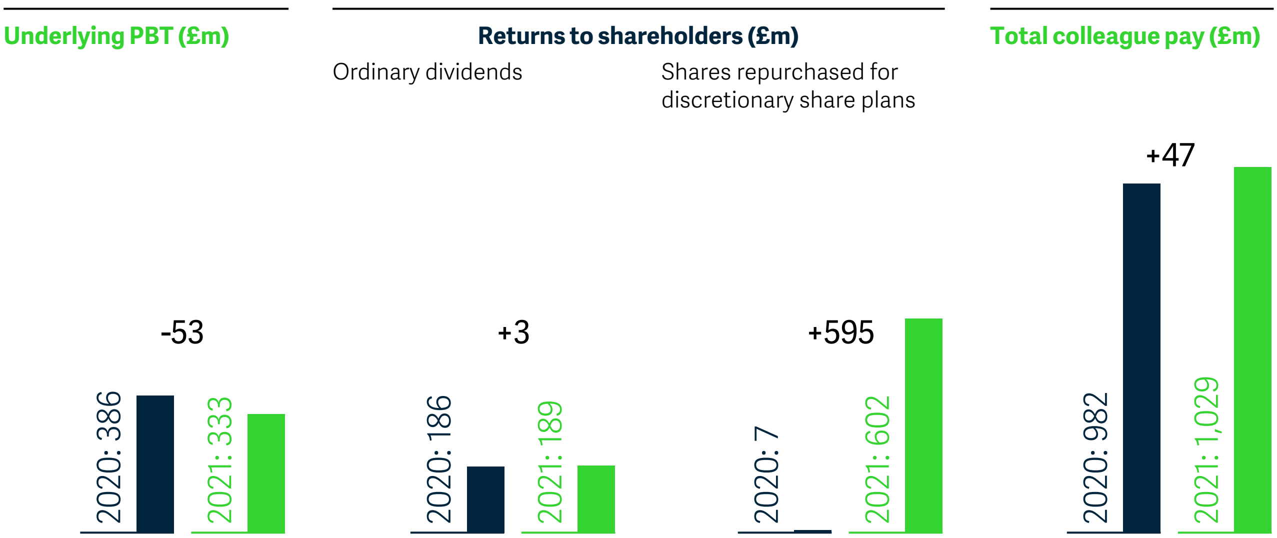
Otherwise than as stated in this section, no payments were made for loss of office during FY21.

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 2020 and 2021.

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 176. Underlying PBT has been chosen as a measure of our operational profitability;
- Returns to shareholders – Total dividends taken from note 15.5 on page 233; share buyback taken from consolidated statement of changes in equity on page 179;
- Total colleague pay – Total staff costs from note 3.3 on page 193, including wages and salaries, social security costs, pension and share-based payments.



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 2022, pending shareholder approval at the 2022 AGM.

Base salary

An annual salary review was carried out by the Remuneration Committee in November 2021. Following that review, the Remuneration Committee approved the following:

	Salary 1 January 2022	Salary 1 January 2021	Salary 1 January 2020	Salary 1 January 2019	Salary 1 January 2018
Steve Hare[1]	£809,000 (3% increase)	£785,000 (no increase)	£785,000 (1.9% increase)	£770,000 (appointed CEO 2 Nov 2018)	£522,000 (0% increase)
Jonathan Howell[2]	£555,000 (1.8% increase)	£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.

The equivalent average increase for colleagues eligible for an annual pay award is 3.2% (in respect of colleagues based in the United Kingdom).

Pension and benefits

The CEO's pension provision reduced from 15% of base salary to 10% of base salary with effect from 1 October 2021 and the Chief Financial Officer will continue to receive a pension provision worth 10% of salary, as a contribution to a defined contribution plan and/or as a cash allowance. The pension for the wider workforce is 10% of salary. Executive Directors will also receive a standard package of other benefits and where deemed necessary the costs of travel, accommodation and subsistence for the Directors and their partners on Sage-related business, consistent with that in FY21.

Annual bonus

Key features of the Executive Directors' annual bonus plan for 2022 are as follows:

- The maximum annual bonus potential is 175% of salary;
- One third of any bonus earned will be deferred into shares for three years under the Deferred Bonus Plan; and
- Annual bonuses awarded in respect of performance in 2022 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 2022 for Executive Directors will be determined as detailed below:

As a percentage of maximum bonus opportunity:

Measure	
ARR growth[1]	70%
Customer 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 250. Strategic goals will include diversity and inclusion metrics. Targets are not disclosed because they are considered by the Board to be commercially sensitive. Many of the Company's competitors are unlisted companies and not required to disclose their targets; the Company's disclosure could provide its competitors with a considerable advantage. It is intended for retrospective disclosure to be made in next year's Report.

Performance Share Plan (PSP)

The CEO and Chief Financial Officer will be granted PSP awards as soon is practicable following the 2022 AGM. Awards will be of shares worth 250% of salary for the CEO and 200% of salary for the CFO at the date of grant.

Vesting of these awards will be subject to satisfaction of the following performance conditions measured over the three financial years to 30 September 2024.

The Committee is satisfied that all the targets represent a degree of challenge proportionate to the potential rewards that may be realised for their achievement.

Sage Business Cloud penetration (55% of award)

The Committee believes that the targets are a significant step up from the current level of Sage Business Cloud penetration of 67%. The growth rate in Sage Business Cloud penetration can be expected to decelerate as the portfolio penetration increases over time, reflecting the additional degree of challenge in shifting the portfolio to the cloud.

	Sage Business Cloud penetration in FY24[1]	% of award vesting[2]
Below threshold	Less than 75%	0%
Threshold	75%	11%
Stretch	80%	44%
Exceptional	85%	55%

Note:

1. The Remuneration Committee will review on a case-by-case basis the effect on Sage Business Cloud penetration and organic revenue of acquisitions and disposals, with a view to ensuring that management is not rewarded for acquiring or selling assets that are misaligned to business strategy, whilst conversely ensuring that management is not incentivised to hold on to assets that strategically are best served by being sold.
2. Vesting of this portion of the PSP award is subject to i) the achievement of 12.0% p.a. Return on Capital Employed (ROCE) underpin to be met. ROCE is defined on page 250 ii) the achievement of 25% cloud native penetration underpin, cloud native penetration is penetration from cloud native solutions which are defined on page 42 and iii) organic revenue having grown in absolute terms at the end of performance period, organic revenue is defined on page 249.

Vesting is on a straight-line basis between the points.

Relative TSR performance condition (30% of award)

	TSR ranking	% of award vesting
Below threshold	Below median	0%
Threshold	Median	6%
Stretch	Upper quartile	24%
Exceptional	Upper decile	30%

Notes:

- TSR performance comprises share price growth and dividends paid. Vesting is on a straight-line basis between the points.
- Sage's TSR performance will be measured relative to the TSR of the constituents of the FTSE 100, excluding financial services and extracting companies.

ESG - delivering impact in society (7.5% of award)

	Volunteering hours[1]	% of award vesting
Below threshold	Below 400,000	0%
Threshold	400,000	0.75%
Stretch	500,000	3%
Exceptional	600,000	3.75%

	Individuals supported[2]	% of award vesting
Below threshold	Below 22,000	0%
Threshold	22,000	0.75%
Stretch	27,000	3%
Exceptional	32,000	3.75%

Notes:

1. Sage Foundation ecosystem volunteering hours. The Sage Foundation ecosystem includes colleagues, partners, customers, friends and family.
2. Individuals supported through the provision of substantive business skills or experience through our Sustainability and Society strategy. Substantive business skills or experience is intended to reflect a proactive interaction with tangible benefits; for example, mentoring entrepreneurs, participation in STEM programmes and the provision of financial support.

Volunteering hours and individuals supported are measured in aggregate over the three-year performance period.

Qualitative assessments on the impact of volunteering hours and individuals supported will be conducted to ensure value is created for stakeholders. Outturns will be independently verified.

Vesting is on a straight-line basis between the points.

ESG – ESG strategy impact (7.5% of award)

	ESG process effectiveness and performance impact[1]	% of award vesting
Below threshold	Not achieving GRI CORE and full SASB alignment	0%
Threshold	Achieving GRI CORE and full SASB alignment	1.5%
Stretch	Achieving GRI COMPREHENSIVE and full SASB alignment	6%
Exceptional	Achieving GRI COMPREHENSIVE and full SASB alignment – and top 10% ranking in a least 3 ESG rating schemes	7.5%

Note:

1. Achieving certified verification of ESG process effectiveness and performance impact. Global Reporting Initiative (GRI) provides standards for sustainability reporting- the GRI Standards; GRI CORE and GRI COMPREHENSIVE are the two levels to which companies can align. Sustainability Accounting Standards Board (SASB) also provides standards to which companies align to facilitate the disclosures of comparable, consistent, and reliable ESG information. ESG rating schemes provide an additional opportunity to benchmark Sage's ESG progress externally; an example of such is the Carbon Disclosure Project.

ESG process effectiveness and performance impact is measured at the end of the performance period at 30 September 2024.

Vesting is on a straight-line basis between the points.

PSP awards granted in FY22 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 the PSP vesting, serious reputational damage or significant financial loss as a result of an individual's conduct or gross misconduct which could have warranted an individual's summary dismissal, or a material failure of risk management.

Non-executive Director remuneration

The table below shows the fee structure for Non-executive Directors for 2022. Non-executive fees, except for the fee for the Chair, are determined by the executive members of the Board plus the Chair. The fee for the Chair of the Board is determined by the Remuneration Committee.

	2022 fees
Chair 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 Chair additional fee	£17,000
Remuneration Committee Chair additional fee	£17,000

Directors' shareholdings and share interests (audited information)

The shareholding guideline for the CFO is 250% of salary and, pending approval of the 2022 Policy at the AGM, the CEO's shareholding guideline will increase from 250% of salary to 300% 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 2021, Steve Hare held shares worth 405% of salary and Jonathan Howell held shares worth 256% 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 2021 (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. This post-employment shareholding guideline will be aligned to the Investment Association guidance, subject to the approval of the 2022 Policy at the AGM, such that Executive Directors are required to remain compliant with 100% of their 'in-employment' shareholding guideline for two years after stepping down as a Director. The Executive Director's actual shareholding will include any shares acquired through the vesting or release of shares from share incentive plans (net of tax, where applicable) after the date the policy was adopted and unvested shares granted under the Deferred Bonus Plan (net of tax) but excludes shares acquired through purchase and the release of shares under share incentive plans where the release occurred prior to the Remuneration Committee's adoption of the policy. Additionally, PSP shares vesting after cessation are subject to a two-year holding period at vesting. On cessation as an Executive Director, the Remuneration Committee may subject any relevant portion of an unvested share award preserved for "good leaver" reasons to the fulfilment of the post-cessation shareholding requirement as a condition of vesting. Furthermore, for awards granted to an Executive Director on or after 1 October 2019, the Committee may as a condition of grant require an Executive Director to have a relevant portion of a released share award be released into a nominee account to be held on their behalf until such time as the post-cessation shareholding requirement expires.

Interests in shares

The interests as at 30 September 2021 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 2021 number**	Ordinary shares at 30 September 2020 number
S Anand[1]	**0**	–
J Bates	**16,735**	–
J Bewes	**10,000**	10,000
D Brydon	**100,024**	100,024
A Court	**6,350**	1,350
D Hall	**10,000**	10,000
S Hare[2]	**382,510**	372,464
J Howell	**146,660**	129,660
I Wasti[3]	**0**	–
D Harding[4]	**10,000**	–
A Duff[5]	**13,150**	–
Total	**695,429**	623,498

Notes:

1. Sangeeta Anand was appointed as a Non-executive Director on 1 May 2020.
2. Lucinda Cowley is a person closely associated to Mr Hare. The total for 30 September 2021 includes 7,000 shares also held by Lucinda Cowley.
3. Irana Wasti was appointed as a Non-executive Director on 1 May 2020.
4. Derek Harding was appointed as a Non-executive Director on 2 March 2021.
5. Andrew Duff was appointed as Non-executive Director on 1 May 2021

- There have been no changes in the Directors' holdings in the share capital of the Company, as set out in the table above, between 30 September 2021 and the date of this Report.
- Details of the Executive Directors' interests in outstanding share awards under the PSP, Deferred Bonus and all-employee share option plans are set out below.

All-employee share options (audited information)

All Executive Directors are eligible to join the all-employee share plan, the Sage Save and Share Plan, on the same terms as all colleagues based in their respective local jurisdiction. See note 15.2 on page 231 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 2020 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	**Shares under option at 30 September 2021 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 2021 (the last trading day of the financial year) was £7.096 (mid-market average) and the lowest and highest market prices during the year were £5.481 and £7.566 respectively.

Performance Share Plan (audited information)

The outstanding awards granted to each Executive Director of the Company under the PSP are as follows:

Director	Grant date	Under award 1 October 2020 number	Awarded during the year number	Vested during the year number	Lapsed during the year number	**Under award 30 September 2021 number**	Vesting date
S Hare	2 December 2020	–	267,006	–	–	**267,006**	2 December 2023
	2 December 2019	208,278	–	–	–	**208,278**	2 December 2022
	28 February 2019	265,975	–	–	–	**265,975**	4 December 2021
	7 December 2017	171,597	–	(47,017)	(124,580)	**–**	7 December 2020
		645,850	**267,006**	**(47,017)**	**(124,580)**	**741,259**	
J Howell	2 December 2020	–	185,374	–	–	**185,374**	2 December 2023
	2 December 2019	144,600	–	–	–	**144,600**	2 December 2022
	28 February 2019	184,801	–	–	–	**184,801**	4 December 2021
	11 December 2018	98,919	–	(41,644)	(57,275)	**–**	3 October 2020
		428,320	**185,374**	**(41,644)**	**(57,275)**	**514,775**	
Total		1,074,170	452,380	(88,661)	(181,855)	**1,256,034**	

Notes:

- No variations were made in the terms of the awards in the year.
- PSP awards for 2021 were granted to Executive Directors on 2 December 2020. The market price of the award was £5.880.
- The performance conditions for awards granted in December 2017, February 2019 and December 2020 are set out in the respective Reports for the year of grant and for awards granted in December 2020 on page 144.
- The performance conditions for Steve Hare's award that vested during 2021 are set out on page 139 of the 2020 Report and for Jonathan Howell's award that vested during 2021 on page 140 of the 2020 Report.
- Awards for Steve Hare granted in December 2017 and after are subject to a holding period of two years on vesting. Awards for Jonathan Howell vesting in 2020 and after are subject to a holding period of two years on vesting.
- All Performance Share Plan awards were granted as conditional awards.

Deferred shares (audited information)

The outstanding awards granted to each Executive Director of the Company under The Sage Group Deferred Bonus Plan are as follows:

Director	Grant date	Under award at 1 October 2020 number	Awarded during the year number	Vested during the year number	Lapsed during the year number	Under award at 30 September 2021 number	Vesting date
S Hare	2 December 2020	–	14,260	–	–	**14,260**	2 December 2023
	2 December 2019	55,620	–	–	–	**55,620**	2 December 2022
J Howell	2 December 2020	–	10,225	–	–	**10,225**	2 December 2023
	2 December 2019	32,102	–	–	–	**32,102**	2 December 2022
Total		87,722	24,485	–	–	**112,207**	

Notes:

- Awards are not subject to further performance conditions once granted. The market price of a share on 1 December 2020, the trading day prior to the date of the awards made in the year ended 30 September 2021, was £5.880.
- 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 2021 (the last practicable date prior to publication of this Report) are set out below:

Limit	Current position
5% of Group's share capital can be used for discretionary share schemes	3.4%
10% of Group's share capital can be used for all share schemes	4.4%

The current position consists of shares released during the period plus committed shares inclusive of dividend equivalents accrued, with the total adjusted for forfeitures and, where applicable, performance expectations. The Company has previously satisfied all awards through the market purchase of shares or transfer of treasury shares and will continue to consider the most appropriate approach, based on the relevant factors at the time.

External appointments

Executive Directors are permitted, where appropriate and with Board approval, to take non-executive directorships with other organisations in order to broaden their knowledge and experience in other markets and countries. Fees received by the Directors in their capacity as directors of these companies are retained, reflecting the personal responsibility they undertake in these roles. The Board recognises the significant demands that are made on Executive and Non-executive Directors and has therefore adopted a policy that no Executive Director should hold more than one directorship of other listed companies. Except in exceptional circumstances, where approved in advance by the Chair of the 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. Jonathan Howell was appointed as independent non-executive director to the board of Experian plc, with effect from 1 May 2021 and as such receives an annual fee of €158,250 as reported on page 131 of the Experian Annual Report 2021; this is the only appointment of this nature he holds. Steve Hare does not currently hold any appointments of this nature.

No formal limit on other board appointments applies to Non-executive Directors under the Policy but prior approval (not to be unreasonably withheld) from the Board is required in the case of any new appointment.

Unexpired term of contract table

Director	Date of contract	Unexpired term of contract on 30 September 2021, 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	1 year 7 months	1 month from the Company and/or individual
J Bates	31 May 2019	8 months	1 month from the Company and/or individual
J Bewes	1 April 2019	6 months	1 month from the Company and/or individual
A Court	1 April 2019	6 months	1 month from the Company and/or individual
D Hall	1 January 2020	1 year 3 months	1 month from the Company and/or individual
I Wasti	1 May 2020	1 year 7 months	1 month from the Company and/or individual
D Harding	2 March 2021	2 years 5 months	1 month from the Company and/or individual
A Duff	1 May 2021	2 years 7 months	6 months from the Company and/or 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;
- Dr John Bates .

The Remuneration Committee received assistance from Amanda Cusdin (Chief People Officer), Tina Clayton (Executive Vice President, Reward & Recognition) until December 2020, Tara Gonzalez (Executive Vice President, Reward & Recognition) from January 2021 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

The Remuneration Committee continues to receive advice from Deloitte LLP, an independent firm of remuneration consultants appointed by the Remuneration Committee after consultation with the Board. 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 £128,925 (charged on a time spent basis).

The Remuneration Committee is satisfied that the advice it has received has been objective and independent.

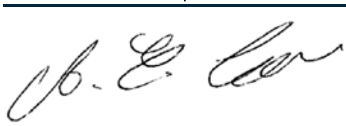
Deloitte is a founding member of the Remuneration Consultants Group and adheres to its code in relation to executive remuneration consulting in the UK. Other parts of Deloitte have provided tax advice, specific corporate finance support in the context of merger and acquisition activity and unrelated corporate advisory services.

Stitch, a Deloitte business, provided the Sage reward team with communication support on colleague reward and share plan communications during 2021.

Statement of shareholding voting

The table below sets out the results of the vote on the 2019 Policy at the 2019 AGM and the 2021 Report at the 2021 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	803,292,111	89.77	91,511,968	10.23	894,804,079	1,367,314



Annette Court
Chair of the Remuneration Committee

16 November 2021

Directors' Report

The Directors present their report together with the audited consolidated financial statements for the financial year ended 30 September 2021 (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 163.

Information included in the Strategic Report

The Directors' Report, together with the Strategic Report on pages 1 to 66, 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	10 to 13 – Chief Executive's review (Relevant information is also in the Corporate Governance Report on page 101)
Greenhouse gas emissions, energy consumption and energy-efficiency action	32 to 37 – Environment section (Relevant information is also available in our Sustainability and Society Report on our website)
Employment of disabled persons	40 – People section
Engagement with colleagues Engagement with suppliers, customers and others	26 to 27 – Section 172(1) Statement, 38 to 40 and 9, 14 and 15 (Relevant information is also in the Corporate Governance Report on pages 88 to 95 and in this Directors' Report on page 159)
Important events affecting the Group after year end	48 of the Strategic Report and Note 18 to the financial statements on page 238

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 67 to 157, 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	227
12, 13	Shareholder waiver of dividend	162

Results and dividends

The results for the financial year are set out from page 165 to 248. Full details of the proposed final dividend payment for the year ended 30 September 2021 are set out on page 233. The Board is proposing a final dividend of 11.63p per share following the payment of an interim dividend of 6.05p per share on 18 June 2021. The proposed total dividend for the year is therefore 17.68p 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 2021 and strong underlying cash conversion of 126%, reflecting the strength of the subscription business model. Further information on the available cash resources and committed bank facilities is provided in note 13 to the financial statements on pages 218 to 221.
- 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 42 to 49.
- The Directors have reviewed liquidity and covenant forecasts for the Group for the period to 31 March 2023, which reflect the expected impact of Covid-19 on trading. Stress testing has been performed with the impact of severe increases in churn and significantly reduced levels of new customer acquisition and sales to existing customers being considered.

Viability statement

The full viability statement and the associated explanations made in accordance with provision 31 of the Code can be found on pages 65 to 66.

Research and development

During the year, we incurred a cost of £281m (2020: £252m) in respect of research and development. Please see page 192 (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 120 to 157. 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 70 and 71.

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 page 40 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 colleague interests and the effect of that regard on principal decisions taken by the Board during the year (including the role of our Board Associate) are provided on pages 38 to 40, 82, 90, 91 and 95.

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 9, 14, 15, 27 and 92 to 93.

Major shareholdings

As at 30 September 2021, Sage had been notified, in accordance with the DTRs, of the following interests in its ordinary share capital[1]:

Name	Ordinary shares	% of capital[2]	Nature of holding
BlackRock, Inc.	64,021,267	5.90	Direct and Indirect
Lindsell Train Limited	54,140,022	5.01	Direct
FIL Limited	55,288,722	5.1	Direct and Indirect
Aviva plc & its subsidiaries	37,536,359	3.43	Direct and Indirect

Notes:

1. In the period from 30 September 2021 to the date of this report, we received no further notifications.
2. % as at date of notification. The DTRs require notification when the % voting rights (through shares and financial instruments) held by a person reaches, exceeds or falls below an applicable threshold specified in the DTRs.

Information provided to Sage under the DTRs is publicly available via the regulatory information service and on Sage's website at sage.com.

Share capital

Sage's share capital is as set out on page 228. Sage has a single class of share capital which is divided into ordinary shares of 1 4/77 pence each.

Rights and obligations attaching to shares

Voting

In a general meeting of Sage, the provisions of the Companies Act 2006 apply in relation to voting rights, subject to the provisions of the articles of association and to any special rights or restrictions as to voting attached to any class of shares in Sage (of which there are none). In summary:

- On a show of hands, each qualifying person (being an individual who is a member of Sage, a person authorised to act as the representative of a corporation or a person appointed as a proxy of a member) shall have one vote, except that a proxy has one vote for and one vote against a resolution if the proxy has been appointed by more than one member and has been given conflicting voting instructions by those members, or has been given discretion as to how to vote; and
- On a poll, every qualifying person shall have one vote for every share which they hold or represent.

No member shall be entitled to vote at any general meeting or class meeting in respect of any shares held by them if any call or other sum then payable by them in respect of that share remains unpaid. Currently, all issued shares are fully paid.

Deadlines for voting rights

Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the Annual General Meeting to be held on 3 February 2022 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 4 February 2021 to buy back in the market up to 109,355,465 ordinary shares (the "Buyback Authority"). Under the terms of the Buyback Authority, the minimum price which must be paid for each ordinary share is its nominal value and the maximum price is the higher of an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately before the purchase is made and an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for ordinary shares on the trading venue where the purchase is carried out (in each case exclusive of expenses). The Buyback Authority was used during FY21 to buy back, under two share buyback programmes, a total of 57,286,992 ordinary shares of $1\frac{4}{77}$ pence each in Sage, as explained further below. Share repurchases are used from time to time as a method to control the Group's leverage and decisions are made against strict price, volume and returns criteria that are agreed by the Board and regularly reviewed.

On 4 March 2021 Sage announced that a capital return of up to £300m would be executed via a share buyback programme (the "First Share Buyback Programme"). The First Share Buyback Programme commenced on 4 March 2021 and ended on 3 September 2021. A total number of 45,418,600 ordinary shares of $1\frac{4}{77}$ pence each in Sage were repurchased as part of the First Share Buyback Programme and are held in treasury. The aggregate amount of the consideration paid by Sage under the First Share Buyback Programme was £299,999,986.76 and the average price paid per ordinary share was £6.6052.

On 3 September 2021 Sage announced that a further capital return of up to £300m would be executed via a new share buyback programme (the "Second Share Buyback Programme"). The Second Share Buyback Programme commenced on 6 September 2021 and is expected to end no later than 24 January 2022. A total number of 11,868,392 ordinary shares of $1\frac{4}{77}$ pence each in Sage were repurchased as part of the Second Share Buyback Programme between 6 September and 30 September 2021 and are held in treasury. The aggregate amount of the consideration paid by Sage for these shares was £87,398,319.95 and the average price paid per ordinary share was £7.3640.

Both the First and the Second Share Buyback Programmes (together the "Share Buyback Programmes") are consistent with the Group's disciplined approach to capital allocation and reflect its medium-term leverage objectives, strong ongoing cash generation and the sale proceeds from disposals completed in FY21. Please refer to page 98 of the Governance Report for further information on disposals completed in FY21 and page 97 for Board considerations setting out why share buyback was the chosen method of capital return.

All repurchases of ordinary shares under the Share Buyback Programmes were carried out in accordance with Chapter 12 of the Listing Rules and those provisions of Article 5(1) of Regulation (EU) No. 596/2014 (as incorporated into UK domestic law by the European Union (Withdrawal) Act 2018) and the Commission Delegated Regulation (EU) 2016/1052 (as incorporated into UK domestic law by the European Union (Withdrawal) Act 2018) dealing with buyback programmes.

A total number of 57,286,992 ordinary shares of $1\frac{4}{77}$ pence each in Sage were repurchased during FY21 as part of the Share Buyback Programmes and are held in treasury, to be utilised to meet obligations arising from share option programmes, or other allocations of shares, to colleagues or directors. The aggregate amount of the consideration paid by Sage was £387,398,306.71 and the average price paid per ordinary share was £6.7624. The shares purchased during FY21 represent approximately 5.11% of the called-up share capital of the Company, as at 30 September 2021.

In the period from 1 October 2021 until 12 November 2021, further ordinary shares of $1\frac{4}{77}$ pence each in Sage were repurchased using the Buyback Authority, as part of the Second Share Buyback Programme. Please see page 48 of the Strategic Report and page 238 of the financial statements for further information. Information on transactions in own shares is also publicly available via the regulatory information service and on Sage's website at sage.com.

Amendment of Sage's articles of association

Any amendments to Sage's articles of association may be made in accordance with the provisions of the Companies Act 2006 by way of special resolution. Sage's articles of association were last amended at the Annual General Meeting held on 4 February 2021.

Appointment and replacement of Directors

Directors shall be not less than two and no more than 15 in number. Directors may be appointed by Sage by ordinary resolution or by the Board. A Director appointed by the Board holds office until the Annual General Meeting and is then eligible for election by the shareholders, in accordance with Sage's articles of association.

The Board may from time to time appoint one or more Directors to hold employment or executive office for such period (subject to the provisions of the Companies Act 2006) and on such terms as they may determine and may revoke or terminate any such appointment.

Under the articles of association, at every Annual General Meeting of Sage, every Director who held office on the date seven days before the date of the Notice of Annual General Meeting, shall retire from office (but shall be eligible for election or re-election by the shareholders). Sage may by special resolution (or by ordinary resolution of which special notice has been given) remove, and the Board may by unanimous decision remove, any Director before the expiration of his or her term of office. The office of Director shall be vacated if: (i) he or she resigns; (ii) he or she has become physically or mentally incapable of acting as a director and may remain so for more than three months and the Board resolves that his or her office is vacated; (iii) he or she is absent without permission of the Board from meetings of the Board for six consecutive months and the Board resolves that his or her office is vacated; (iv) he or she becomes bankrupt or makes an arrangement or composition with his or her creditors generally; (v) he or she is prohibited by law from being a director; or (vi) he or she is removed from office pursuant to the articles of association.

Powers of the Directors

The business of Sage will be managed by the Board which may exercise all the powers of Sage, subject to the provisions of Sage's articles of association, the Companies Act 2006 and any ordinary resolution of Sage. Authority is sought from shareholders at each Annual General Meeting to grant the directors powers, in line with institutional shareholder guidelines and relevant legislation, in relation to the issue and buyback by the Company of its shares.

Shares held in the Employee Benefit Trust

The trustee of The Sage Group plc. Employee Benefit Trust 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 the terms of the £350m 1.625 per cent guaranteed Notes due 25 February 2031 issued by the Company and guaranteed by Sage Treasury Company Limited, a Noteholder has the right to require the Company to redeem or repay its Notes on a change of control of the Company where at the time of the occurrence of the change of control: (i) the Notes then in issue carry, on a solicited basis, an investment-grade credit rating which is either downgraded to non-investment grade or withdrawn (so long as the Notes are not upgraded or reinstated to an investment-grade rating by the relevant rating agency, or a replacement investment-grade rating of another rating agency on a solicited basis is not obtained, in each case within a set period of time, and the relevant rating agency confirms that its rating decision resulted, in whole or in part, from the occurrence of the change of control), or (ii) the Notes then in issue carry a non-investment grade credit rating from each rating agency then assigning a credit rating on a solicited basis or no credit rating from any rating agency on a solicited basis. Under the terms of the Notes, "change of control" is defined as: (i) any person or any persons acting in concert (as defined in the City Code on Takeovers and Mergers), other than a holding company (as defined in Section 1159 of the Companies Act 2006, as amended) whose shareholders are or are to be substantially similar to the pre-existing shareholders of the Company, shall become interested (within the meaning of Part 22 of the Companies Act 2006, as amended) in (x) more than 50 per cent. of the issued or allotted ordinary share capital of the Company or (y) shares in the capital of the Company carrying more than 50 per cent. of the voting rights normally exercisable at a general meeting of the Company; or (ii) Sage Treasury Company Limited ceases to be a direct or indirect subsidiary of the Company;
- Under a note purchase agreement dated 20 May 2013 relating to US$150m senior notes, Series F, due 20 May 2023 and US$50m senior notes, Series G, due 20 May 2025 between Sage Treasury Company Limited and the note holders and guaranteed by the Company, on a change of control of the Company, the Company will not take any action that consummates or finalises a change of control unless at least 15 business days prior to such action it shall have given to each holder of notes written notice containing and constituting an offer to prepay all notes on a date specified in such offer which shall be a business day occurring subsequent to the effective date of the change of control which is not less than 30 days or more than 60 days after the date of the notice of prepayments. Where a holder of notes accepts the offer to prepay, the prepayment shall be 100% of the principal amount of the notes together with accrued and unpaid interest thereon

and shall be made on the proposed prepayment date. No prepayment under a change of control shall include any premium of any kind;

- Under a note purchase agreement dated 26 January 2015 relating to €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 note purchase agreements above, "control" is defined as per section 450 of the Corporation Tax Act 2010, and a "change of control" occurs if any person or group of persons acting in concert gains control of the Company;
- Under a dual tranche US$719m and £135m five-year multi-currency revolving credit facility agreement dated 7 February 2018 between, amongst others, Sage Treasury Company Limited and the facility agent, and guaranteed by the Company, on a change of control, if any individual lender so requires and after having consulted with Sage Treasury Company Limited in good faith for not less than 30 days following the change of control, the facility agent shall, by not less than 10 business days' notice to Sage Treasury Company Limited, cancel the commitment of that lender and declare the participation of that lender in all outstanding loans, together with accrued interest and all other amounts accrued under the finance documents, immediately due and payable, whereupon the commitment of that lender will be cancelled and all such outstanding amounts will become immediately due and payable. In respect of this revolving credit facility agreement, "control" is defined as per section 840 of the Income and Corporation Taxes Act 1998;
- The platform reseller agreement dated 31 January 2015 relating to the Company's strategic arrangements with Salesforce.com EMEA Limited contains a change of control right enabling Salesforce to terminate the agreement in the event there is a change of control in favour of a direct competitor of Salesforce.com EMEA Limited. The agreement contains post-termination requirements upon Salesforce to support a transition for up to a specified period. In respect of the platform reseller agreement with Salesforce.com EMEA Limited, "change of control" occurs where a corporate transaction results in the owners of the subject entity owning less than 50% of the voting interests in that entity as a result of the corporate transaction; 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 19 on pages 238 to 240.

Financial risk management

The Group's exposure to and management of capital, liquidity, credit, interest rate and foreign currency risk are shown in note 14.6 to the financial statements. Our approach to risk management generally and our principal risks can be found in note 14.6 and on pages 50 to 64.

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 and Sage financial statements in accordance with International Accounting Standards (“IAS”) in conformity with the requirements of the Companies Act 2006. Additionally, the Financial Conduct Authority’s Disclosure Guidance and Transparency Rules require the directors to prepare the Group financial statements in accordance with International Financial Reporting Standards (“IFRS”) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (“EU”). 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, for the Group and Sage, IAS in conformity with the requirements of the Companies Act 2006 and, for the Group, IFRS as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the EU have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that 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 70 to 71, confirm that:

- To the best of their knowledge, the Group and Sage’s financial statements, which have been prepared in accordance with IAS in conformity with the requirements of the Companies Act 2006 and, for the Group, IFRS as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in 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

16 November 2021

The Sage Group plc.
Company number 02231246

Contents

Opinion

In our opinion:

- The Sage Group plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 30 September 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in 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.

We have audited the financial statements of The Sage Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 September 2021 which comprise:

Group	Parent company
Consolidated balance sheet as at 30 September 2021	Company balance sheet as at 30 September 2021
Consolidated income statement for the year then ended	Company statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Related notes 1 to 8 to the financial statements including a summary of significant accounting policies
Consolidated statement of changes in equity for the year then ended	
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 19 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in 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. We are independent of the group 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 going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included the following:

- We understood the process undertaken by management to perform the going concern assessment, including the evaluation of the ongoing impact of Covid-19 on the Group and the Group's access to available sources of liquidity and any associated covenants;
- We obtained management's going concern assessment, including the cash forecast and covenant calculation for the going concern period to 31 March 2023 and assessed whether the period applied is appropriate;
- The Group has modelled a base case which is consistent with the assumptions used in the Group's impairment assessment; 4 sensitivity scenarios which gradually stress the customer churn and New Customer Acquisition (NCA) assumptions; and a reverse stress test to determine how much additional downside in trading could be absorbed before a breach of covenants occurs (based on the stress testing this would occur ahead of any liquidity shortfall);
- We assessed the reasonableness of all key assumptions, with a particular focus on NCA, churn, margin and working capital. This has been performed by:
  - checking the arithmetical accuracy of management's model;
  - assessing the historical forecasting accuracy of the Group by comparing actual revenue and underlying profit to forecast for the previous five years;
  - reconciling the working capital assumptions with the risk assumed within the expected credit loss calculation; and
  - checking for consistency of the forecasts with other areas of the audit including the impairment assessment.
- We compared the reduction in revenues assumed in the most severe scenario presented by management, to the revenue declines demonstrated during the peak of the Covid-19 pandemic and the financial crisis in 2008/2009. We also compared the forecast result to reports from analysts and expected revenue trends to industry forecasts including the impact of Covid-19;
- We confirmed the availability of the revolving credit facilities ('RCF') and the related covenants by comparing to the underlying agreements and reperforming management's forecast covenant ratio compliance calculations to check for breaches of each covenant ratio throughout the going concern period under each scenario presented by management;
- We compared October trading performance to management's Covid-19 forecast by obtaining the latest available management accounts and latest available Group cash report to identify any issues with current trading and cashflows;
- We recalculated the results of the sensitivity testing performed by management to determine the impact of reasonably possible fluctuations in key assumptions on the Group's available liquidity and covenant compliance;
- We reperformed management's reverse stress test to establish the level of change in revenue (churn) necessary to cause a liquidity or financial covenant breach and considered the likelihood of such a change;
- We considered the further mitigating actions available to the Group, such as reducing discretionary bonuses and marketing expenses, and the feasibility of management being able to execute such mitigating actions, when considering the likelihood of the reverse stress test scenario; and
- We reviewed the appropriateness of management's going concern disclosure in describing the risks associated with its ability to continue to operate as a going concern for a period of 16 months from the date of approval of the financial statements to 31 March 2023.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for the period to 31 March 2023.

In relation to the group and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of 6 components and audit procedures on specific balances for a further 4 components. • The components where we performed full or specific audit procedures accounted for 92% of adjusted Profit before tax, 90% of Revenue and 98% of Total assets.
Key audit matters	• Inappropriate timing of revenue recognition, including cut-off and deferral • Recoverability of goodwill and other intangible assets
Materiality	• Overall group materiality of £14.6 million which represents 5% of adjusted Profit before tax.

An overview of the scope of the parent company and group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each component 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 component.

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 22 reporting components of the Group, we selected 10 components covering entities within the United Kingdom and Ireland, France, North America, Germany, Spain and South Africa, which represent the principal business units within the Group.

Of the 10 components selected, we performed an audit of the complete financial information of 6 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 4 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The charts below illustrate the coverage obtained from the work performed by our audit teams.

	2021					2020			
Reporting components	**Number**	**% Group adjusted Profit before tax***	**% Group Revenue**	**% Total assets**	**Note**	Number	% Group adjusted Profit before tax*	% Group Revenue	% Total assets
Full scope	6	87%	61%	91%	1,3	6	76%	63%	89%
Specific scope	4	5%	29%	7%	2,3	5	15%	28%	6%
Full and specific scope coverage	**10**	**92%**	**90%**	**98%**		11	91%	91%	95%
Remaining components	12	8%	10%	2%	4	12	9%	9%	5%
Total Reporting components	**22**	**100%**	**100%**	**100%**		23	100%	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. Specific scope components are Germany, North America Intacct, Spain, and South Africa. The audit scope of these specific scope components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts selected for testing by the Primary audit team.
3. The Group audit risk in relation to revenue recognition was subject to audit procedures at each of the full and specific scope locations with significant revenue streams (being 3 full scope components and 4 specific scope components). The Group audit risk in relation to the recoverability of goodwill and other intangible assets was subject to audit procedures by the Primary audit team on the entire balance.
4. In the current year, the remaining 12 components contributed a net 8% of adjusted Profit before tax* and the individual contribution of these components ranged from nil to 1% of the Group's adjusted Profit before tax*. For these components, the Primary audit team performed other procedures, including overall analytical review procedures and testing of consolidation journals, intercompany eliminations and foreign currency translation recalculations to respond to potential risks of material misstatement to the Group financial statements.

Changes from the prior year

The change in the total number of reporting components from 23 to 22 was as a result of disposal of the Brazilian business in the prior year.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the 6 full scope components, audit procedures were performed on 2 of these directly by the primary audit team. For the 4 specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

Kathryn Barrow continues to be the Senior Statutory Auditor and, together with other members of the primary audit team, has performed a series of virtual visits and video/teleconferences with teams at key audit locations (see below for further COVID-19 impacts and response). These visits included participation in key component team's closing meeting calls in which status and conclusions were discussed 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 Committee Chair, in which Kathryn communicated the audit plan and the approach to key judgements and estimates. We have continued our established approach to oversight of the work of component teams through the review of planning and conclusion deliverables. 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 COVID-19 pandemic

The COVID-19 outbreak, including travel and lockdown restrictions, has impacted a significant portion of the Group's financial year. As a result of these measures, the oversight 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 2021 with attendance from the primary team, including the senior statutory auditor.

For all components, the 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.

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 Committee
Inappropriate timing of revenue recognition, including cut-off and deferral *Refer to the Audit Committee Report (page 110); Accounting policies (page 182); and Note 2.1 of the Consolidated Financial Statements (page 186)* The Group has reported revenues of £1,846m (FY20: £1,903m) with deferred income at 30 September 2021 of £621m (FY20: £600m). 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 a specific risk of fraud and error in respect of inappropriate revenue recognition given the nature of the Group's products and services. The risk specifically relates to the inappropriate timing of revenue recognition, including cut-off and timing of recognition of deferred revenue.	**Walkthroughs and controls** • We performed walkthroughs of each significant class of revenue transactions and assessed the design effectiveness of key financial controls, however we did not test the operating effectiveness of these controls at all components. • For 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 resulted in the provision of a good or service at a point in time or over a contractual term, by reviewing a sample of customer contracts against the requirements of IFRS 15. This included the assessment of new or one-off transactions, by comparing the accounting treatment to the Group accounting policy and IFRS 15. The customer contracts take different forms depending upon the products/services sold and local legal practice. Our procedures included consideration as to whether this fulfilled the IFRS 15 definition of a 'contract with a customer'. • At all revenue generating full and specific scope components we adopted a data analysis approach in relation to revenue and receivables. Our procedures involved testing full populations of transaction data and included correlation analysis between invoiced revenue, receivables and cash, as well as analysis of credit notes. Where the postings did not follow our expectation, we investigated and understood a sample to assess their validity by agreeing the transactions back to source documentation. • In respect of deferred income, for products and services where revenue is earned over a contractual term, we: • tested a sample of transactions to determine that the amount of revenue recognised in the year and the amount deferred at the balance sheet date were accurately calculated based on progress of the contract, and/or • At certain components, with support from EY IT team members, we utilised data analysis to facilitate independent reperformance of certain management calculations, including deferred income. This included testing a sample of the data inputs against 3rd party evidence, such as the contract with the customer (as defined above). • We have performed cut-off testing for a sample of revenue items and credit notes booked either side of the year end date to determine that revenue was recognised in the period in which the contract was agreed by both Sage and the customer and the software has been made available to the customer. **Management override** • Audit teams at full and specific scope components with significant revenue streams performed specific procedures to address the risk of management override, including testing to identify unusual, new or significant transactions or contractual terms and targeted journal entry testing over manual journal entries. **Disclosures** • We also considered the adequacy of the Group's disclosures relating to revenue recognition in notes 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 2021. We did not identify a material misstatement as a result of inappropriate timing of revenue recognition, cut-off or deferral. Furthermore, we consider the financial statement disclosures to be appropriate.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Recoverability of goodwill and other intangible assets *Refer to the Audit Committee Report (page 110); Accounting policies (page 202); and Note 6.1 of the Consolidated Financial Statements (page 202)* Goodwill and other intangible assets of £1,877 million and £190 million are recognised in the Group's consolidated balance sheet at 30 September 2021, respectively. We continue to include the recoverability of goodwill and other intangible assets as a Key Audit Matter due to: • the estimation involved in determining the future performance of the Cash Generating Units (CGUs); • the magnitude of the goodwill and other intangible asset balances; • the audit effort and executive involvement, despite the changes in our significant risk designation explained below. The risk in the prior year was specific to the Intacct and Iberia CGUs, however from 1 October 2020, management now monitors the Intacct business at a combined level with the North America SBS business and have created a North America group of CGUs (including NA SBS and Intacct). Due to the substantial headroom on this group of CGUs for goodwill impairment testing purposes, we no longer designate this as a significant risk. Similarly, management continue to execute their subscription/cloud strategy in Iberia which has increased the level of headroom of the value in use above the net book value of the assets and therefore is also no longer considered a significant risk.	**Valuation model** Management performed its annual impairment assessment as at 30 June 2021. We obtained the impairment assessment and tested the methodology applied in the value in use calculations for each of the CGUs as compared to the requirements of IAS 36, *Impairment of Assets*, including the appropriateness of the forecast periods, which were consistent with management's strategic planning horizon, and the mathematical accuracy of management's model. We considered whether any significant changes occurred between management's assessment date and the year end that would impact the impairment test conclusion. We did this by reviewing the ongoing performance of the business and confirmed that where there has been a year-on-year decline (as has been communicated for Iberia) that this reflected expectations given the transition to software subscriptions, particularly cloud based subscriptions, and was materially consistent with the forecasts used in the impairment assessments. **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 FY22 forecasts including new customer acquisition, upsell/add-ons and level of churn by assessing these against the results achieved in FY21 and the prior track record of growth. • For forecasts for FY22-FY24, 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 FY21 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. • 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 sensitivity disclosures.	We concluded that no impairment of goodwill or other intangible assets is required in the current year. We have concluded that the methodology applied is reasonable, that the forecast period is appropriate and that the impairment 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 in Iberia could lead to a different conclusion in respect of the recoverability of goodwill.

In the prior year, our revenue recognition key audit matter included two specified risks. In the current year, we have re-assessed the second of these risks, being the inappropriate measurement of revenue attributed to products and services provided when sold together as a bundle. Our judgement is that the magnitude and likelihood of error is reduced as the Group continues to focus on subscription models to the extent that 92% of 2021 revenues are "recurring". This has therefore been removed as a significant risk in the current year albeit still subject to audit procedures commensurate with our overall audit plan.

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 £14.6 million (2020: £16.3 million), which is 5% (2020: 5%) of adjusted Profit before tax. We believe that Profit before tax adjusted for non-recurring items provides us with the most relevant performance measure to the stakeholders of the entity. Non-recurring items are set out in note 3.6 of the Group's financial statements and are summarised in the graphic below.

We determined materiality for the Parent Company to be £42.6 million (2020: £41.4 million), which is 1% (2020: 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 £347m

Adjustments

Adjustments for non-recurring items
- Net gain on disposal of subsidiaries - (£126m)
- Office Relocation - £9m
- Restructuring Costs - £62m

Materiality

- Totals £292m
- Materiality of £14.6m (5% of materiality basis)

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% (2020: 75%) of our planning materiality, namely £10.9m (2020: £12.2m). We have set performance materiality at this percentage due to our assessment of the control environment and lower likelihood of misstatements.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £1.0m to £6.7m (2020: £1.1m to £6.9m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.7m (2020: £0.8m), 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 1-164, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the company's corporate governance statement and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

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; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

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; or
- a Corporate Governance Statement has not been prepared by the company.

Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group and company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 158;
- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 65;
- Directors' statement on fair, balanced and understandable set out on page 164;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 164;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 57; and
- The section describing the work of the audit committee set out on page 110.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 164, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are those that relate to the reporting framework (IFRS, FRS 102, the Companies Act 2006 and UK Corporate Governance Code), the relevant tax compliance regulations in the jurisdictions in which the Group operates and the EU General Data Protection Regulation (GDPR).
- We understood how the Group is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the company secretary. We corroborated our enquiries through our review of board minutes and papers provided to the Audit and Risk Committee and attendance at all meetings of the Audit and Risk Committee, as well as consideration of the results of our audit procedures across the Group to either corroborate or provide contrary evidence which was then followed up.
- Based on our understanding we designed our audit procedures to identify non-compliance with laws and regulations, including instructions to full and specific scope component audit teams. At a Group level our procedures involved: enquiries of Group management and those charged with governance, legal counsel and internal audit; journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business. At a component level, our full and specific scope component audit team's procedures included enquiries of component management; journal entry testing; and focused testing, including as referred to in the key audit matters section above.

- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud; and assessing whistleblowing incidences for those with a potential financial reporting impact. We also considered performance targets and their propensity to influence on efforts made by management to manage revenue and earnings. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programs and controls. Where the risk was considered to be higher, including areas impacting Group key performance indicators or management remuneration, we performed audit procedures to address each identified fraud risk or other risk of material misstatement. These procedures included those on revenue recognition detailed above, the assessment of items identified by management as non-recurring and testing manual journals and were designed to provide reasonable assurance that the financial statements were free from material fraud or error.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation from the audit committee we were appointed by the company on 4 February 2021 to audit the financial statements for the year ending 30 September 2021 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 7 years, covering the years ending 30 September 2015 to 30 September 2021.
- 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 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
16 November 2021

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 2021

	Note	Underlying 2021 £m	Adjustments (note 3.6) 2021 £m	Statutory 2021 £m	Underlying as reported* 2020 £m	Adjustments (note 3.6) 2020 £m	Statutory 2020 £m
Revenue	2.1, 3.1	**1,846**	**–**	**1,846**	1,903	–	1,903
Cost of sales		**(131)**	**–**	**(131)**	(126)	–	(126)
Gross profit		**1,715**	**–**	**1,715**	1,777	–	1,777
Selling and administrative expenses		**(1,357)**	**15**	**(1,342)**	(1,366)	(7)	(1,373)
Operating profit	2.2, 3.2, 3.3, 3.6	**358**	**15**	**373**	411	(7)	404
Finance income	3.5	**1**	**–**	**1**	3	–	3
Finance costs	3.5	**(26)**	**(1)**	**(27)**	(28)	(6)	(34)
Profit before income tax		**333**	**14**	**347**	386	(13)	373
Income tax expense	4	**(83)**	**21**	**(62)**	(87)	24	(63)
Profit for the year		**250**	**35**	**285**	299	11	310
Profit attributable to:							
Owners of the parent		**250**	**35**	**285**	299	11	310
Earnings per share attributable to the owners of the parent (pence)							
• Basic	5	**23.09p**		**26.33p**	27.43p		28.38p
• Diluted	5	**22.87p**		**26.08p**	27.21p		28.15p

All operations in the year relate to continuing operations.

Note:
* Underlying as reported is at 2020 reported exchange rates.

Consolidated statement of comprehensive income

For the year ended 30 September 2021

	Note	2021 £m	2020 £m
Profit for the year		**285**	310
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss:			
Actuarial gain on post-employment benefit obligations	11, 15.4	**2**	–
		2	–
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations	15.3	**(60)**	(43)
Exchange differences recycled through income statement on sale of foreign operations	15.3, 16.2	**(21)**	43
		(81)	–
Other comprehensive expense for the year, net of tax		**(79)**	–
Total comprehensive income for the year		**206**	310
Total comprehensive income for the year attributable to:			
Owners of the parent		**206**	310

Consolidated balance sheet

As at 30 September 2021

	Note	2021 £m	2020 £m
Non-current assets			
Goodwill	6.1	**1,877**	1,962
Other intangible assets	6.2	**190**	212
Property, plant and equipment	7	**164**	173
Equity investments	8	**21**	–
Other financial assets		**–**	1
Trade and other receivables	9.1	**113**	86
Deferred income tax assets	12	**40**	35
		2,405	2,469
Current assets			
Trade and other receivables	9.1	**295**	302
Current income tax asset		**37**	5
Cash and cash equivalents (excluding bank overdrafts)	13.3	**553**	831
Assets classified as held for sale	16.2	**39**	108
		924	1,246
Total assets		**3,329**	3,715
Current liabilities			
Trade and other payables	9.2	**(592)**	(297)
Current income tax liabilities		**(31)**	(13)
Borrowings	13.4	**(65)**	(20)
Provisions	10	**(68)**	(19)
Deferred income	9.3	**(611)**	(593)
Liabilities classified as held for sale	16.2	**(13)**	(73)
		(1,380)	(1,015)
Non-current liabilities			
Borrowings	13.4	**(749)**	(970)
Post-employment benefits	11	**(22)**	(23)
Deferred income tax liabilities	12	**(5)**	(14)
Provisions	10	**(49)**	(31)
Trade and other payables		**(3)**	(3)
Deferred income	9.3	**(10)**	(7)
		(838)	(1,048)
Total liabilities		**(2,218)**	(2,063)
Net assets		**1,111**	1,652
Equity attributable to owners of the parent			
Ordinary shares	15.1	**12**	12
Share premium		**548**	548
Translation reserve	15.3	**42**	123
Merger reserve	15.3	**61**	61
Retained earnings	15.4	**448**	908
Total equity		**1,111**	1,652

The consolidated financial statements on pages 176 to 240 were approved by the Board of Directors on 16 November 2021 and are signed on their behalf by:

Jonathan Howell
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 30 September 2021

	Note	Ordinary shares £m	Share premium £m	Translation reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
		Attributable to owners of the parent					
At 1 October 2020		**12**	**548**	**123**	**61**	**908**	**1,652**
Profit for the year		**–**	**–**	**–**	**–**	**285**	**285**
Other comprehensive (expense)/income:							
Exchange differences on translating foreign operations	15.3	**–**	**–**	**(60)**	**–**	**–**	**(60)**
Exchange differences recycled through income statement on sale of foreign operations	15.3	**–**	**–**	**(21)**	**–**	**–**	**(21)**
Actuarial gain on post-employment benefit obligations	15.4	**–**	**–**	**–**	**–**	**2**	**2**
Total comprehensive income for the year ended 30 September 2021		**–**	**–**	**(81)**	**–**	**287**	**206**
Transactions with owners:							
Employee share option scheme:							
• Value of employee services including deferred tax	15.4	**–**	**–**	**–**	**–**	**36**	**36**
Proceeds from issuance of treasury shares	15.4	**–**	**–**	**–**	**–**	**8**	**8**
Share buyback programme	15.4	**–**	**–**	**–**	**–**	**(602)**	**(602)**
Dividends paid to owners of the parent	15.4, 15.5	**–**	**–**	**–**	**–**	**(189)**	**(189)**
Total transactions with owners for the year ended 30 September 2021		**–**	**–**	**–**	**–**	**(747)**	**(747)**
At 30 September 2021		**12**	**548**	**42**	**61**	**448**	**1,111**

Consolidated statement of changes in equity

For the year ended 30 September 2020

	Note	Ordinary shares £m	Share premium £m	Translation reserve £m	Merger reserves £m	Retained earnings £m	Total equity £m
		Attributable to owners of the parent					
At 1 October 2019 as originally presented		12	548	123	61	760	1,504
Adjustment on initial application of IFRS 16 net of tax		–	–	–	–	(7)	(7)
At 1 October 2019 as adjusted		12	548	123	61	753	1,497
Profit for the year		–	–	–	–	310	310
Other comprehensive (expense)/income:							
Exchange differences on translating foreign operations	15.3	–	–	(43)	–	–	(43)
Exchange differences recycled through income statement on sale of foreign operations	15.3	–	–	43	–	–	43
Actuarial loss on post-employment benefit obligations	15.4	–	–	–	–	–	–
Total comprehensive income for the year ended 30 September 2020		–	–	–	–	310	310
Transactions with owners:							
Employee share option scheme:							
• Value of employee services including deferred tax	15.4	–	–	–	–	29	29
Proceeds from issuance of treasury shares	15.4	–	–	–	–	9	9
Share buyback programme	15.4	–	–	–	–	(7)	(7)
Dividends paid to owners of the parent	15.4, 15.5	–	–	–	–	(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 cash flows

For the year ended 30 September 2021

	Note	2021 £m	2020 £m
Cash flows from operating activities			
Cash generated from continuing operations	13.1	**476**	527
Interest paid		**(19)**	(28)
Income tax paid		**(81)**	(93)
Net cash generated from operating activities		**376**	406
Cash flows from investing activities			
Proceeds on settlement of non-current asset		**3**	–
Disposal of subsidiaries, net of cash disposed	16.2	**135**	216
Purchases of equity investments		**(21)**	–
Purchases of intangible assets	6.2	**(17)**	(16)
Purchases of property, plant and equipment	7	**(39)**	(24)
Interest received	3.5	**1**	3
Net cash generated from investing activities		**62**	179
Cash flows from financing activities			
Proceeds from issuance of treasury shares		**8**	9
Proceeds from borrowings		**344**	302
Repayments of borrowings		**(481)**	(167)
Capital element of lease payments		**(22)**	(38)
Borrowing costs		**(1)**	(1)
Share buyback programmes		**(353)**	(7)
Dividends paid to owners of the parent	15.5	**(189)**	(186)
Net cash used in financing activities		**(694)**	(88)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts (before exchange rate movement)		**(256)**	497
Effects of exchange rate movement	13.2	**(25)**	(21)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		**(281)**	476
Cash, cash equivalents and bank overdrafts at 1 October	13.2	**848**	372
Cash, cash equivalents and bank overdrafts at 30 September	13.2	**567**	848

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 Accounting Standards ("IAS") in conformity with the requirements of the Companies Act 2006 and also prepared in accordance with International Financial Reporting Standards ("IFRS") adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ("EU") and IFRS as issued by the International Accounting Standards Board ("IASB"). IFRS pursuant to Regulation (EC) No 1606/2002 as it applies in 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 and equity investments which are measured at fair value through other comprehensive income. The financial statements of the Group comprise the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared at the end of the reporting period. The accounting policies have been consistently applied across the Group. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity, which is usually from date of acquisition.

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

New or amended accounting standards.

There are no IFRS, IAS amendments or IFRIC interpretations effective for the first time this financial year that have had a material impact on the Group. From 1 October 2021, the Group will apply UK-adopted International Accounting Standards under the Companies Act 2006. No standards have been early adopted during the year.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 1 to 66.

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

- High-quality recurring and subscription-based revenue;
- Resilient cash generation and robust liquidity position which is supported by strong underlying cash conversion of 126%, reflecting the strength of the subscription business model; and
- A well-diversified small and medium-sized customer base.

The Directors have reviewed liquidity and covenant forecasts for the Group for the period to 31 March 2023, which reflect the expected impact of Covid-19 on trading. Stress testing has been performed with the impact of severe increases in churn and significantly reduced levels of new customer acquisition and sales to existing customers being considered. 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. Additional stress testing has been performed as part of the severe but plausible scenarios (as described within the Viability Statement on pages 65 and 66).

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 business model, robust balance sheet and continued strong cash conversion.

After making enquiries, the Directors have a reasonable expectation that the Group 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 158.

1 Basis of preparation and critical accounting estimates and judgements *continued*

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

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

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

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 standalone 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.

With effect from 1 October 2020, this also includes the goodwill acquired with the acquisition of the Sage Intacct business in 2017 which is monitored as a group of CGUs comprising both Sage's Business Solutions Division (SBS) and Sage Intacct business in North America. This decision has been taken following strategic and operational changes made during the year, as a result of which the North American business is now managed, and performance monitored, on a combined basis.

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

These key assumptions used in performing the impairment assessment, and further information on the level at which goodwill is monitored, are disclosed in note 6.1.

Trade receivables

There remains a high degree of uncertainty as countries emerge from the Covid-19 pandemic and government support measures are lifted. Therefore, the expected credit loss allowance against trade receivables is a source of estimation uncertainty and as a result management judgement and estimates reflect a degree of caution.

The impact of Covid-19 on expected credit loss provision has been calculated on a region-specific basis, considering macroeconomic factors, such as GDP outlook, government support available and other regional specific microeconomic factors. As a consequence, management provided an additional £17m expected credit loss provision as at 30 September 2020. During the current year this provision has been reassessed at £8m to reflect improvement in economic conditions and the reduced level of gross receivables as at 30 September 2021.

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 2021. None are expected to have a material impact on the consolidated financial statements when first applied.

2 Segment information

This note shows how Group revenue and Group operating profit are generated across the three reportable segments in which we operate, being Northern Europe, International – Central and Southern Europe and North America. The Group's operations in Africa and the Middle East, and Asia (including Australia) do not meet the quantitative thresholds for disclosure as reportable segments under IFRS 8, and so are presented together in the analyses and described as International – Africa & APAC. This is explained further below.

For each geographical region, revenue and operating profit are compared to prior year in order to understand the movements in the year. This comparison is provided for statutory, underlying and organic revenue and statutory 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, unhedged 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).

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.

With effect from 1 October 2020, the Group is organised into seven key operating segments: North America, Northern Europe (UK and Ireland), Central Europe (Germany, Austria, Poland and Switzerland), France, Iberia (Spain and Portugal), Africa and the Middle East, and Asia (including Australia). Prior to this date, the North America operating segment was presented as two operating segments, North America (excluding North America Sage Intacct) and North America Sage Intacct. For reporting under IFRS 8, the Group is divided into three reportable segments. These segments are as follows:

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

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

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

In the prior year, the reportable segment International – Central and Southern Europe was reported as Central and Southern Europe, and the residual grouping of International – Africa & APAC was reported as International. The Group's Latin America operations were sold during the prior year and were included within International.

Segment reporting

The tables overleaf show a segmental analysis of the results for continuing operations.

The revenue analysis in the table overleaf is based on the location of the customer which is not materially different from the location where the order is received and where the assets are located.

Revenue categories are defined in note 3.1.

2 Segment information *continued*

2.1 Revenue by segment

	Year ended 30 September 2021			Change		
	Statutory and Underlying £m	Organic adjustments* £m	Organic £m	Statutory	Underlying	Organic
Recurring revenue by segment						
North America	641	–	641	1.1%	7.5%	7.5%
Northern Europe	391	–	391	3.8%	3.8%	3.8%
International – Central and Southern Europe	509	(29)	480	0.1%	0.9%	3.3%
International – Africa & APAC	152	(27)	125	(13.0%)	(12.5%)	8.6%
Recurring revenue	1,693	(56)	1,637	(0.1%)	2.5%	5.4%
Other revenue by segment						
North America	46	–	46	(20.7%)	(15.5%)	(15.5%)
Northern Europe	11	–	11	(67.1%)	(67.1%)	(35.7%)
International – Central and Southern Europe	74	(4)	70	(9.7%)	(9.0%)	(8.4%)
International – Africa & APAC	22	(8)	14	(37.3%)	(37.9%)	(43.7%)
Other revenue	153	(12)	141	(26.9%)	(25.5%)	(18.2%)
Total revenue by segment						
North America	687	–	687	(0.7%)	5.6%	5.6%
Northern Europe	402	–	402	(2.2%)	(2.2%)	2.0%
International – Central and Southern Europe	583	(33)	550	(1.2%)	(0.5%)	1.6%
International – Africa & APAC	174	(35)	139	(17.1%)	(16.8%)	0.0%
Total revenue	1,846	(68)	1,778	(3.0%)	(0.6%)	3.1%

	Year ended 30 September 2021			Change		
	Statutory and Underlying £m	Organic adjustments* £m	Organic £m	Statutory	Underlying	Organic
Total recurring revenue by type						
Software Subscription Revenue	1,282	(40)	1,242	5.9%	8.3%	11.3%
Other Recurring Revenue	411	(16)	395	(15.1%)	(12.1%)	(9.6%)
Recurring revenue	1,693	(56)	1,637	(0.1%)	2.5%	5.4%

	Year ended 30 September 2020				
	Statutory and Underlying as reported £m	Impact on foreign exchange £m	Underlying £m	Organic adjustments* £m	Organic £m
Recurring revenue by segment					
North America	634	(37)	597	–	597
Northern Europe	377	–	377	–	377
International – Central and Southern Europe**	508	(4)	504	(40)	464
International – Africa & APAC***	175	(2)	173	(58)	115
Recurring revenue	1,694	(43)	1,651	(98)	1,553
Other revenue by segment					
North America	58	(4)	54	–	54
Northern Europe	35	–	35	(18)	17
International – Central and Southern Europe**	82	(1)	81	(4)	77
International – Africa & APAC***	34	2	36	(12)	24
Other revenue	209	(3)	206	(34)	172
Total revenue by segment					
North America	692	(41)	651	–	651
Northern Europe	412	–	412	(18)	394
International – Central and Southern Europe**	590	(5)	585	(44)	541
International – Africa & APAC***	209	–	209	(70)	139
Total revenue	1,903	(46)	1,857	(132)	1,725

	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	1,210	(26)	1,184	(68)	1,116
Other Recurring Revenue	484	(17)	467	(30)	437
Recurring revenue	1,694	(43)	1,651	(98)	1,553

Notes:
* Adjustments relate to the disposal of the Group's Polish and Asia Pacific businesses and assets held for sale in the current year (note 16.2) and the disposal of Sage Pay and the Group's Brazilian business in the prior year.
** Previously reported as Central and Southern Europe.
*** Previously reported as International.

2.2 Operating profit by segment

	Year ended 30 September 2021					Change		
	Statutory £m	**Underlying adjustments £m**	**Underlying £m**	**Organic adjustments £m**	**Organic £m**	Statutory	Underlying	Organic
Operating profit by segment								
North America	**109**	**28**	**137**	**–**	**137**	(14.4%)	(5.3%)	(5.3%)
Northern Europe	**71**	**28**	**99**	**–**	**99**	(73.4%)	(22.1%)	(19.3%)
International – Central and Southern Europe	**82**	**10**	**92**	**(10)**	**82**	26.5%	(6.8%)	(9.3%)
International – Africa & APAC	**111**	**(81)**	**30**	**(5)**	**25**	(307.8%)	0.8%	12.3%
Total operating profit	**373**	**(15)**	**358**	**(15)**	**343**	(7.8%)	(10.6%)	(9.8%)

2 Segment information *continued*

2.2 Operating profit by segment *continued*

	Statutory £m	Underlying adjustments £m	Underlying as reported £m	Impact of foreign exchange £m	Underlying £m	Organic adjustments £m	Organic £m
	Year ended 30 September 2020						
Operating profit by segment							
North America	127	28	155	(10)	145	–	145
Northern Europe	266	(138)	128	–	128	(5)	123
International – Central and Southern Europe*	65	34	99	(1)	98	(8)	90
International – Africa & APAC**	(54)	83	29	–	29	(7)	22
Total operating profit	404	7	411	(11)	400	(20)	380

The results by segment from continuing operations were as follows:

Year ended 30 September 2021	Note	**North America £m**	**Northern Europe £m**	**International – Central and Southern Europe £m**	**Total reportable segments £m**	**International – Africa & APAC £m**	**Group £m**
Revenue		**687**	**402**	**583**	**1,672**	**174**	**1,846**
Segment statutory operating profit		**109**	**71**	**82**	**262**	**111**	**373**
Finance income	3.5						**1**
Finance costs	3.5						**(27)**
Profit before income tax							**347**
Income tax expense	4						**(62)**
Profit for the year – continuing operations							**285**

Reconciliation of underlying operating profit to statutory operating profit:

	North America £m	**Northern Europe £m**	**International – Central and Southern Europe £m**	**Total reportable segments £m**	**International – Africa & APAC £m**	**Group £m**
Underlying operating profit	**137**	**99**	**92**	**328**	**30**	**358**
Amortisation of acquired intangible assets (note 3.6)	**(19)**	**(8)**	**(4)**	**(31)**	**–**	**(31)**
Other acquisition-related items (note 3.6)	**(2)**	**(7)**	**–**	**(9)**	**–**	**(9)**
Non-recurring items (note 3.6)	**(7)**	**(13)**	**(6)**	**(26)**	**81**	**55**
Statutory operating profit	**109**	**71**	**82**	**262**	**111**	**373**

The results by segment from continuing operations were as follows:

Year ended 30 September 2020	Note	North America £m	Northern Europe £m	International – Central and Southern Europe* £m	Total reportable segments £m	International – Africa & APAC** £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	International – Central and Southern Europe* £m	Total reportable segments £m	International – Africa & APAC** £m	Group £m
Underlying operating profit as reported	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

Notes:
* Previously reported as Central and Southern Europe.
** Previously reported as International.

Impairment losses of £nil are reported by the Group. For the year ended 30 September 2020, impairment losses of £19m relate to Asia goodwill included within International – Africa & APAC (previously reported as International) in the results.

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	**2021 £m**	2020 £m
USA	**584**	593
UK	**378**	383
France	**281**	273
Other individually immaterial countries	**603**	654
	1,846	1,903

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	**2021 £m**	2020 £m
USA	**1,330**	1,369
UK	**454**	424
France	**256**	250
Other individually immaterial countries	**288**	304
	2,328	2,347

3 Profit before income tax

This note sets out the Group's profit before tax, by looking in more detail at the key operating costs, including a breakdown of the costs incurred as an employer, research and development costs, the cost of the external audit of the Group's financial statements and finance costs. This note also sets out the Group's revenue recognition policy.

In addition, this note explains the accounting applied to leases entered into by the Group as a lessee and analyses the amounts recognised for leases on the balance sheet and in the income statement.

This note also provides a breakdown of any material recurring and non-recurring items that have been reported separately on the face of the income statement.

3 Profit before income tax *continued*

3.1 Revenue

Accounting policy

The Group reports revenue under two revenue categories and the basis of recognition for each category is described below:

Category and examples	Accounting treatment
Recurring revenue Subscription contracts Maintenance and support contracts	Recurring revenue is revenue earned from customers for the provision of a good or service over a contractual term, with the customer being unable to continue to benefit from the full functionality of the good or service without ongoing payments. Subscription revenue is recurring revenue earned from customers for the provision of a good or service over a contractual term. In the event that the customer stops paying, they lose the legal right to use the software and the Group has the ability to restrict the use of the product or service. Subscription revenue and maintenance and support revenue are usually recognised on a straight-line basis over the term of the contract as control is transferred to the customer (including non-specified upgrades, when included). An exception is revenue from term licences embedded within a subscription contract for software with significant standalone functionality which are expected to recur upon renewal of the subscription offering. Revenue for these term licences is recognised when control is transferred at inception of each subscription contract period.
Other revenue *Software and software-related services* • Perpetual software licences • Upgrades to perpetual licences • Professional services • Training	Perpetual software licences with significant standalone functionality and specified upgrades revenue are recognised when the control relating to the licence has been transferred. This is when the goods have left the warehouse to be shipped to the customer or when electronic delivery has taken place. Other services revenue (which includes the sale of professional services and training) is recognised when delivered, or by reference to the stage of completion of the transaction at the end of the reporting period. This assessment is made by comparing the proportion of contract costs incurred to date to the total expected costs to completion.
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.

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.

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 Profit before income tax *continued*

3.2 Operating profit

Accounting policy

Cost of sales includes items such as third-party royalties, hosting costs, transaction and credit card fees related to the provision of payment processing services and the cost of hardware and inventories. These also include the third-party costs of providing training and professional services to customers. All other operating expenses incurred in the ordinary course of business are recorded in selling and administrative expenses.

The following items have been included in arriving at operating profit from continuing operations	Note	2021 £m	2020 £m
Staff costs		**968**	928
Depreciation of property, plant and equipment	7	**43**	79
Amortisation of intangible assets	6.2	**44**	45
Customer acquisition amortisation expense	9.1	**101**	99
Impairment of goodwill	3.6	**–**	19
Impairment of property, plant and equipment	7	**–**	14
Net gain on disposal of subsidiaries	3.6	**(126)**	(141)
Other acquisition-related items	3.6	**9**	20

The Group incurred £281m (2020: £252m) of research and development expenditure in the year, of which £242m (2020: £218m) relates to total Group staff costs included above. See note 6.2 for the research and development accounting policy.

Following the Group's UK flagship office move from North Park to Cobalt Business Park, the Group reviewed its estimates of the useful lives and residual values of the assets relating to the existing site. As a result, depreciation of property, plant and equipment includes £9m (2020: £33m) of accelerated depreciation charge. As at 30 September 2021, these assets are presented in the balance sheet within assets held for sale, see note 16.2. The 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.

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:

	2021 £m	2020 £m
Fees payable to the Group's auditor for the audit of the Company and the consolidated accounts	**2**	2
Fees payable to the Group's auditor for the audit of the Company's subsidiaries	**3**	3
Fees payable to the Group's auditor for audit-related assurance services*	**–**	–
Total audit and audit related services	**5**	5
Other non-audit services	**–**	–
Total fees	**5**	5

Note:
* Includes costs relating to the half-year review.

A summary of the Board's policy in respect of the procurement of non-audit services for the Group's auditor is set out on page 119.

3.3 Employees and Directors

Average monthly number of people employed (including Directors)	2021 number	2020 number
By segment:		
North America	**2,671**	2,592
Northern Europe	**3,446**	3,279
International – Central and Southern Europe*	**4,169**	4,407
International – Africa & APAC**	**1,499**	2,228
	11,785	12,506

Staff costs (including Directors on service contracts)	Note	2021 £m	2020 £m
Wages and salaries		**868**	827
Social security costs		**103**	104
Post-employment benefits	11	**22**	22
Share-based payments	15.2	**36**	29
		1,029	982

Staff costs include a total of £61m of capitalised commission costs which are amortised over the expected contract life including probable contract renewals (2020: £54m).

Key management compensation	2021 £m	2020 £m
Salaries and short-term employee benefits	**8**	8
Share-based payments	**4**	4
	12	12

Notes:
* Previously reported as Central and Southern Europe.
** Previously reported as International.

Key management personnel are deemed to be members of the Group's Executive Committee and the Non-executive Directors as shown on pages 70 to 73. The key management figures given above include the Executive Directors of the Group.

3 Profit before income tax *continued*

3.4 Leases

Accounting policy

The Group as lessee

The Group recognises lease assets and lease liabilities on the balance sheet for most of its leases to account for the right to use leased items and the obligation to make future lease payments. Lease liabilities are measured at the present value of future lease payments over the lease term. The lease term is determined as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if the option is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if the option is reasonably certain not to be exercised. Lease payments normally include fixed payments (including in-substance fixed payments), a deduction for any lease incentives receivable and variable lease payments that depend on an index or a rate. In the event that a lease includes an exercise price for a purchase option that is reasonably certain to be exercised, or a termination penalty that is reasonably certain to be incurred, these too are included in lease payments as are any amounts expected to be paid under any residual value guarantees. Variable lease payments that do not depend on an index or a rate are not included in the lease liability but are recognised as an expense when incurred.

Lease payments are discounted using the incremental borrowing rate applicable to the lease at the lease commencement date, as the rate implicit in the lease cannot normally be readily determined. Lease assets are recognised at the amount of the lease liability, adjusted where applicable for any lease payments made or lease incentives received before commencement of the lease, direct costs incurred at the commencement of the lease and estimated restoration costs to be incurred at the end of the lease.

Right-of-use assets are presented within property, plant and equipment and depreciated on a straight-line basis over the shorter of their useful life and the lease term. Their carrying amounts are measured at cost less accumulated depreciation and impairment losses. Lease liabilities are presented within current and non-current borrowings. Over the lease term, the carrying amounts of lease liabilities are increased to reflect interest on the liability and reduced by the amount of lease payments made. A lease liability is remeasured if there is a modification, a change in the lease term or a change in lease payments. The costs of these leases are recognised in the income statement split between the depreciation of the lease asset and the interest charge on the lease liability. Depreciation is presented within selling and administrative expenses and interest charges within finance costs.

This policy applies mainly to the Group's leases for properties and vehicles. For short-term leases with a lease term of 12 months or less and leases of low-value items, the Group has elected to apply the exemptions available under the standard. For these leases, rentals payable are charged to the income statement on a straight-line basis as an operating expense presented within selling and administrative expenses. Where rent payments are prepaid or accrued, their balances are reported under prepayments and accruals respectively. The low-value exemption has been applied to most of the Group's leases of IT and other office equipment.

The Group leases various office and warehouse properties and vehicles, plant and equipment under non-cancellable lease agreements. Leases of properties have a range of lease terms, up to a maximum of 15 years. Other leases are generally for lease terms of 3 or 4 years. Property leases include various contractual terms, most commonly variable lease payments and termination and extension options.

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	2021 £m	2020 £m
At 1 October		**113**	–
• Lease liabilities on transition to IFRS 16		**–**	135
• Additions		**9**	30
• Interest charge in the year		**3**	4
• Payment of lease liabilities		**(23)**	(42)
• Transfer to liabilities held for sale		**–**	(9)
• Exchange movement		**(2)**	(5)
At 30 September		**100**	113
Presented as			
Borrowings – current	13.4	**18**	20
Borrowings – non-current	13.4	**82**	93

The maturity analysis of lease liabilities is included in note 14.2.

Amounts recognised in profit and loss for leases are as follows:

	Note	2021 £m	2020 £m
Depreciation of right-of-use assets		**17**	25
Interest expense charge on lease liabilities	3.5	**3**	4
Lease expense from short-term leases and leases of low-value assets (included in selling and administrative expenses)		**3**	5
		23	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 £26m (2020: £47m).

3 Profit before income tax *continued*

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.

	2021 £m	2020 £m
Finance income:		
Interest income on short-term deposits	**1**	3
Finance income	**1**	3
Finance costs:		
Finance costs on bank borrowings	**(5)**	(7)
Finance costs on US senior loan notes and bond notes	**(16)**	(16)
Interest charge on lease liabilities	**(3)**	(4)
Foreign currency movements	**–**	(6)
Amortisation of issue costs	**(3)**	(1)
Finance costs	**(27)**	(34)
Finance costs – net	**(26)**	(31)

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. Unhedged foreign currency movements on intercompany balances that are charged through the income statement are excluded from underlying results, so that exchange rate impacts do not 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. Whilst these items are described as non-recurring, similar costs, for example in relation to different restructuring programmes or impairments of other assets, may arise in future periods. As these items are one-off or non-operational in nature, management considers that they would distort the Group's underlying business performance.

	Recurring 2021 £m	Non-recurring 2021 £m	Total 2021 £m	Recurring 2020 £m	Non-recurring 2020 £m	Total 2020 £m
M&A activity-related items						
Amortisation of acquired intangibles	**31**	**–**	**31**	33	–	33
Net gain on disposal of subsidiaries	**–**	**(126)**	**(126)**	–	(141)	(141)
Other M&A activity-related items	**9**	**–**	**9**	20	–	20
Other items						
Restructuring costs	**–**	**62**	**62**	–	22	22
Impairment of goodwill	**–**	**–**	**–**	–	19	19
Property restructuring costs	**–**	**–**	**–**	–	21	21
Office relocation	**–**	**9**	**9**	–	33	33
Total adjustments made to operating profit	**40**	**(55)**	**(15)**	53	(46)	7
Fair value adjustments	**1**	**–**	**1**	–	–	–
Foreign currency movements on intercompany balances	**–**	**–**	**–**	6	–	6
Total adjustments made to profit before income tax	**41**	**(55)**	**(14)**	59	(46)	13

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 advisory, legal, accounting, valuation and other professional or consulting services which is related to M&A activity as well as acquisition-related remuneration, directly attributable integration costs and any required provision for future selling costs for assets held for sale. £7m (2020: £4m) 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 16.2.

Foreign currency movements on intercompany balances of £nil (2020: £6m) occur due to retranslation of unhedged intercompany balances other than those where settlement is not planned or likely in the foreseeable future.

Fair value adjustments of £1m (2020: £nil) are in relation to an embedded derivative asset which relates to contractual terms agreed as part of the US private placement debt.

Non-recurring items

Net credit in respect of non-recurring items amounted to £55m (2020: £46m).

Restructuring costs of £62m (2020: £22m) are comprised of charges of £67m incurred in the current year offset by the reversal of £5m of prior year restructuring costs.

Restructuring costs of £67m have been incurred in the current year following the implementation of a business transformation plan to rebalance investment towards the Group's strategic priorities and simplify the business. The costs relate to severance costs across the Group. All of these costs are expected to be paid in subsequent financial years. No further non-recurring costs are expected to arise in subsequent financial years in relation to the business transformation.

Reversal of £5m of restructuring costs relates to unutilised Professional Service provisions created in the prior year (2020: charge of £22m) as the business continues to de-prioritise low margin professional services. The reversal is a result of fewer colleagues leaving the business as they are redeployed into other roles.

In the prior year, following challenging trading and economic conditions in Asia, an impairment of goodwill relating to the Asia group of CGUs of £19m was recognised. See note 6.1 for further details.

In the prior year, property restructuring costs of £21m relate to the reorganisation of the Group's properties and consist of net lease exit costs, following consolidation of office space, and impairment of leasehold and other related assets that are no longer in use.

Office relocation costs of £9m (2020: £33m) relate to the incremental depreciation charge resulting from accelerated depreciation following the UK office move. Further details can be found in note 3.2.

The net gain on disposal of subsidiaries relates to the disposal of the Group's Polish business (gain: £41m) and the Group's Australia and Asia Pacific business (gain: £85m). In the prior year, the net gain on disposal of subsidiaries related to Sage Pay (gain: £193m) and the Brazilian business (loss: £52m). Further details can be found in note 16.2.

See note 4 for the tax impact of these adjustments.

4 Income tax expense

This note analyses the tax expense for this financial year which includes both current and deferred tax. Current tax expense represents the amount payable on this year's taxable profits and any adjustments relating to prior years. Deferred tax is an accounting adjustment to recognise liabilities or benefits that are expected to arise in the future due to differences between the carrying values of assets and liabilities and their respective tax bases.

This note outlines the tax accounting policies, analyses the current and deferred tax expenses in the year and presents a reconciliation between profit before tax in the income statement multiplied by the UK rate of corporation tax and the tax expense for the year.

Accounting policy

The taxation expense for the year represents the sum of current tax and deferred tax. The expense is recognised in the income statement, in the statement of comprehensive income or in equity according to the accounting treatment of the related transaction.

Current tax is based on the taxable income for the period and any adjustment in respect of prior periods. Current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax arises due to certain temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases (note 12).

Analysis of expense in the year	Note	2021 £m	2020 £m
Current income tax			
Current tax on profit for the year		**79**	91
Adjustment in respect of prior years		**(4)**	(9)
Current income tax		**75**	82
Deferred tax			
Origination and reversal of temporary differences		**(14)**	(21)
Adjustment in respect of prior years		**1**	2
Deferred tax	12	**(13)**	(19)
The current year tax expense is split into the following:			
Underlying tax expense		**83**	87
Tax credit on adjustments between the underlying and statutory operating profit		**(21)**	(24)
Income tax expense reported in income statement		**62**	63

The tax on items credited to other comprehensive income was insignificant in both 2021 and 2020. No significant deferred tax charge has been recognised directly in equity (2020: £2m relating to share options and IFRS 16).

The effective tax rate for the year is lower (2020: lower) than the rate of UK corporation tax applicable to the Group of 19% (2020: 19%). The differences are explained below:

	2021 £m	2020 £m
Profit before income tax	**347**	373
Statutory profit before income tax multiplied by the rate of UK corporation tax of 19% (2020: 19%)	**66**	71
Tax effects of:		
Adjustments in respect of prior years	**(3)**	(7)
Foreign tax rates in excess of UK rate of tax	**18**	16
US tax reform	**(1)**	1
Non-deductible expenses and permanent items	**10**	7
Other corporate taxes (withholding tax, business tax)	**6**	11
Tax incentive claims	**(14)**	(13)
Non-taxable gain on disposal	**(20)**	(23)
At the effective income tax rate of 18% (2020: 17%)	**62**	63
Income tax expense reported in the income statement	**62**	63

The underlying effective tax rate for the year is higher (2020: higher) than the rate of UK corporation tax applicable to the Group of 19% (2020: 19%). The differences are explained below:

	2021 £m	2020 £m
Underlying profit before income tax	**333**	386
Underlying profit before income tax multiplied by the rate of UK corporation tax of 19% (2020: 19%)	**63**	73
Tax effects of:		
Adjustments in respect of prior years	**(1)**	(7)
Foreign tax rates in excess of UK rate of tax	**23**	22
US tax reform	**(1)**	1
Non-deductible expenses and permanent items	**7**	–
Other corporate taxes (withholding tax, business tax)	**6**	11
Tax incentive claims	**(14)**	(13)
At the effective income tax rate of 25% (2020: 23%)	**83**	87
Underlying tax expense	**83**	87

The effective tax rate on statutory profit before tax was 18% (2020: 17%), whilst the effective tax rate on underlying profit before tax on continuing operations was 25% (2020: 23%). The statutory effective tax rate is lower than the underlying effective tax rate mainly due to non-taxable accounting net gains on our disposals in the year, partially offset by the non-tax-deductible accelerated depreciation charge 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 and the inclusion of local business taxes in the corporate tax expense. This net increase to the rate is offset by innovation tax credits for registered patents and software, and research and development activities which attract government tax incentives in a number of operating territories. The underlying effective tax rate was increased in the year principally as a result of certain non-recurring adjustments in the prior year.

The Group recognises certain provisions and accruals in respect of tax which involve a degree of estimation and uncertainty where the tax treatment cannot finally be determined until a resolution has been reached by the relevant tax authority. This approach resulted in a provision of £34m at 30 September 2021 (2020: £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.

4 Income tax expense *continued*

Management continually assesses the impact of legislative developments in the jurisdictions in which we operate. As the main UK corporation tax rate will increase from 19% to 25% from 1 April 2023, the Group expects its ETR to increase by 1-3% in the medium term, depending on our future geographic profit mix. The impact of the UK rate change to our current year financial statements is insignificant. Potential future US tax reform and the OECD's two pillar global tax reform may also have an impact on the Group's tax profile and are actively monitored by management.

EU State Aid

The EU Commission concluded on 25 April 2019 that the UK's Controlled Foreign Company regime does not comply with EU State Aid rules in certain circumstances. The UK Government has submitted an appeal to the European Court seeking to annul the EU Commission's findings. The Group, in line with a number of UK corporates, has made a similar appeal.

The Group had previously disclosed a maximum potential tax liability, excluding interest, of approximately £35m. During the year, the Group received confirmation from HMRC that £25m of the liability is not subject to the State Aid decision. Furthermore, in relation to the remaining £10m exposure, HMRC has confirmed that if the State Aid appeal is unsuccessful then this exposure can be offset against a separate matter, for which the Group holds an uncertain tax provision. Therefore the Group no longer has a contingent liability in relation to State Aid.

HMRC has issued the Group with a charging notice for the remaining £10m that is subject to the State Aid decision. Whilst the Group has lodged an appeal against the charging notice this did not defer the payment of the tax assessed. Based on management's internal view on the matter, supported by the appeals that have been made by the UK Government and other PLCs (including the Group), the Group, in accordance with IFRIC 23, has recognised a £10m receivable against HMRC on the expectation that the charge will be repaid in due course.

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 2021	Underlying as reported* 2020	Underlying 2020	Statutory 2021	Statutory 2020
Earnings attributable to owners of the parent (£m)					
Profit for the year	**250**	299	292	**285**	310
Number of shares (millions)					
Weighted average number of shares	**1,080**	1,091	1,091	**1,080**	1,091
Dilutive effects of shares	**10**	9	9	**10**	9
	1,090	1,100	1,100	**1,090**	1,100
Earnings per share attributable to owners of the parent – continuing operations (pence)					
Basic earnings per share	**23.09**	27.43	26.74	**26.33**	28.38
Diluted earnings per share	**22.87**	27.21	26.53	**26.08**	28.15

Note:
* Underlying as reported is at 2020 reported exchange rates.

Reconciliation of earnings	2021 £m	2020 £m
Earnings – statutory profit for the year attributable to owners of the parent	**285**	310
Adjustments:		
• Amortisation of acquired intangible assets	**31**	33
• Net gain on disposal of subsidiaries	**(126)**	(141)
• Foreign currency movements on intercompany balances	**–**	6
• Other M&A activity-related items	**9**	20
• Impairment of goodwill	**–**	19
• Restructuring costs	**62**	22
• Property restructuring costs	**–**	21
• Office relocation	**9**	33
• Fair value adjustments	**1**	–
• Taxation on adjustments between underlying and statutory profit before tax	**(21)**	(24)
Net adjustments	**(35)**	(11)
Earnings – underlying profit for the year (before exchange movement)	**250**	299
Exchange movement	**–**	(10)
Taxation on exchange movement	**–**	3
Net exchange movement	**–**	(7)
Earnings – underlying profit for the year (after exchange movement) attributable to owners of the parent	**250**	292

Exchange movement relates to the retranslation of prior year results to current year exchange rates as shown in the table on page 49 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	**2021 £m**	2020 £m
Cost at 1 October		**1,962**	2,083
• Disposals of subsidiaries*	16.2	**(11)**	–
• Transfer to held for sale**	16.2	**(2)**	(66)
• Exchange movement		**(72)**	(55)
At 30 September		**1,877**	1,962
Impairment at 1 October		**–**	–
• Impairment in the year		**–**	19
• Transfer to held for sale	16.2	**–**	(19)
• Exchange movement		**–**	–
At 30 September		**–**	–
Net book amount at 30 September		**1,877**	1,962

Notes:
* Finalisation of the sale of the Group's Polish business and Australia and Asia Pacific business.
** In 2021, the amount relates to reassessment of goodwill allocated to held for sale entities.

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:

	2021 £m	2020 £m
North America*	**1,154**	1,204
UK & Ireland	**295**	295
France	**217**	229
Iberia	**130**	137
Central Europe	**53**	69
Africa and the Middle East	**28**	26
Australia	**–**	2
	1,877	1,962

Note:

* With effect from 1 October 2020 goodwill previously allocated to the Sage Business Solutions Division (SBS) and Sage Intacct CGUs in North America is now allocated as part of a group of CGUs under North America, see note 1. The carrying value of goodwill allocated to the SBS and Sage Intacct CGUs as at 30 September 2020 was £733m and £471m respectively.

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 2021. In all cases, the Group's three-year financial plan forms the basis for the cash flow projections for a CGU or a group of CGUs, which is aligned with the Group's three-year strategic planning horizon. Beyond the three-year period these projections are extrapolated using an estimated long-term growth rate. The key assumptions in the value in use calculations are the average medium-term revenue growth rates and the long-term growth rates of net operating cash flows:

- The average medium-term revenue growth rates represent the compound annual revenue growth for the first three years. The average medium-term revenue growth rate applied to each CGU's cash flow projections for plan periods of three years are calculated using the specific rates used in the preparation of those plans and reflect rates applicable to each territory.
- Long-term growth rates of net operating cash flows are assumed to be equal to the long-term growth rate in the gross domestic product of the country in which the CGU's operations are undertaken reflecting the specific rates for each territory.

Range of rates used across the different CGUs	2021	2020
• Average medium-term revenue growth rates*	**4%-13%**	3%-25%
• 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.

6 Intangible assets *continued*

6.1 Goodwill *continued*

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:

2021	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%**	**10.2%**	**2.1%**	**11.5%**
• France	**7.7%**	**10.4%**	**2.0%**	**6.9%**
• North America	**8.6%**	**11.4%**	**1.9%**	**12.7%**

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%

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 (2020: three) year compound annual revenue growth.

Discount rate

The Group uses a discount rate based on a local Weighted Average Cost of Capital ("WACC") for each CGU or group of CGUs, applying local government yield bonds and tax rates to each CGU or group of CGUs on a geographical basis. The discount rate applied to a CGU or group of CGUs represents a post-tax rate that reflects the market assessment of the time value of money as at 30 June 2021 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 6.8% (2020: 7.0%) to 17.0% (2020: 15.5%), 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 Iberia CGU, management concluded that no reasonably possible change in any of the key assumptions would result in the carrying value of the CGU or group of CGUs to exceed its recoverable amount.

For the Iberia CGU, a reasonably possible change of a 2% increase in the discount rate combined with a decrease in the average medium-term revenue growth rate by 5% p.a. against plan for the next three years would reduce the value in use by £100m down to its carrying value. The Group has concluded that no reasonably possible change in the long-term growth rate would reduce the recoverable amount to below its carrying value, even considering a reasonably possible decrease in the average medium-term revenue growth rate.

Impairment charge

No impairment charge was recognised in the year (2020: £19m). In the prior year, the £19m charge related to the Asia group of CGUs and the impairment charge was equal to the total value of goodwill in Asia.

The Group performed its annual test for impairment for all CGUs as at 30 June 2021. The recoverable amount exceeded the carrying value for each CGU or group of CGUs, accordingly no impairment charge has been recognised in the year.

6.2 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 2020	34	187	4	154	171	550
• Additions	–	14	–	16	–	30
• Disposals	–	–	(1)	(5)	–	(6)
• Exchange movement	(2)	(6)	–	(5)	(7)	(20)
At 30 September 2021	32	195	3	160	164	554
Accumulated amortisation at 1 October 2020	31	113	4	105	85	338
• Charge for the year	1	17	–	13	13	44
• Disposals	–	–	(1)	(5)	–	(6)
• Exchange movement	(2)	(3)	–	(4)	(3)	(12)
At 30 September 2021	30	127	3	109	95	364
Net book amount at 30 September 2021	2	68	–	51	69	190

6 Intangible assets *continued*

6.2 Other intangibles *continued*

	Brands £m	Technology £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
Cost at 1 October 2019	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

All amortisation charges in the year have been charged through selling and administrative expenses. Of these amortisation charges, £31m (2020: £33m) has been classified as a recurring adjustment, see note 3.6.

7 Property, plant and equipment

This note details the physical assets used by the Group to operate the business and generate revenues and profits. Assets are shown at their purchase price less depreciation, which is an expense that is charged over the useful life of these assets to reflect annual usage and wear and tear, and impairment.

Accounting policy

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation on property, plant and equipment is provided on a straight-line basis to write down an asset to its residual value over its useful life as follows:

Freehold buildings	• Up to 50 years
Long leasehold buildings and improvements	• Shorter of lease term and useful life
Plant and equipment	• 2 to 7 years
Motor vehicles	• 4 years
Office equipment	• 2 to 7 years
Right-of-use lease assets	• Shorter of lease term and useful life

Freehold land is not depreciated.

An item of property, plant and equipment is reviewed for impairment whenever events indicate that its carrying value may not be recoverable.

Further information on the policy applied to right-of-use lease assets is included in note 3.4.

	Land and buildings £m	Plant and equipment £m	Motor vehicles and office equipment £m	Right-of-use assets: Property £m	Right-of-use assets: Vehicles £m	Right-of-use assets: Total £m	Total £m
Cost at 1 October 2020	**87**	**117**	**50**	**114**	**7**	**121**	**375**
• Additions	**–**	**38**	**3**	**8**	**–**	**8**	**49**
• Disposals	**–**	**(11)**	**(6)**	**(3)**	**(2)**	**(5)**	**(22)**
• Transfer to held for sale	**(75)**	**–**	**–**	**–**	**–**	**–**	**(75)**
• Exchange movement	**(1)**	**(3)**	**(1)**	**(3)**	**–**	**(3)**	**(8)**
At 30 September 2021	**11**	**141**	**46**	**116**	**5**	**121**	**319**
Accumulated depreciation at 1 October 2020	**61**	**76**	**40**	**22**	**3**	**25**	**202**
• Charge for the year	**9**	**14**	**3**	**16**	**1**	**17**	**43**
• Disposals	**–**	**(11)**	**(6)**	**(3)**	**(1)**	**(4)**	**(21)**
• Transfer to held for sale	**(65)**	**–**	**–**	**–**	**–**	**–**	**(65)**
• Exchange movement	**–**	**(2)**	**–**	**(2)**	**–**	**(2)**	**(4)**
At 30 September 2021	**5**	**77**	**37**	**33**	**3**	**36**	**155**
Net book amount at 30 September 2021	**6**	**64**	**9**	**83**	**2**	**85**	**164**

	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

All depreciation charges in the years presented have been charged through selling and administrative expenses. Of these depreciation charges, £9m (2020: £33m) 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 Equity investments

This note provides details of the equity investments held by the Group. These are investments the Group has made in unlisted entities that it does not control, jointly control, or have significant influence over, and are not held for trading. Further information is disclosed in note 14.1.

Accounting policy

The Group initially recognises its equity investments at cost on the balance sheet as a non-current asset. The Group has irrevocably elected to measure the equity investments currently held at fair value through other comprehensive income, as they are not held for trading. The investments will be measured at fair value at each reporting date (as required under IFRS 9), with changes in fair value of the investments recognised within other comprehensive income. Only dividend income will be recognised within the income statement.

Non-current:	2021 £m	2020 £m
Unlisted securities	21	–
	21	–

The Group has recognised £nil (2020: £nil) dividend income relating to equity investments held at the balance sheet date.

9 Working capital

This note provides the amounts invested by the Group in working capital balances at the end of the financial year. Working capital is made up of trade and other receivables, trade and other payables and deferred income.

Trade and other receivables are made up of amounts owed to the Group by customers, amounts that we pay to our suppliers in advance and incremental costs to acquire a contract. Trade receivables are shown net of an allowance for expected credit losses. Our trade and other payables are amounts we owe to our suppliers that have been invoiced to us or accrued by us. They also include taxes and social security amounts due in relation to our role as an employer.

This note also gives some additional detail on the age and recoverability of our trade receivables, which provides an understanding of the credit risk faced by the Group as a part of everyday trading. Credit risk is further disclosed in note 14.6.

9.1 Trade and other receivables

Accounting policy

Trade receivables and contract assets

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for expected credit losses.

The Group uses the term "Trade receivables" for contract receivables. These are recognised when the right to consideration is unconditional. Typically, the Group invoices fees for perpetual licences on contract closure and delivery. For performance obligations satisfied over time, judgement is required in determining whether a right to consideration is unconditional. In such situations, a receivable is recognised for the transaction price of the non-cancellable portion of the contract when the Group starts satisfying the performance obligation.

When revenue recognised in respect of a customer contract exceeds amounts received or receivable from the customer a contract asset is recognised.

The carrying amounts of trade receivables and contract assets are reduced by allowances for expected credit losses using the simplified approach under IFRS 9. The Group uses a matrix approach to determine the allowance, with default rates assessed for each country in which the Group operates. The default rates applied are based on the ageing of the receivable, past experience of credit losses and forward-looking information. An allowance for a receivable's estimated lifetime expected credit losses is first recorded when the receivable is initially recognised, and subsequently adjusted to reflect changes in credit risk until the balance is collected. In the event that management considers that a receivable cannot be collected, the balance is written off.

Incremental costs of obtaining customer contracts

The incremental costs of obtaining customer contracts are capitalised under IFRS 15. Contract acquisition costs primarily consist of sales commissions earned by the Group's sales force and business partners.

Judgement is required in determining the amounts to be capitalised, particularly where the commissions are based on cumulative targets. The Group capitalises such cumulative target commissions for all customer contracts that count towards the cumulative target but only if nothing other than obtaining customer contracts can contribute to achieving the cumulative target.

The capitalised assets are amortised over the period during which the related revenue is recognised, which may extend beyond the initial contract term where the Group expects to benefit from future renewals as a result of incurring the costs. Typically, either the Group does not pay sales commissions for customer contract renewals or such commissions are not commensurate with the commissions paid for new contracts. Consequently, the Group amortises sales commissions paid for new customer contracts on a straight-line basis over the expected contract life including probable contract renewals. Judgement is required in estimating these contract lives. In exercising this judgement, the Group considers respective renewal history adjusted for indications that the renewal history is not fully indicative of future renewals.

The amortisation periods range from one year to 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.

9 Working capital *continued*

9.1 Trade and other receivables *continued*

Non-current:	2021 £m	2020 £m
Customer acquisition costs	**97**	79
Other receivables	**15**	5
Prepayments	**1**	2
	113	86

Current:	2021 £m	2020 £m
Trade receivables	**223**	239
Less: allowance for expected credit losses	**(22)**	(37)
Trade receivables – net	**201**	202
Other receivables	**10**	18
Prepayments	**48**	48
Customer acquisition costs	**36**	34
	295	302

The Group has incurred £126m (2020: £119m) to obtain customer contracts and an amortisation expense of £101m (2020: £99m) was recognised in operating profit during the year. There were no material contract assets.

Included within other receivables due greater than one year is £10m related to EU State Aid. See note 4.

Movements on the Group allowance for expected credit losses of trade receivables were as follows:	2021 £m	2020 £m
At 1 October	**37**	23
Increase in allowance for expected credit losses	**12**	28
Receivables written off during the year as uncollectable	**(8)**	(10)
Unused amounts reversed	**(19)**	(1)
Transfer to held for sale	**–**	(2)
Exchange movement	**–**	(1)
At 30 September	**22**	37

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 2021	Not yet due £m	1-30 days overdue £m	31-60 days overdue £m	61-90 days overdue £m	91+ days overdue £m	Total £m
Expected credit loss rate	**5%**	**5%**	**11%**	**34%**	**69%**	**–**
Estimated total gross carrying amount at default	**190**	**10**	**5**	**3**	**15**	**223**
Expected credit loss	**(9)**	**–**	**(1)**	**(1)**	**(11)**	**(22)**

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)

Included in selling and administrative expenses in the income statement is a credit of £6m (2020: charge of £26m) 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.

9.2 Trade and other payables

Accounting policy

Trade payables and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Trade and other payables can be analysed as follows:	**2021 £m**	2020 £m
Trade payables	**39**	25
Other tax and social security payable	**37**	35
Other payables	**294**	34
Accruals	**222**	203
	592	297

Other payables includes £249m (2020: £nil) in relation to the outstanding commitment that the Group is contractually bound for the purchase of its own shares (including costs of purchase) under the non-discretionary buyback programme announced on 3 September 2021. See note 15.4.

9.3 Deferred income

Accounting policy

If amounts received or receivable from a customer exceed revenue recognised for a contract, a contract liability is recognised. The Group uses the term “deferred income” for a contract liability. Contract liabilities primarily reflect invoices due or payments received in advance of revenue recognition. Deferred income is unwound as related performance obligations are satisfied.

In all material respects current deferred income at 1 October 2020 was recognised as revenue during the year. Other than business-as-usual movements, and deferred income transferred to held for sale (see note 16.2), there were no significant changes in contract liability balances during the year.

10 Provisions

This note provides details of the provisions recognised by the Group, where a liability exists of uncertain timing or amount. The main estimates in this area relate to legal exposure, employee severance, onerous contracts and dilapidation charges.

This section also explains the accounting policies applied and the specific judgements and estimates made by the Directors in arriving at the value of these liabilities.

Accounting policy

A provision is recognised only when all three of the following conditions are met:

- The Group has a present obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the present value of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, i.e. the present value of the amount that the Group would rationally pay to settle the obligation at the balance sheet date or to transfer it to a third party.

	Restructuring £m	Legal £m	Building £m	Other £m	Total £m
At 1 October 2020	23	14	11	2	50
• Additional provision in the year	68	15	7	2	92
• Provision utilised in the year	(8)	(3)	(1)	(1)	(13)
• Unused amount reversed	(5)	(2)	(1)	–	(8)
• Exchange movement	(2)	(1)	(1)	–	(4)
At 30 September 2021	76	23	15	3	117

	Restructuring £m	Legal £m	Building £m	Other £m	Total £m
Maturity profile					
< 1 year	57	5	3	3	68
1 – 2 years	19	18	4	–	41
2 – 5 years	–	–	2	–	2
> 5 years	–	–	6	–	6
At 30 September 2021	76	23	15	3	117

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 currently expected to be within two years. This includes the non-recurring restructuring costs which remain unpaid at the balance sheet date (see note 3.6).

Legal provisions have been made in relation to ongoing disputes with third parties and other claims against the Group. The ageing of legal provisions is assessed regularly, based upon internal and external legal advice, as required.

Building provisions relate to dilapidation charges and property-related contracts that have become onerous. The timing of the cash flows associated with building provisions is dependent on the timing of lease agreement termination. This includes the non-recurring property restructuring costs 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.

11 Post-employment benefits

This note explains the accounting policies governing the Group's pension schemes, analyses the deficit on the defined benefit pension scheme and shows how it has been calculated.

The majority of the Group's employees are members of defined contribution pension schemes. Additionally, the Group operates two small defined benefit schemes in France and Switzerland. At 30 September 2020, the defined benefit scheme in Switzerland was classified as held for sale and continues to be classified as such at 30 September 2021.

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	**2021 £m**	2020 £m
Defined contribution schemes		**21**	20
Defined benefit plans		**1**	2
	3.3	**22**	22

11 Post-employment benefits *continued*

Defined benefit plans

The most recent actuarial valuations of the post-employment benefit plans have been performed during the year for the year ended 30 September 2021.

Weighted average principal assumptions made by the actuaries	2021 %	2020 %
Rate of increase in pensionable salaries	**1.9**	2.0
Discount rate	**0.8**	0.4
Inflation assumption	**1.9**	2.0

Mortality rate assumptions made by the actuaries	2021 Years	2020 Years
Average life expectancy for 65-year-old male	**19**	21
Average life expectancy for 65-year-old female	**23**	23
Average life expectancy for 45-year-old male	**36**	40
Average life expectancy for 45-year-old female	**41**	43

Amounts recognised in the balance sheet	2021 £m	2020 £m
Present value of funded obligations	**(22)**	(23)
Fair value of plan assets	**–**	–
Net liability recognised in the balance sheet	**(22)**	(23)

Major categories of plan assets as a percentage of total plan assets	2021 £m	2021 %	2020 £m	2020 %
Bonds (quoted)	**–**	**–**	7	29
Equities (quoted)	**–**	**–**	7	29
Properties	**–**	**–**	8	34
Other (unquoted)	**–**	**–**	2	8
Transfer to held for sale	**–**	**–**	(24)	(100)
	–	**–**	–	–

Expected contributions to post-employment benefit plans for the year ending 30 September 2022 are £1m (2020: expected contributions for the year ended 30 September 2021: £1m).

Amounts recognised in the income statement	2021 £m	2020 £m
Net interest costs on obligation	**–**	–
Current service cost	**(2)**	(3)
Others (Curtailments/Plan amendments)	**1**	1
Total included within staff costs – all within selling and administrative expenses	**(1)**	(2)

Changes in the present value of the defined benefit obligation	2021 £m	2020 £m
At 1 October	**(23)**	(48)
Exchange movement	**2**	(1)
Service cost	**(2)**	(3)
Plan participant contributions	**–**	(1)
Benefits paid	**–**	1
Curtailments/Plan amendments	**1**	1
Transfer to held for sale	**–**	28
At 30 September	**(22)**	(23)

Changes in the fair value of plan assets	2021 £m	2020 £m
At 1 October	**–**	23
Exchange movement	**–**	1
Employer's contributions	**–**	1
Plan participant contributions	**–**	1
Benefits paid	**–**	(2)
Transfer to held for sale	**–**	(24)
At 30 September	**–**	–

Analysis of the movement in the balance sheet liability	2021 £m	2020 £m
At 1 October	**(23)**	(25)
Exchange movement	**2**	–
Total expense as recognised in the income statement	**(1)**	(2)
Benefits paid	**–**	(1)
Contributions paid	**–**	1
Actuarial gain*	**–**	–
Transfer to held for sale	**–**	4
At 30 September	**(22)**	(23)

Note:
* Actuarial gain of £2m relating to the Swiss pension scheme transferred to held for sale in the prior year is reflected within assets and liabilities held for sale. See note 16.2.

Sensitivity analysis on significant actuarial assumptions		2021 £m	2020 £m
Discount rate applied to scheme obligations	+/- 0.5% pa	**1**	3
Salary increases	+/- 0.5% pa	**1**	2

12 Deferred income tax

Deferred income tax is an accounting adjustment to recognise liabilities or benefits that are expected to arise in the future due to differences in the carrying value of assets and liabilities and their respective tax bases. In this note we outline the accounting policies, movements in the year on the deferred tax account and the net deferred tax asset or liability at the year end.

A deferred tax asset represents a tax reduction that is expected to arise in a future period.

A deferred tax liability represents taxes which will become payable in a future period as a result of a current or 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.

Deferred tax	Other intangible assets (excluding goodwill) £m	Tax losses £m	Accounting provisions/ accruals £m	Goodwill £m	Deferred revenue £m	Other £m	Total £m
At 30 September 2019	(37)	10	22	(21)	17	14	5
Income statement (debit)/credit	7	(3)	8	–	4	3	19
Adjustment on initial application of IFRS 16	–	–	–	–	–	2	2
Transfer to held for sale	–	–	(3)	–	(2)	–	(5)
Exchange movement	1	–	–	–	(1)	–	–
At 30 September 2020	(29)	7	27	(21)	18	19	21
Income statement credit	**4**	**–**	**4**	**1**	**(1)**	**5**	**13**
Exchange movement	**1**	**–**	**(1)**	**–**	**1**	**–**	**1**
At 30 September 2021	**(24)**	**7**	**30**	**(20)**	**18**	**24**	**35**

The net deferred tax asset at the end of the year is analysed below:	2021 £m	2020 £m
Deferred tax assets	**40**	35
Deferred tax liabilities	**(5)**	(14)
Net deferred tax asset	**35**	21

Deferred tax assets have been recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered. Each of these assets are reviewed to ensure there is sufficient evidence to support their recognition. Deferred tax liabilities for the taxable temporary differences associated with the Group's investments in subsidiaries have been appropriately recognised to the extent that it is probable that the temporary differences will reverse in the future. The Group has undistributed earnings of £390m at 30 September 2021 (2020: £301m), for which appropriate deferred tax liabilities have been recognised.

At 30 September 2020, following the decision to sell certain of our Australia and Asia Pacific, Swiss and Polish businesses, we transferred £5m of deferred tax assets to held for sale. The Swiss deferred tax balances remaining in held for sale at 30 September 2021 are insignificant.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as required by IAS 12 "Income Taxes") during the year are shown in the above table. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Deferred tax assets and liabilities categorised as "other" in the above table includes various balances in relation to the following items:

	2021 £m	2020 £m
Share options and awards	**10**	9
Interest carried forward	**9**	6
R&D capitalisation	**2**	2
Lease liability	**14**	16
Right-of-use lease assets	**(11)**	(15)
Other amounts	**–**	1
	24	19

The Company has unrecognised carried forward losses of £109m (2020: £73m) 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.

13 Cash flow and net debt

This note analyses our operational cash generation, shows the movement in our net debt in the year, and explains what is included within our cash balances and borrowings at the year end.

Cash generated from operations is the starting point of our consolidated statement of cash flows. This section outlines the adjustments for any non-cash accounting items to reconcile our accounting profit for the year to the amount of cash we generated from our operations.

Net debt represents the amount of cash held less borrowings and overdrafts.

Borrowings are mostly made up of fixed-term external debt which the Group has taken out in order to finance acquisitions in the past. Borrowings also include lease liabilities.

13.1 Cash flow generated from continuing operations

Reconciliation of profit for the year to cash generated from continuing operations	2021 £m	2020 £m
Profit for the year	**285**	310
Adjustments for:		
• Income tax	**62**	63
• Finance income	**(1)**	(3)
• Finance costs	**27**	34
• Amortisation and impairment of intangible assets	**44**	45
• Depreciation and impairment of property, plant and equipment	**43**	93
• Impairment of goodwill	**–**	19
• Loss on disposal of property, plant and equipment	**1**	–
• R&D tax credits	**(2)**	(2)
• Equity-settled share-based transactions	**36**	29
• Net gain on disposal of subsidiaries	**(126)**	(141)
• Exchange movement	**(2)**	–
Changes in working capital (excluding effects of acquisitions and disposals of subsidiaries):		
• (Increase)/Decrease in trade and other receivables	**(35)**	26
• Increase in trade and other payables and provisions	**107**	44
• Increase in deferred income	**37**	10
Cash generated from continuing operations	**476**	527

13.2 Net debt

Reconciliation of net cash flow to movement in net debt	2021 £m	2020 £m
(Decrease)/Increase in cash in the year (pre-exchange movements)	**(233)**	510
Cash inflow/(outflow) from movement in loans, lease liabilities	**160**	(96)
Change in net debt resulting from cash flows	**(73)**	414
Impact of adoption of IFRS 16	**–**	(136)
Disposals	**(16)**	(12)
Other non-cash movements	**(14)**	(30)
Exchange movement	**7**	6
Movement in net debt in the year	**(96)**	242
Net debt at 1 October	**(151)**	(393)
Net debt at 30 September	**(247)**	(151)

Analysis of change in net debt (inclusive of leases)	At 1 October 2020 £m	Cash flow £m	Disposal of subsidiary £m	Non-cash movements £m	Exchange movement £m	At 30 September 2021 £m
Cash and cash equivalents	831	**(254)**	**–**	**–**	**(24)**	**553**
Cash amounts included in held for sale	17	**21**	**(23)**	**–**	**(1)**	**14**
Cash, cash equivalents and bank overdrafts including cash held for sale	848	**(233)**	**(23)**	**–**	**(25)**	**567**
Liabilities arising from financing activities						
Loans due within one year	–	**–**	**–**	**(49)**	**2**	**(47)**
Loans due after more than one year	(877)	**138**	**–**	**44**	**28**	**(667)**
Lease liabilities due within one year	(20)	**20**	**–**	**(18)**	**–**	**(18)**
Lease liabilities after more than one year	(93)	**–**	**–**	**9**	**2**	**(82)**
Lease liabilities included in held for sale	(9)	**2**	**7**	**–**	**–**	**–**
	(999)	**160**	**7**	**(14)**	**32**	**(814)**
Total	(151)	**(73)**	**(16)**	**(14)**	**7**	**(247)**

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 amounts included in 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)

13 Cash flow and net debt *continued*

13.3 Cash and cash equivalents (excluding bank overdrafts and cash amounts included in held for sale)

Accounting policy

For the purpose of preparation of the consolidated statement of cash flows and the consolidated balance sheet, cash and cash equivalents include cash at bank and in hand and short-term deposits with an original maturity period of three months or less. Bank overdrafts that are an integral part of a subsidiary's cash management are included in cash and cash equivalents where they have a legal right of set-off and there is an intention to settle net, against positive cash balances, otherwise bank overdrafts are classified as borrowings. Cash and cash equivalents are measured at amortised cost.

	2021 £m	2020 £m
Cash at bank and in hand	**349**	391
Short-term bank deposits	**204**	440
	553	831

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 2021, 97% (2020: 92%) 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.

13.4 Borrowings (excluding borrowings included in held for sale)

Accounting policy

Interest-bearing borrowings are recognised initially at fair value less attributable issue costs, which are amortised over the period of the borrowings. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of borrowing on an effective interest basis.

Further information on the policy applied to lease liabilities is included in note 3.4.

Current	2021 £m	2020 £m
US senior loan notes	**47**	–
Lease liabilities	**18**	20
	65	20

Non-current	2021 £m	2020 £m
Bank loans	**–**	490
US senior loan notes	**323**	387
Sterling denominated bond notes	**344**	–
Lease liabilities	**82**	93
	749	970

Included in loans above is £370m (2020: £877m) of unsecured loans (after unamortised issue costs).

In the table above, bank loans, loan notes and sterling denominated bond notes ("bond notes") are stated net of unamortised issue and discount costs of £6m (2020: £4m). Unsecured bank loans attracted an average interest rate of 1.0% (FY20: 1.6%).

Borrowings	Year issued	Interest coupon	Maturity	2021 £m	2020 £m
US private placement					
• USD 150m loan note	2013	3.71%	20–May–23	**111**	116
• USD 50m loan note	2013	3.86%	20–May–25	**37**	39
• EUR 55m loan note	2015	1.89%	26–Jan–22	**47**	50
• EUR 30m loan note	2015	2.07%	26–Jan–23	**26**	27
• USD 200m loan note	2015	3.73%	26–Jan–25	**149**	155
GBP 350m bond	2021	1.63%	25–Feb–31	**350**	–

The Group's debt is sourced from a syndicated multi-currency Revolving Credit Facility ("RCF"), US private placements ("USPP"), and the bond notes.

Total USPP loan notes at 30 September 2021 were £370m (USD 400m and EUR 85m) (2020: £387m, USD 400m and EUR 85m).

The Group's RCF expires in February 2025 with facility levels of £669m (USD 719m and £135m tranches). At 30 September 2021, £nil (2020: £294m) of the RCF was drawn.

The bond notes were issued in February 2021 for a nominal amount of £350m and expire in February 2031. Net cash proceeds from the issuance were £344m. A portion of the proceeds were used to repay the previously held £200m Term Loan which was due to expire in September 2022.

Further information on lease liabilities is included in note 3.4.

14 Financial instruments

This note shows details of the fair value and carrying value of short- and long-term borrowings, trade and other payables, trade and other receivables, equity investments, short-term bank deposits and cash at bank and in hand. These items are all classified as "financial instruments" under accounting standards. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In order to assist users of these financial statements in making an assessment of any risks relating to financial instruments, this note also sets out the maturity of these items and analyses their sensitivity to changes in key inputs, such as interest rates and foreign exchange rates. An explanation of the Group's exposure to, and management of, capital, liquidity, credit, interest rate and foreign currency risk is set out in the financial risk management section at the end of this note.

Accounting policy

Financial assets and financial liabilities are recognised 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 2021	Note	**At amortised cost £m**	**At fair value through profit or loss £m**	**At fair value through other comprehensive income £m**	**Total £m**
Non-current assets					
Equity investments	8	**–**	**–**	**21**	**21**
Trade and other receivables: other receivables	9.1	**13**	**2**	**–**	**15**
Current assets					
Trade and other receivables: trade receivables	9.1	**201**	**–**	**–**	**201**
Trade and other receivables: other receivables	9.1	**9**	**1**	**–**	**10**
Cash and cash equivalents	13.3	**553**	**–**	**–**	**553**
Current liabilities					
Trade and other payables excluding other tax and social security	9.2	**(555)**	**–**	**–**	**(555)**
Borrowings	13.4	**(65)**	**–**	**–**	**(65)**
Non-current liabilities					
Borrowings	13.4	**(749)**	**–**	**–**	**(749)**
		(593)	**3**	**21**	**(569)**

As at 30 September 2020	Note	At amortised cost £m	At fair value through profit or loss £m	At fair value through other comprehensive income	Total £m
		IFRS 9 classification			
Non-current assets					
Other financial assets		–	1	–	1
Trade and other receivables: other receivables	9.1	2	3	–	5
Current assets					
Trade and other receivables: trade receivables	9.1	202	–	–	202
Trade and other receivables: other receivables	9.1	17	1	–	18
Cash and cash equivalents	13.3	831	–	–	831
Current liabilities					
Trade and other payables excluding other tax and social security	9.2	(262)	–	–	(262)
Borrowings	13.4	(20)	–	–	(20)
Non-current liabilities					
Borrowings	13.4	(970)	–	–	(970)
		(200)	5	–	(195)

14.1 Fair values of financial instruments

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

Borrowings (excluding lease liabilities)

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

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

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

		2021		2020	
	Note	**Book value £m**	**Fair value £m**	Book value £m	Fair value £m
Long-term borrowing (excluding lease liabilities)	13.4	**(667)**	**(682)**	(877)	(902)
Short-term borrowing (excluding lease liabilities)	13.4	**(47)**	**(48)**	–	–

Contingent consideration receivable

The Group recognises contingent consideration receivable of £3m (2020: £4m) relating to the disposal of Sage Payroll Solutions in the year ended 30 September 2019. This is classified as a financial asset measured at fair value through profit or loss. Its fair value is determined using a discounted cash flow valuation technique. The main inputs to the calculation for which assumptions have been made are the discount rate and the period over which the consideration will be received. This is a level 3 fair value under IFRS 13.

Equity investments

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

14 Financial instruments *continued*

14.2 Maturity of financial liabilities

The maturity profile of the undiscounted contractual amount of the Group's financial liabilities at 30 September was as follows:

				2021
	Borrowings: bank loans, bond notes and loan notes £m	Borrowings: lease liabilities £m	Trade and other payables excluding other tax and social security £m	Total £m
In less than one year	**66**	**20**	**555**	**641**
In more than one year but not more than two years	**154**	**20**	**1**	**175**
In more than two years but not more than five years	**214**	**41**	**–**	**255**
In more than five years	**375**	**33**	**–**	**408**
	809	**114**	**556**	**1,479**

				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

The maturity profile of provisions is disclosed in note 10.

14.3 Borrowing facilities

The Group has the following undrawn committed borrowing facilities available at 30 September in respect of which all conditions precedent had been met at that date:

	2021 £m	2020 £m
Expiring in more than two years but not more than five years	**669**	398

The facilities have been arranged to help finance the expansion of the Group's activities. All these facilities incur commitment fees at market rates. In addition, the Group maintains overdraft and uncommitted facilities to provide short-term flexibility and has also utilised the US private placement market.

14.4 Market risk sensitivity analysis

Financial instruments affected by market risks include borrowings and deposits.

The following analysis, required by IFRS 7 "Financial Instruments: Disclosures", is intended to illustrate the sensitivity to changes in market variables, being sterling, US Dollar and 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.

	2021 Income (losses)/gains £m	2021 Equity (losses)/gains £m	2020 Income (losses)/gains £m	2020 Equity (losses)/gains £m
1% increase in market interest rates	–	–	(3)	(3)
1% decrease in market interest rates	–	–	3	3

The following table shows the illustrative effect on equity resulting from changes in sterling/US Dollar and sterling/Euro exchange rates:

	2021 Equity gains/(losses) £m	2020 Equity gains/(losses) £m
10% strengthening of sterling versus the US Dollar	27	28
10% strengthening of sterling versus the Euro	7	7
10% weakening of sterling versus the US Dollar	(33)	(34)
10% weakening of sterling versus the Euro	(8)	(9)

14.5 Hedge accounting

Accounting policy

On transition to IFRS 9, the Group elected to continue to apply the hedge accounting requirements of IAS 39. The Group applies hedge accounting to external borrowings 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 2021		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	296	(13)
Non-current borrowings	EUR loan notes	EUR 30m	26	(1)
Current borrowings	EUR loan notes	EUR 55m	47	(3)
			369	(17)

14 Financial instruments *continued*

14.5 Hedge accounting *continued*

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

The impact of the hedged item on the statement of financial position is as follows:

	2021		2020	
	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	**(13)**	**33**	(16)	46
Net investment in foreign subsidiaries – EUR	**(4)**	**9**	2	14
	(17)	**42**	(14)	60

The hedging movement recognised in other comprehensive income is equal to the change in value for measuring effectiveness. No ineffectiveness is recognised in profit or loss.

Further information on the Group's exposure to foreign currency risk and how the risk is managed is included in note 14.6.

14.6 Financial risk management

The Group's exposure to and management of capital, liquidity, credit, interest rate and foreign currency risk are summarised below.

Capital risk

The Group's objectives when managing capital (defined as net debt plus equity) are to safeguard our ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders, while optimising returns to shareholders through an appropriate balance of debt and equity funding. The Group manages its capital structure through regular review by the Board and makes adjustments to it with respect to changes in economic conditions and our strategic objectives. Priorities for capital allocation are organic and inorganic investment, including through acquisitions of complementary technology and partnerships to enhance Sage Business Cloud and further develop the digital network; the maintenance 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, the Group retains the flexibility to adjust capital allocation priorities in response to changing requirements of the business.

On 4 March 2021 Sage launched a share buyback programme of up to £300m, completed on 3 September 2021. On 6 September 2021 Sage launched a second share buyback programme of up to £300m, to end no later than 24 January 2022. Both the First and the Second Share Buyback Programmes (together the "Share Buyback Programmes") are consistent with the Group's disciplined approach to capital allocation and reflect its medium-term leverage objectives, strong ongoing cash generation and the sale proceeds from disposals completed during the year. In the prior year, 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 low operational credit risk due to the transactions being principally of a high volume, low value and short maturity. The Group has no significant concentration of operational credit risk, with the exposure spread over a large number of well-diversified counterparties and customers.

The credit risk on liquid funds is considered to be low, as the Board-approved Group treasury policy limits the value that can be invested with each approved counterparty to minimise the risk of loss. All counterparties must meet minimum credit rating requirements or be specifically authorised as an exception.

Further information on the credit risk management procedures applied to trade receivables is given in note 9.1 and to cash and cash equivalents in note 13.3. The carrying amounts of trade receivables and cash and cash equivalents shown in those notes represent the Group's maximum exposure to credit risk.

Interest rate risk

The Group is exposed to interest rate risk on floating rate deposits and borrowings. The Group's borrowings comprise principally sterling denominated bond notes and 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 2021, the Group had £553m (2020: £831m) 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 2021, the Group's borrowings comprised: sterling denominated bond notes of £344m (2020: £nil), which have a coupon of 1.625%; US private placement loan notes of £370m (2020: £387m), which have an average fixed interest rate of 3.39% (2020: 3.34%); and unsecured bank loans of £nil (2020: £490m), which in the prior year comprised a fixed term loan and a bank revolving credit facility, which had an average interest rate of 1.6%.

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 2021 and 30 September 2020, these exposures were immaterial to the Group.

15 Equity

This note analyses the movements recorded through shareholders' equity that are not explained elsewhere in the financial statements, being changes in the amount which shareholders have invested in the Group.

The Group utilises share award schemes as part of its employee remuneration package. Share option schemes for our employees include The Sage Group Performance Share Plan for Directors and senior executives and The Sage Group Savings-related Share Option Plan (the "SAYE Plan") for all qualifying employees. The Group incurs costs in respect of these schemes in the income statement, which is set out below along with a detailed description of each scheme and the number of options outstanding.

This note also shows the dividends paid in the year and any dividends that are to be proposed and paid post-year end. Dividends are paid as an amount per ordinary share held.

15 Equity *continued*

15.1 Ordinary shares

Accounting policy

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the owners of the Company until the shares are cancelled or reissued.

Issued and fully paid ordinary shares of 14/77 pence each	2021 shares	2021 £m	2020 shares	2020 £m
At 1 October and 30 September	**1,120,789,295**	**12**	1,120,789,295	12

15.2 Share-based payments

Accounting policy

Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest allowing for the effect of non market-based vesting conditions.

Fair value is measured using the Black-Scholes or the Monte Carlo pricing models, based on observable market prices. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

All outstanding Sage Performance Share Plans ("PSPs") are subject to some non-market performance conditions. These are 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 £36m (2020: £29m), all of which related to equity-settled share-based payment transactions.

Scheme	2021 £m	2020 £m
Performance Share Plan	**5**	6
Restricted Share Plan	**28**	21
Share options	**3**	2
Total	**36**	29

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 452,380 (2020: 2,146,687) 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 compound annual recurring revenue growth. Where 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 underlying EPS over the performance period is less than 8% per annum; or (ii) the compound growth of 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 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 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 for 2019 and 2020

These performance shares are subject to a service condition and two performance conditions. Performance conditions are weighted 70% on the achievement of a revenue growth target and 30% on the achievement of a TSR target.

The revenue growth target is based on compound annualised recurring revenue growth. Where annualised recurring revenue growth is between prescribed target ranges, the extent to which the revenue performance condition is satisfied will be calculated on a straight-line pro-rata basis within a defined range.

2019 awards	Range 1	Range 2
• Annualised recurring revenue growth (%)	6.2%-7.7%	7.7%-8.5%
• Performance condition satisfied (%)	14%-56%	56%-70%

2020 awards	Range 1	Range 2
• Annualised recurring revenue growth (%)	5.6%-7.0%	7.0%-7.7%
• Performance condition satisfied (%)	14%-56%	56%-70%

The performance target relating to TSR measures share price performance against a designated comparator group. Where TSR is between median and upper quartile, the TSR vesting percentage will be calculated on a straight-line pro-rata basis between 6% and 24% and where TSR is between upper quartile and upper decile, TSR vesting percentage will be calculated on a straight-line pro-rata basis between 24% and 30%.

The comparator group for awards granted for 2019 and 2020 is the companies comprised in the FTSE 100 Index at the start of the performance period, excluding financial services and extraction companies.

Awards for 2021

These performance shares are subject to a service condition and three performance conditions. Performance conditions are weighted 70% on the achievement of revenue targets and 30% on the achievement of a TSR target.

The revenue targets are based on compound annualised recurring revenue growth and Cloud Native annualised recurring revenue over the performance period. Where annualised recurring revenue is between prescribed target ranges, the extent to which the revenue performance conditions are satisfied will be calculated on a straight-line pro-rata basis within a defined range.

2021 awards	**Range 1**	**Range 2**
• Annualised recurring revenue growth (%)	**6.0%-8.5%**	**8.5%-10.0%**
• Performance condition satisfied (%)	**7%-28%**	**28%-35%**
• Cloud native annualised recurring revenue (£m)	**£600m-£750m**	**£750m-£900m**
• Performance condition satisfied (%)	**7%-28%**	**28%-35%**

The performance target relating to TSR measures share price performance against a designated comparator group. Where TSR is between median and upper quartile, the TSR vesting percentage will be calculated on a straight-line pro-rata basis between 6% and 24% and where TSR is between upper quartile and upper decile, the TSR vesting percentage will be calculated on a straight-line pro-rata basis between 24% and 30%.

15 Equity *continued*

15.2 Share-based payments *continued*

The comparator group for awards granted for 2021 onwards is the companies comprised in the FTSE 100 Index at the start of the performance period, excluding financial services and extraction companies.

Awards 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 2020**
Share price at grant date	**5.79**
Number of employees	**2**
Shares under award	**452,380**
Vesting period (years)	**3**
Expected volatility	**29.0%**
Award life (years)	**3**
Expected life (years)	**3**
Risk-free rate	**(0.02%)**
Fair value per award	**4.54**

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

The expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed award life.

A reconciliation of award movements over the year is shown below:

	2021		2020	
	Number '000s	**Weighted average exercise price £**	Number '000s	Weighted average exercise price £
Outstanding at 1 October	**6,574**	**–**	7,368	–
Awarded	**452**	**–**	2,147	–
Forfeited	**(2,389)**	**–**	(2,598)	–
Exercised	**(377)**	**–**	(343)	–
Outstanding at 30 September	**4,260**	**–**	6,574	–
Exercisable at 30 September	**–**	**–**	–	–

	2021 Weighted average remaining life years		2020 Weighted average remaining life years	
Range of exercise prices	**Expected**	**Contractual**	Expected	Contractual
N/A	**0.7**	**0.7**	1.2	1.2

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 7,499,399 (2020: 4,424,901) 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 579-671p.

A reconciliation of award movements over the year is shown below:

	2021		2020	
	Number '000s	Weighted average exercise price £	Number '000s	Weighted average exercise price £
Outstanding at 1 October	8,277	–	6,776	–
Awarded	7,499	–	4,425	–
Forfeited	(1,436)	–	(743)	–
Exercised	(2,258)	–	(2,181)	–
Outstanding at 30 September	12,082	–	8,277	–
Exercisable at 30 September	–	–	–	–

	2021 Weighted average remaining life years		2020 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, 1,920,653 (2020: 2,924,638) 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 (2020: 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:

	2021		2020	
	Number '000s	Weighted average exercise price £	Number '000s	Weighted average exercise price £
Outstanding at 1 October	3,256	2.13	4,216	2.03
Forfeited	(44)	6.34	(26)	3.29
Exercised	(1,584)	1.15	(934)	1.64
Outstanding at 30 September	1,628	2.96	3,256	2.13
Exercisable at 30 September	1,628	2.96	2,986	1.95

	2021 Weighted average remaining life years		2020 Weighted average remaining life years	
Range of exercise prices	Expected	Contractual	Expected	Contractual
22p-702p	–	4.9	–	5.0

15 Equity *continued*

15.3 Other reserves

All components of reserves are presented separately on the face of the consolidated statement of changes in equity. This note explains the nature and purpose of the translation and merger reserves.

Translation reserve

The translation reserve represents the accumulated exchange differences arising since the transition to IFRS from the following sources:

- The impact of the translation of subsidiaries with a functional currency other than sterling; and
- Exchange differences arising on hedging instruments that are designated hedges of a net investment in foreign operations, net of tax where applicable.

Exchange differences arising prior to the IFRS transition were offset against retained earnings.

Merger reserve

Merger reserve brought forward relates to the merger reserve which was present under UK GAAP and frozen on transition to IFRS.

15.4 Retained earnings

Retained earnings	2021 £m	2020 £m
At 1 October	**908**	760
Adjustment on initial application of IFRS 16 net of tax	**–**	(7)
Profit for the year	**285**	310
Actuarial gain on post-employment benefit obligations (note 11)	**2**	–
Value of employee services including deferred tax	**36**	29
Proceeds from issuance of treasury shares	**8**	9
Share buyback programme	**(602)**	(7)
Dividends paid to owners of the parent (note 15.5)	**(189)**	(186)
Total	**448**	908

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. On 4 March 2021, the Group entered into a non-discretionary share buyback programme under which 45,418,600 shares were bought back for a total consideration of £302m, inclusive of stamp duty and related fees. This programme was completed during the year. On 6 September 2021, the Group entered into a non-discretionary share buyback programme ending no later than 24 January 2022, to purchase £300m of its own shares (2020: 1,101,918 shares as part of the share buyback programme announced on 11 March 2020 and suspended on 18 March 2020). The total consideration for all shares purchased in the year under share buyback programmes amounts to £387m (57,286,992 shares), of which £353m had been paid as at 30 September 2021 (2020: £7m, of which £7m had been paid).

During the year the Group agreed to satisfy the vesting of certain share awards, utilising a total of 5,544,880 (2020: 4,956,977) treasury shares. The Group gifted nil shares (2020: 250,000) to the Employee Share Trust.

At 30 September 2021 the Group held 79,586,223 (2020: 27,844,111) 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 (2020: 190,962) at a cost of £1m (2020: £1m) and a nominal value of £nil (2020: £nil).

During the year, the Trust did not utilise any shares held in the Trust to satisfy the vesting of certain share awards (2020: 94,830 shares). The Trust did not receive additional funds for future purchase of shares in the market (2020: £nil).

The costs of funding and administering the scheme are charged to the profit and loss account of the Company in the period to which they relate. The market value of the shares at 30 September 2021 was £1m (2020: £1m).

15.5 Dividends

Accounting policy

Dividends are recognised through equity when approved by the Company's shareholders or on payment, whichever is earlier.

	2021 £m	2020 £m
Final dividend paid for the year ended 30 September 2020 of 11.32p per share	**124**	–
(2020: final dividend paid for the year ended 30 September 2019 of 11.12p per share)	**–**	121
Interim dividend paid for the year ended 30 September 2021 of 6.05p per share	**65**	–
(2020: interim dividend paid for the year ended 30 September 2020 of 5.93p per share)	**–**	65
	189	186

In addition, the Directors are proposing a final dividend in respect of the financial year ended 30 September 2021 of 11.63p per share which will absorb an estimated £118m of shareholders' funds. The Company's distributable reserves are sufficient to support the payment of this dividend. If approved at the AGM, it will be paid on 10 February 2022 to shareholders who are on the register of members on 14 January 2022. These financial statements do not reflect this proposed dividend payable.

16 Acquisitions and disposals

The following note outlines acquisitions and disposals during the year and the accompanying accounting policies. Each acquisition or disposal during the year is discussed and the effects on the results of the Group are highlighted. Additional disclosures are presented for disposals and planned disposals that qualify as businesses held for sale or for presentation as discontinued operations.

Accounting policy

Acquisitions:

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability are recognised in the income statement. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's total identifiable net assets acquired. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the difference is recognised directly in the consolidated income statement. Any subsequent adjustment to reflect changes in consideration arising from contingent consideration amendments is recognised in the consolidated income statement.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Acquisition-related items such as legal or professional fees are expensed to the income statement as incurred.

Acquisitions of certain legal entities can be accounted for as an asset acquisition where they do not qualify as a business combination under IFRS 3 "Business Combinations" which is often the case where the value of the acquired legal entity largely comprises a single asset or technology. Where this is applied, no goodwill is recognised as part of the acquisition accounting.

Businesses held for sale and discontinued operations:

The Group classifies the assets and liabilities of a business as held for sale if their carrying amounts will be recovered principally through a sale of the business rather than through continuing use. These assets and liabilities are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for classification as held for sale are met only when the sale is highly probable and the business is available for immediate sale in its present condition. Actions required to complete the sale must indicate that it is unlikely that significant changes will be made to the plan or that the decision to sell will be withdrawn. Management must be committed to the sale and completion must be expected within one year from the date of the classification. Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the consolidated balance sheet.

A business qualifies as a discontinued operation if it is a component of the Group that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations; and
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations.

Discontinued operations are excluded from the results of continuing operations in both the current and prior years and are presented as a single amount in the consolidated income statement as profit or loss on discontinued operations.

16.1 Acquisitions

On 30 September 2021, the Group acquired 100% of the equity capital of GoProposal Limited ('GoProposal'), a company based in the UK, for total consideration of £13m, payable in cash.

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

The net assets recognised in the financial statements, including the technology intangible, are based on a valuation of the acquired identifiable net assets as at the acquisition date. The technology intangible has a fair value of £13m and is recognised as an intangible asset (see note 6.2) which will be amortised over a useful life of 8 years. Other net assets acquired are negligible.

16 Acquisitions and disposals *continued*

16.2 Disposals and discontinued operations

Disposals made during the current year

On 1 March 2021, the Group completed the sale of its Polish business for gross consideration of £70m. Subsequently, on 31 May 2021 the Group completed the sale of its Australia and Asia Pacific business (excluding global products) ("Asia Pacific") for gross consideration of £127m. Both businesses were held for sale at 30 September 2020. The gains on disposal are calculated as follows:

Gain on disposal	Poland £m	Asia Pacific £m	Total £m
Cash consideration	63	106	169
Loan consideration	7	21	28
Gross consideration	**70**	**127**	**197**
Transaction costs	(4)	(7)	(11)
Net consideration	**66**	**120**	**186**
Net assets disposed	(19)	(34)	(53)
Intercompany loan receivable disposed	(7)	(21)	(28)
Cumulative foreign exchange differences reclassified from other comprehensive income to the income statement	1	20	21
Gains on disposal	**41**	**85**	**126**

Net assets disposed comprise:

	Poland £m	Asia Pacific £m	Total £m
Goodwill	21	28	49
Other intangible assets	–	1	1
Property, plant and equipment	2	10	12
Customer acquisition costs	3	5	8
Deferred income tax	3	3	6
Current income tax	–	3	3
Trade and other receivables	3	6	9
Cash and cash equivalents	1	22	23
Total assets	**33**	**78**	**111**
Trade and other payables	(4)	(9)	(13)
Borrowings	(1)	(6)	(7)
Current income tax liabilities	–	(6)	(6)
Provisions	–	(1)	(1)
Deferred income	(9)	(22)	(31)
Total liabilities	**(14)**	**(44)**	**(58)**
Net assets	**19**	**34**	**53**

The net gain is reported within continuing operations, as a non-recurring adjustment between underlying and statutory results.

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

Inflow of cash and cash equivalents on disposal	Poland £m	Asia Pacific £m	Total £m
Cash consideration	63	106	169
Transaction costs	(4)	(7)	(11)
Net consideration received	**59**	**99**	**158**
Cash disposed	(1)	(22)	(23)
Net inflow of cash and cash equivalents on disposal	**58**	**77**	**135**

Prior to the disposal, the Polish business formed part of the Group's International – Central and Southern Europe reporting segment and the Asia Pacific business formed part of the International – Africa & APAC reporting segment.

Discontinued operations and assets and liabilities held for sale

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

As at 30 September 2020, these two disposal groups were also classified as held for sale alongside the Group's business in Poland and Australia and Asia Pacific which were subsequently sold during the year. The North Park property site was reclassified to assets held for sale as at 30 September 2021. Subsequently, a sale was agreed which completed in October 2021.

The Group's business in Switzerland forms part of the International – Central and Southern Europe reporting segment and the payroll processing business in South Africa forms part of the International – Africa & APAC reporting segment. An agreement to sell the Group's business in Switzerland was reached on 6 April 2021 and is expected to complete in the year ending 30 September 2022. The Group is also in advanced discussions for the sale of its payroll processing business in South Africa.

On classification as held for sale, no adjustment was required to the carrying value of the North Park property site assets which were depreciated to their residual value of £10m. No fair value adjustment is required to the carrying value of the two disposal groups.

The Group had no discontinued operations during the year (30 September 2020: none).

Assets and liabilities of the disposal groups held for sale at 30 September comprise:

	Switzerland 2021 £m	Payroll processing business (South Africa) 2021 £m	Total 2021 £m	Total 2020 £m
Goodwill	10	1	11	47
Other intangible assets	–	–	–	1
Property, plant and equipment	2	–	2	14
Deferred income tax asset	–	–	–	5
Customer acquisition costs	–	–	–	7
Current income tax asset	–	–	–	1
Trade and other receivables	1	1	2	16
Cash and cash equivalents	14	–	14	17
Total assets	**27**	**2**	**29**	108
Trade and other payables	(3)	–	(3)	(16)
Borrowings	–	–	–	(9)
Current income tax liabilities	(1)	–	(1)	(1)
Post-employment benefits	(2)	–	(2)	(4)
Provisions	–	–	–	(2)
Deferred income	(7)	–	(7)	(41)
Total liabilities	**(13)**	**–**	**(13)**	(73)
Net assets	**14**	**2**	**16**	35

Specific to the two disposal groups held for sale at 30 September 2021, the aggregate income included in other comprehensive income relating to cumulative foreign exchange differences amounted to £13m. Upon disposal, the income will be recycled to the income statement.

17 Related party transactions

This note provides information about transactions between the Group and its related parties. A group's related parties include any entities over which it has control, joint control or significant influence, and any persons who are members of its key management personnel.

The Group's related parties are its subsidiary undertakings and its key management personnel, which comprises the Group's Executive 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.

18 Events after the balance sheet date

As at 12 November 2021 and subsequent to 30 September 2021, as part of the Share buyback programme announced on 3 September 2021, the Group has purchased an additional 15,879,407 Ordinary shares for total consideration of £114m. At 12 November 2021, the Group held in treasury an aggregate of 95,432,174 Ordinary shares.

19 Group undertakings

While we present consolidated results in these financial statements, our structure is such that there are a number of different operating and holding companies that contribute significantly to the overall result.

Our subsidiaries are located around the world and each contributes to the profits, assets and cash flow of the Group.

The entities listed below and on the following pages are subsidiaries of the Company or the Group. The Group percentage of equity capital and voting rights is 100% for all subsidiaries listed below unless indicated otherwise. The results for all of the subsidiaries have been consolidated within these financial statements.

Country	Name	Registered address
Australia	Ocrex Australia Pty Ltd	Level 17, 100 Barangaroo Ave, Barangaroo NSW 2000, Australia
Australia	Sage Business Solutions Pty Ltd	Level 17, 100 Barangaroo Ave, Barangaroo NSW 2000, Australia
Australia	Sage Intacct Australia Pty Ltd	Level 17, 100 Barangaroo Ave, Barangaroo NSW 2000, Australia
Australia	Snowdrop Systems Pty Ltd	Level 17, 100 Barangaroo Ave, Barangaroo NSW 2000, 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, The Bahamas
Belgium	Sage S.A.	Buro & Design Center, Esplanade 1, 1020, Brussels, Belgium
Botswana	Sage Software Botswana (Pty.) Ltd	Plot 50371, Fairground Office Park, Gaborone, Botswana
Canada	Sage Software Canada Ltd.	111, 5th Avenue SW, Suite 3100-C, Calgary Alberta 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

Country	Name	Registered address
India	Intacct Software Private Limited	No 501 & 502, Tower C, 5th Floor, The Millenia, No 1 & 2, Murphy Road, Bangalore, 560 008 Karnataka, India
India	Ocrex Enterprises Private Limited	House No 546, Sector-10D, Chandigarh, 160 011, India
India	Sage Software India Private Ltd (In Liquidation)	N-34, Lower Ground Floor, Kalkaji, New Delhi, 110 019, India
Ireland	Ocrex Limited	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Ireland	Sage Global Services (Ireland) Limited	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Ireland	Sage Hibernia Limited	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Ireland	Sage Irish Finance Company Unlimited Company	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Ireland	Sage Technologies Limited	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Ireland	Sage Treasury Ireland Unlimited Company	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Ireland	TAS Software Limited	Number One Central Park Leopardstown, Dublin 18, Ireland
Ireland	Tonwomp Unlimited Company	Number One Central Park Leopardstown, Dublin 18, Ireland
Israel	Budgeta Technologies Ltd	32 Habarzel St., Tel Aviv , 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	Sage Malaysia Business Solutions Sdn. Bhd,	Level 11, 1 Sentral, Jalan Rakyat, Kuala Lumpur Sentral, 50470 Kuala Lumpur, Malaysia
Morocco	Sage Software SARL	Tour Crystal 1, Niveau 9, Bd Sidi 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 Software Poland 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 Pte. Ltd.	7 Straits View, #12-00, Marina One East Tower, 018936, Singapore
South Africa	Sage Alchemex (Pty) Ltd	23A Flanders Drive, Mount Edgecombe, Durban, 4321, South Africa
South Africa	Sage South Africa (Pty) Ltd *	Floor 6 Gateway West, 22 Magwa Crescent, Waterfall 5-1R, Midrand, Gauteng, 2066, South Africa
Spain	Sage Spain Holdco, S.L.U.	Moraleja Building One - Planta 1, Parque Empresarial de La Moraleja, Avenida de Europa no19, 28108 Alcobendas, Madrid, Spain
Spain	Sage Spain, S.L. [1]	Moraleja Building One - Planta 1, Parque Empresarial de La Moraleja, Avenida de Europa no19, 28108 Alcobendas, Madrid, Spain
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	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	GoProposal Ltd	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Interact UK Holdings Limited *	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	KCS Global Holdings Limited	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Multisoft Financial Systems Limited	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Ocrex UK Ltd	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Protx Group Limited	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Protx Limited	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage (UK) Ltd	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage CRM Solutions Limited	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Euro Hedgeco 1	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Euro Hedgeco 2	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Far East Investments Limited	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Global Services Limited	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Hibernia Investments No.1 Limited	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Hibernia Investments No.2 Limited	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom

19 Group undertakings *continued*

Country	Name	Registered address
United Kingdom	Sage Holding Company Limited *	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Holdings Limited	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Intacct UK Limited	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Irish Investments LLP	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Irish Investments One Limited *	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Irish Investments Two Limited *	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Online Holdings Limited	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Overseas Limited.	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Management Limited	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage People Limited	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	HR Bakery Ltd	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Software Ltd	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Treasury Company Limited *	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage US LLP	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage USD Hedgeco 1	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage USD Hedgeco 2	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Whitley Limited	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sagesoft	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Snowdrop Systems Limited	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	TAS Software Limited	C23 - 5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United States	Ocrex, Inc.	C/O Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle, Delaware, 19808, United States
United States	Sage Budgeta, Inc.	C/O Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle, Delaware, 19808, United States
United States	Sage Global Services US, Inc.	C/O Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle, Delaware, 19808, United States
United States	Sage Intacct, Inc.	C/O Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle, Delaware, 19808, United States
United States	Sage People, Inc.	C/O Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle, Delaware, 19808, 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.	C/O Corporation Service Company, 100 Shockoe Slip, 2nd Floor, Richmond, VA, 23219, United States
United States	Sage Software North America	C/O Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle, Delaware, 19808, United States
United States	Sage Software, Inc.	C/O Corporation Service Company, 100 Shockoe Slip, 2nd Floor, Richmond, VA, 23219, United States
United States	Sage Tempus, Inc.	C/O Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle, Delaware, 19808, United States
United States	Softline Holdings USA, Inc.	C/O Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle, Delaware, 19808, United States
United States	Softline Software USA, LLC	C/O Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle, Delaware, 19808, United States
United States	Softline Software, Inc.	C/O Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle, Delaware, 19808, 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 balance sheet

At 30 September 2021

	Note	2021 £m	2020 £m
Non-current assets: investments	2	**3,088**	3,088
Current assets			
Cash at bank and in hand	3	**2**	12
Debtors	4	**1,781**	1,196
		1,783	1,208
Creditors: amounts falling due within one year			
Trade and other payables	5	**(269)**	(156)
Net current assets		**1,514**	1,052
Total assets less current liabilities		**4,602**	4,140
Creditors: amounts falling due after one year			
Borrowings	6	**(344)**	–
Net assets		**4,258**	4,140
Capital and reserves			
Called up share capital	8.1	**12**	12
Share premium account		**548**	548
Other reserves	8.2	**(424)**	(62)
Profit and loss account		**4,122**	3,642
Total shareholders' funds		**4,258**	4,140

The Company's profit for the year was £865m (2020: £1,505m).

The financial statements on pages 242 to 248 were approved by the Board of Directors on 16 November 2021 and are signed on its behalf by:

J.A. C Howell.

Jonathan Howell
Chief Financial Officer

Company statement of changes in equity

	Called up share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total equity £m
	Attributable to owners of the parent				
At 1 October 2020	**12**	**548**	**(62)**	**3,642**	**4,140**
Profit for the year	**–**	**–**	**–**	**865**	**865**
Total comprehensive income for the year ended 30 September 2021	**–**	**–**	**–**	**865**	**865**
Transactions with owners:					
Employee share option scheme:					
• Value of employee services	**–**	**–**	**–**	**36**	**36**
Utilisation of treasury shares	**–**	**–**	**25**	**(25)**	**–**
Proceeds of issuance of treasury shares	**–**	**–**	**–**	**8**	**8**
Share buyback programme	**–**	**–**	**(387)**	**(215)**	**(602)**
Dividends paid to owners of the parent	**–**	**–**	**–**	**(189)**	**(189)**
Total transactions with owners for the year ended 30 September 2021	**–**	**–**	**(362)**	**(385)**	**(747)**
At 30 September 2021	**12**	**548**	**(424)**	**4,122**	**4,258**

	Called up share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total equity £m
	Attributable to owners of the parent				
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

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)	**2021 number**	2020 number
By segment:		
Northern Europe	**15**	25

Staff costs (including Directors on service contracts)	**2021 £m**	2020 £m
Wages and salaries	**4**	4
Social security costs	**1**	1
	5	5

Staff costs are net of recharges to other Group companies.

Auditor's remuneration

The audit fees payable in relation to the audit of the financial statements of the Company are £39,000 (2020: £39,000).

Directors' remuneration

Details of the remuneration of Executive and Non-executive Directors and their interest in shares and options of the Company are given in the audited part of the Directors' Remuneration Report on pages 120 to 157.

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.

1 Dividends

	2021 £m	2020 £m
Final dividend paid for the year ended 30 September 2020 of 11.32p per share	**124**	–
(2020: final dividend paid for the year ended 30 September 2019 of 11.12p per share)	**–**	121
Interim dividend paid for the year ended 30 September 2021 of 6.05p per share	**65**	–
(2020: interim dividend paid for the year ended 30 September 2020 of 5.93p per share)	**–**	65
	189	186

In addition, the Directors are proposing a final dividend in respect of the financial year ended 30 September 2021 of 11.63p per share which will absorb an estimated £118m of shareholders' funds. The Company's distributable reserves are sufficient to support the payment of this dividend. If approved at the AGM, it will be paid on 10 February 2022 to shareholders who are on the register of members on 14 January 2022. These financial statements do not reflect this proposed dividend payable.

2 Fixed assets: investments

Equity interests in subsidiary undertakings are as follows:

Cost	
At 30 September 2020	3,224
At 30 September 2021	**3,224**
Provision for diminution in value	
At 30 September 2020	136
At 30 September 2021	**136**
Net book value	
At 30 September 2021	**3,088**
At 30 September 2020	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 2021, are shown in note 19 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

	2021 £m	2020 £m
Cash at bank and in hand	**2**	12

4 Debtors

	2021 £m	2020 £m
Prepayments and accrued income	**1**	1
Amounts owed by Group undertakings	**1,780**	1,195
	1,781	1,196

Of amounts owed by Group undertakings £nil (2020: £nil) is due greater than one year.

5 Trade and other payables

	2021 £m	2020 £m
Amounts owed to Group undertakings	**10**	151
Other payables	**249**	–
Accruals	**10**	5
	269	156

Amounts owed to Group undertakings are unsecured and attract a rate of interest of 0.0% and LIBOR plus 1.5% (2020: 0.0% and LIBOR plus 1.5%).

Other payables includes £249m (2020: £nil) in relation to the outstanding commitment to which the Company is contractually bound for the purchase of its own shares including costs of purchase under the buyback programme announced on 3 September 2021. See note 8.2.

6 Borrowings

	2021 £m	2020 £m
Sterling denominated bond notes	**344**	–
	344	–

The bond notes were issued in February 2021 for a nominal amount of £350m and expire in February 2031. Net cash proceeds from the issuance were £344m.

7 Obligations under operating leases

	2021	2020
Total future minimum lease payments under non-cancellable operating leases falling due for payment as follows:	**Property, vehicles, plant and equipment £m**	Property, vehicles, plant and equipment £m
Within one year	**3**	3
Later than one year and less than five years	**13**	13
After five years	**17**	18
	33	34

The Company leases various offices under non-cancellable operating lease agreements. These leases have various terms, escalation clauses and renewal rights.

8 Equity

8.1 Called up share capital

Issued and fully paid ordinary share of 1 4/77 pence each	2021 shares	2021 £m	2020 shares	2020 £m
At 1 October and 30 September	**1,120,789,295**	**12**	1,120,789,295	12

8.2 Other reserves

	Treasury shares £m	Merger reserve £m	Capital redemption reserve £m	Total other reserves £m
At 1 October 2020	**(125)**	**61**	**2**	**(62)**
Utilisation of treasury shares	**25**	**–**	**–**	**25**
Share Buyback Programme	**(387)**	**–**	**–**	**(387)**
At 30 September 2021	**(487)**	**61**	**2**	**(424)**

	Treasury shares £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

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. On 4 March 2021, the Group entered into a non-discretionary share buyback programme under which 45,418,600 of shares were bought back for a total consideration of £302m, inclusive of stamp duty and related fees. This programme was completed during the year. On 6 September 2021, the Group entered into a non-discretionary share buyback programme ending no later than 24 January 2022, to purchase £300m of its own shares (2020: 1,101,918 shares as part of the share buyback programme announced on 11 March 2020 and suspended on 18 March 2020). The total consideration for all shares purchased in the year under share buyback programmes amounts to £387m (57,286,992 shares), of which £353m had been paid as at 30 September 2021 (2020: £7m, of which £7m had been paid).

During the year the Group agreed to satisfy the vesting of certain share awards, utilising a total of 5,544,880 (2020: 4,956,977) treasury shares. The Group gifted nil shares (2020: 250,000) to the Employee Share Trust.

At 30 September 2021 the Group held 79,586,223 (2020: 27,844,111) 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 (2020: 190,962) at a cost of £1m (2020: £1m) and a nominal value of £nil (2020: £nil).

During the year, the Trust did not utilise any shares held in the Trust to satisfy the vesting of certain share awards (2020: 94,830 shares). The Trust did not receive additional funds for future purchase of shares in the market (2020: £nil).

The costs of funding and administering the scheme are charged to the profit and loss account of the Company in the period to which they relate. The market value of the shares at 30 September 2021 was £1m (2020: £1m).

Alternative Performance Measures

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

Measure	Description	Rationale
Underlying (revenue and profit) measures	Underlying measures are adjusted to exclude items which would distort the understanding of the performance for the year or comparability between periods: • Recurring items include purchase price adjustments including amortisation of acquired intangible assets and adjustments made to reduce deferred income arising on acquisitions, acquisition-related items, unhedged FX on intercompany balances and fair value adjustments; and • Non-recurring items that management judge to be one-off or non-operational such as gains and losses on the disposal of assets, impairment charges and reversals, and restructuring related costs. 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.

Measure	Description	Rationale
Annualised recurring revenue	Annualised recurring revenue ("ARR") is the normalised organic recurring revenue in the last month of the reporting period, adjusted consistently period to period, multiplied by twelve. Adjustments to normalise reported recurring revenue include those components that management has assessed should be excluded in order to ensure the measure reflects that part of the contracted revenue base which (subject to ongoing use and renewal) can reasonably be expected to repeat in future periods (such as non-refundable contract sign-up fees).	ARR represents the annualised value of the recurring revenue base that is expected to be carried into future periods, and its growth is a forward-looking indicator of reporting recurring revenue growth.
Renewal Rate by Value	The ARR from renewals, migrations, upsell and cross-sell of active customers at the start of the year, divided by the opening ARR for the year.	As an indicator of our ability to retain and generate additional revenue from our existing customer base through up and cross sell.
Free Cash Flow	Free Cash Flow is Underlying Cash Flow from Operations minus net interest paid and income tax paid and adjusted for non-recurring cash items (which excludes net proceeds on disposals of subsidiaries) and profit and loss foreign exchange movements.	To measure the cash generated by the operating activities during the period that is available to repay debt, undertake acquisitions or distribute to shareholders.
% Subscription Penetration	Organic software subscription revenue as a percentage of organic total revenue.	To measure the progress of migrating our customer base from licence and maintenance to a subscription relationship.
% Sage Business Cloud Penetration	Organic recurring revenue from the Sage Business Cloud (native and connected cloud) as a percentage of the organic recurring revenue of the Future Sage Business Cloud Opportunity.	To measure the progress in the migration of our revenue base to the Sage Business Cloud by connecting our solutions to the cloud and/or migrating our customers to cloud connected and cloud native solutions.
Return on Capital Employed (ROCE)	ROCE is calculated as: • Underlying Operating Profit; minus • Amortisation of acquired intangibles; the result being divided by • The average (of the opening and closing balance for the period) total net assets excluding net debt, provisions for non-recurring costs, financial liability for purchase of own shares and tax assets or liabilities (i.e. capital employed).	As an indicator of the current period financial return on the capital invested in the company. ROCE is used as an underpin in the FY19 , FY20 and FY21 PSP awards.

AGM
Annual General Meeting

AI
Artificial Intelligence

API
Application Program Interface

CAGR
Compound Annual Growth Rate

CDP
Carbon Disclosure Project

CFO
Chief Financial Officer

CGU
Cash Generating Unit

CRM
Customer Relationship Management

DTR
Disclosure Guidance and Transparency Rules

EBITDA
Earnings Before Interest Taxes Depreciation and Amortisation

ED
Executive Director

EPS
Earnings Per Share

ERP
Enterprise Resource Planning

EU
European Union

FCF
Free Cash Flow

FY18
Financial year ending 30 September 2018

FY19
Financial year ending 30 September 2019

FY20
Financial year ending 30 September 2020

FY21
Financial year ending 30 September 2021

GHG
Greenhouse 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

ML
Machine Learning

NED
Non-Executive Director

NPS
Net Promoter Score

PBT
Profit Before Tax

PSP
Performance Share Plan

R&D
Research and Development

SBC
Sage Business Cloud

SaaS
Software as a Service

SSRS
Software & Software Related Services

TSR
Total Shareholder Return

Shareholder information

Financial calendar[1]

Annual General Meeting	3 February 2022
Dividend payments[2]	
FY21 Final payable	10 February 2022
H1 FY22 Interim payable	17 June 2022
Results announcements	
Q1 FY22 Trading update	26 January 2022
H1 FY22 Interim results	13 May 2022
Q3 FY22 Trading update	28 July 2022
FY22 Full-Year results	16 November 2022

Note:

1. Please note that these dates are provisional and subject to change. Please access our financial calendar on sage.com, which is updated regularly.
2. All dividend payments are subject to Board and, in the case of the final dividend, shareholders' approval.

Shareholder information online

Equiniti, the registrar of The Sage Group plc., is able to notify shareholders by email of the availability of an electronic version of shareholder information. Whenever new shareholder information becomes available, such as Sage's full-year results, Equiniti can notify you by email and you will be able to access, read and print documents at your convenience.

To take advantage of this service, please go to www.shareview.co.uk, where full details of the shareholder portfolio services are provided. When registering for this service, you will need to have your 11-character shareholder reference number to hand, which is shown on your dividend tax voucher, share certificate or Form of Proxy.

Should you decide at a later date that you do not want to receive these emails, you may amend your request by accessing your Shareview Portfolio online and amending your preferred method of communication from "email" to "post". 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 2022 AGM will be held on 3 February 2022. Further details will be set out in the Notice of AGM and on our website at sage.com.

Advisors

Corporate brokers and financial advisors

J.P. Morgan Cazenove
25 Bank Street,
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Morgan Stanley & Co.
International plc
25 Cabot Square,
Canary Wharf,
London, E14 4QA

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Spitalfields,
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Independent auditors

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London, SE1 2AF

Registrars

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Tel: 0371 384 2859
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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 to our Investor Relations department via our website.

The Sage Group plc.

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Registered in England
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By digitising business processes and relationships with customers, suppliers, employees, banks and governments, our digital network connects SMBs, removing friction and delivering insights. Knocking down barriers also means we use our time, technology and experience to tackle digital inequality, economic inequality and the climate crisis.

www.sage.com

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