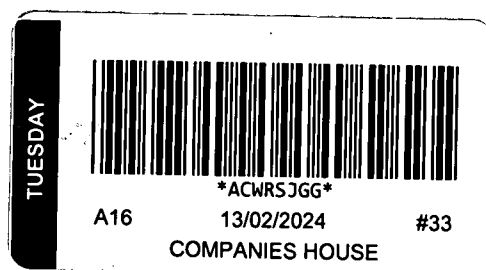


Building sustainable growth

Sage



Building sustainable growth

Sage is a leader in accounting, financial, HR and payroll technology for small and mid-sized businesses (SMBs), enabling them to streamline operations, make more informed decisions, and be more productive.

By contributing to the success of SMBs and the people who drive them, Sage is delivering benefits to all of our stakeholders including customers, colleagues, society and shareholders, helping to build sustainable growth.

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Supplementary reporting

Sustainability and Society Report

Read about how we approach the most material sustainability issues faced by Sage.

Climate Report

Read about the actions we are taking to tackle climate change.

Sage Sustainability Hub

Our year in numbers

Underlying total revenue

Underlying total revenue of £2,184m increased by 10%, driven by broad-based growth in cloud solutions across the Group.

Statutory revenue

Statutory revenue of £2,184m grew by 12%, reflecting good levels of underlying growth in all regions together with a small foreign exchange tailwind.

Underlying operating profit

Underlying operating profit grew by 18% to £456m, driven by sales growth and a higher underlying operating profit margin.

Statutory operating profit

Statutory operating profit decreased by 14% to £315m including one-off gains on business disposals in FY22, together with property restructuring and M&A-related charges in FY23.

Underlying operating profit margin

Underlying operating profit margin increased to 20.9% from 19.5%, driven by operating efficiencies as we scale the Group.

Net cash generated from operating activities

Net cash generated from operating activities of £387m increased by 36%, reflecting strong underlying cash conversion.

Underlying basic earnings per share (EPS)

Underlying basic EPS increased by 22% to 32.3p.

Dividend

Total dividend for the year increased by 5% to 19.3p.

About our non-GAAP measures and why we use them

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

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

Full definitions of underlying and organic can be found within note 2 of the financial statements. Reconciliations of statutory revenue, operating profit and basic EPS to their underlying and organic equivalents are in the Financial review starting on page 60.

Sage at a glance

Helping business flow

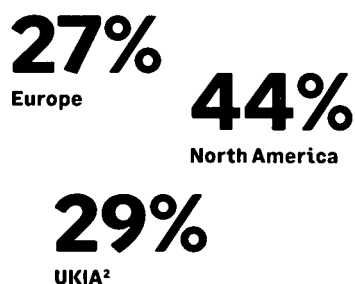
What we do

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.

How we do it

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.

Our global reach¹



1. Split of total underlying revenue of £2,184m.

2. United Kingdom, Ireland, Africa and APAC.

Our strategic framework for growth

Our purpose

is to knock down barriers so everyone can thrive.

Our ambition

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

Our strategic priorities

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

See pages 18 and 19

Our stakeholders

Colleagues

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

See pages 48 and 49

Customers

We build every experience with human insight and ingenuity.

See pages 50 and 51

Society

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

See pages 52 and 53

Shareholders

We target sustainable growth in shareholder value.

See pages 54 and 55

Our values

We do the right thing

Human

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

Bold

We are curious, courageous, ambitious and creative.

Simplify

We strip away complexity.

Trust

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

Business highlights**19**

countries in which we operate

96%¹

recurring revenue

11,326

colleagues globally

4.1

Glassdoor score

Non-financial highlights**AAA**

MSCI ESG rating

34%leadership teams meeting our FY26 gender diversity target²**154,620**

Sage Foundation volunteering hours

Net Zerotargeted by 2040 across Scopes 1, 2 and 3, with a mid-term goal to halve our emissions by 2030³**Our approach to sustainability**

Sage has an important role in creating value for all our stakeholders including colleagues, customers, society and shareholders. Our Sustainability and Society strategy is pivotal to how we deliver on Sage's purpose of knocking down barriers so everyone can thrive. Through our strategy, we aim to turn barriers into opportunities, creating positive impact far beyond Sage.

Sage Foundation

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

Find out more about our approach to sustainability: see pages 30 to 37

1. As a percentage of total underlying revenue.

2. Global gender diversity target of no more than 60% of any one gender, in any leadership team, anywhere in Sage, by FY26.

3. Against a 2019 baseline.

Our solutions

Focused on customer needs

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

Our solutions are focused on the needs of customers, delivering innovative services that automate accounting workflows. We are continuously enriching these solutions, not just adding better features but providing a network of applications and services that make it easier for customers to connect, collaborate and do business.

Sage Business Cloud

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

Continued investment to enhance our product offering enables us to grow Sage Business Cloud. During FY23, we launched new cloud solutions across our markets, including Sage Active, a multi-legislation business management solution now available in France, Spain and Germany.

Small businesses

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

Mid-sized businesses

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

Cloud connected solutions

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

Small businesses

Sage 50

Mid-sized businesses

Sage X3

Sage 200

Sage X3

Sage X3 provides fast, intuitive and tailored business management solutions for product-centric organisations. It transforms how organisations manage people, processes and operations. With multi-language, multi-legislation and multi-currency capabilities, Sage X3 delivers comprehensive business management capabilities.

Sage 50 and Sage 200

The Sage 50 cloud and Sage 200 cloud franchises enable customers to control their business and gain complete visibility over their finances and operations. Sage 50 is designed for small businesses, while Sage 200 offers customisable solutions to meet the needs of mid-sized businesses.

Cloud native solutions

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

Small businesses

Sage Accounting

Sage Payroll

Sage HR

Mid-sized businesses

Sage Intacct

Sage People

Sage Intacct

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

Sage Accounting

Sage Accounting is designed to enable small businesses operating in any industry, as well as accountants and bookkeepers, to manage their customer data, accounts and people all in one cloud native solution.

Sage People

Sage People is our cloud HR and people management solution designed for mid-sized customers. It uses powerful automation, comprehensive analytics and flexible workflows to ensure global workforces can adapt and thrive.

Sage HR

Sage HR is designed to make people management easier and helps teams perform at their best. Sage HR is best suited to SMBs for work on site or on-the-go. Targeting those that require a turnkey, modular, low-cost and easy-to-install solution, Sage HR offers core record management, leave management, staff scheduling and expenses services.

Sage Payroll

Sage Payroll, the UK's number one payroll provider by market value, is an intuitive, cloud-based solution that helps small businesses to run their payroll reliably and flexibly, including capabilities such as pensions filing, HMRC submissions and compliance.

A platform for sustainable growth

“Sage continued to perform well in FY23, maintaining good momentum across the business. A clear focus on growth, innovation and operational efficiency has resulted in significant revenue and earnings expansion.”

Andy Duff
Chair

Introduction

Sage continued to perform well in FY23, maintaining good momentum across the business. A clear focus on growth, innovation and operational efficiency has resulted in significant revenue and earnings expansion. We have made substantial progress towards our ambition to be the trusted network for SMBs, leveraging our scale and expertise to provide more value to customers through new and existing cloud solutions and services.

This progress has only been possible because of the passion and commitment that is evident from Sage colleagues every day. On behalf of the Board, I would like to extend my gratitude to all our people for their dedicated and enthusiastic approach to serving SMBs, accountants and partners alike.

Purpose and strategy

Central to the Group's strategy is our purpose—to knock down barriers so everyone can thrive. Sage's solutions, backed by human expertise, enable SMBs to automate accounting and HR workflows, streamline operations and make more informed business decisions. By contributing to the success of SMBs, Sage is also helping to power the global economy, providing benefits to all our stakeholders including customers, colleagues, society and shareholders, and supporting the long-term sustainability of the Group.

Sage's progress is underpinned by innovation. We have established the Sage Network to connect SMBs to their customers, suppliers, banks and other partners, enabling us to develop and deploy new solutions faster and more efficiently than before. It provides the data flows to enable powerful AI-based services that transform the customer experience. Through innovation, together with the focused execution of our five strategic priorities, we are building a platform for sustainable growth. You can read more about our progress on pages 18 and 19.

Financial performance

Underlying total revenue increased by 10% in FY23, up from 4% in the previous year. Underlying recurring revenue, which now represents 96% of total, increased by 12%, driven by broad-based growth in cloud solutions throughout the Group. The quality of the Group's revenue continues to improve, with subscription penetration now at 79%. Underlying operating margin increased from 19.5% to 20.9%, and underlying basic earnings per share increased by 22% to 32.3p, as we efficiently scale the Group.

Cash generation is a core strength of Sage, with underlying cash conversion of 116%. During the year, Sage acquired Spherics, an innovative carbon accounting solution, and Corecon, a construction project management solution.

In line with our progressive dividend policy, the Group is proposing to increase the total dividend for the year by 5% to 19.3p. In addition, alongside our FY23 results we announced a share buyback programme of up to £350m, reflecting the Board's confidence in the future prospects of the Group, together with Sage's strong cash generation and robust financial position.

Governance and the Board

Good corporate governance is key to long-term, sustainable success, and we hold ourselves to the highest governance and ethical standards. Board diversity remains a key priority at Sage, with a variety of viewpoints contributing to robust discussions and decision making.

We were delighted to welcome Maggie Chan Jones and Roisin Donnelly to the Board, with effect from December 2022 and February 2023, respectively. They bring broad and rich experience, and the Board is already benefitting from their contributions. We are also pleased that, as recently announced, Annette Court has agreed to succeed Drummond Hall as Senior Independent Director when he retires from the Board at the end of December 2023. I would like to thank Drummond for his considerable contribution to Sage over the last decade and wish him every success for the future.

To engage with and support colleagues, and to better understand local issues, I have spent considerable time with our people in locations throughout the Group, including the UK, North America and Europe. The Board has also travelled to engage in person with local teams, gain insight into our operations and monitor culture. Our Board Associate, Derek Taylor, who has been instrumental in bringing the voice of colleagues into the Boardroom, is coming to the end of his 18-month term in the role. With support from senior management, we are in the process of appointing our next Board Associate and I look forward to sharing details next year.

Following the conclusion of a formal tender process, Sage announced in September that, subject to shareholder approval, KPMG will be appointed to act as the Group's new external auditor for the financial year ending 30 September 2025, replacing the current external auditor, EY.

Our people and values

Also key to our long-term success is our cultural agenda. Achieving sustainable growth relies on fostering a high-performance culture that enables everyone to perform at their best. Our values underpin our culture, and our focus on doing the right thing helps ensure that our actions align with the trust placed in us by our customers, partners and communities. Sage is committed to building a diverse and inclusive workforce and in 2023 was listed among The Times Top 50 Employers for Gender Equality.

Sustainability and society

Our Sustainability and Society strategy is pivotal to how we deliver on Sage's purpose, supporting sustainable and inclusive economic growth so everyone can thrive. This year, we have evolved the strategy to better reflect our role in society, with a strong emphasis on our environmental, social and governance (ESG) responsibilities. Further information on the evolved strategy can be found on pages 30 to 37.

Sage is committed to tackling the climate crisis, including achieving net zero carbon emissions by 2040, with a science-based target to halve emissions by 2030 against a 2019 baseline. The Sage Foundation continues to play an important role in mobilising Sage colleagues, their families and our partners, to support social and environmental causes through volunteering and fundraising.

We are pleased to continue to receive positive external recognition for our ESG performance during the year, with an "AAA" ESG rating from MSCI, inclusion in the FT's Europe's Climate Leaders list, and a top five ranking in IDC's European Sustainable Strategies and Technologies index.

Looking forward to FY24 and beyond

This has been a year of continued momentum. Despite the uncertain economic and geopolitical environment, Sage remains resilient, with ambitious plans for expansion. As we look to the year ahead, I am confident that the strength of our global business, combined with our focus on innovating to meet customer needs, will enable further sustainable growth for the benefit of 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 56.

Further insight into the activities of the Board for FY23 can be found on pages 100 to 103.

Andy Duff

Chair

21 November 2023

Innovating for our customers

“We continue to knock down barriers for millions of SMBs by providing innovative solutions that simplify their processes, streamline their operations and make them more resilient and productive.”

Steve Hare

Chief Executive Officer

Introduction

Sage delivered a strong performance in FY23, driven by broad-based growth across all of our regions. We continue to knock down barriers for millions of SMBs throughout our markets by providing innovative solutions that simplify their accounting, payroll and HR processes, streamline their operations, and make them more resilient and productive.

As a result, despite the ongoing macroeconomic challenges, we achieved double-digit revenue growth, adding almost £225m of annualised recurring revenue (ARR) and growing Group revenue to well over £2bn. We also expanded our underlying operating margin and delivered strong cash flow. This was underpinned by further, consistent strategic progress, as we continue to innovate and drive more value for our customers.

During the year we rolled out cloud solutions such as Sage Intacct and Sage Active across more of our markets, particularly in Europe. We also launched and extended the availability of cloud services such as accounts payable automation, leveraging the scale and breadth of the Sage Network to develop and integrate AI-powered features into our solutions.

In addition, we stepped up our service of SMBs in broader ways, including by championing their interests with policy makers, for example at forums such as the UK Prime Minister's Business Council and COP 27, and by providing expertise and resources to help thousands of entrepreneurs from underrepresented communities grow their businesses.

None of this would have been possible without the hard work and dedication of our people, and I would like to thank everyone at Sage, together with the partners and accountants with whom we work, for their contributions to Sage's ongoing success and their commitment to our purpose.

Financial performance

Sage achieved underlying recurring revenue growth of 12% to £2,096m. On a regional basis, North America increased recurring revenue by 16% to £944m, with a strong performance from Sage Intacct and cloud connected solutions. The UK/IA region grew recurring revenue by 10% to £611m, driven by further demand for cloud solutions from both new and existing customers. In Europe, recurring revenue increased by 7% to £541m, reflecting growth across Sage Business Cloud.

Underlying total revenue increased by 10% to £2,184m. Importantly, recurring revenue now represents 96% of total, demonstrating the high quality and resilient nature of our business.

Underlying operating profit increased by 18% to £456m, while underlying operating margin was 21%, trending upwards on the prior year driven by revenue growth and operating efficiencies. Reflecting this strong progress, underlying basic EPS increased by 22% to 32.3p.

Growth was driven by continued success across Sage Business Cloud, in accounting, payroll and HR. Sage Intacct again performed strongly, adding around £100m of ARR during the year, while other cloud native solutions such as Sage Accounting, Sage Payroll and Sage HR also performed strongly. In addition, our cloud connected solutions Sage 200 and Sage 50 were significant contributors to growth.

As a result, Sage's ARR increased by 11% to £2,188m, with growth balanced between new and existing customers. This was underpinned by cloud native ARR growth of 28% to £684m. In total, Sage has added £190m of ARR through new customer acquisition in FY23, up from £180m in the prior year.

Across the Group, customer renewal rates have been strong. Our renewal rate by value of 102% is ahead of last year, reflecting a strong performance in customer add-ons and targeted price rises, together with a continued focus on customer retention.

Sage Network is our platform

Our performance is driven by our consistent focus on the needs of SMBs, and at the heart of this is the Sage Network. Established as a single platform to bring businesses together through connected accounting, the Sage Network is a set of integrated products and services that enable organisations to transform their accounting, finance, payroll and HR workflows. The platform connects SMBs with key stakeholders and counterparties—for example customers, suppliers, employees, banks and governments—digitising business relationships and removing friction from their processes.

The network serves as a powerful platform for innovation at Sage. Through the network, we are able to build services once, and deploy them to customers of multiple solutions across Sage Business Cloud, accelerating our development cycle. And by harnessing the data flows across the network, we're able to create sophisticated AI-based services that learn from the collective activity and data flows of potentially millions of SMBs globally.

Furthermore, we've designed the network based on an open architecture incorporating standard APIs, enabling our extensive partner and ISV ecosystem to join the network, extend the customer proposition and drive further scale by offering more cloud-based services to SMBs.

We're very excited about the potential of the Sage Network to offer AI-powered solutions to SMBs that are truly

transformative, automating workflows both within and between businesses, and forming a strong foundation for the continued growth of Sage over the longer term.

Progress towards our strategic priorities

We focus our activities through five strategic priorities that have the greatest impact on our growth, and we are making strong progress towards all of them:

- We are scaling Sage Intacct, including by launching the solution throughout our geographic markets, and by expanding its vertical-specific capabilities. During the year we launched Sage Intacct in continental Europe starting with France, and with Germany to follow.
- Beyond core financials, we are delivering benefits to mid-sized businesses including payroll, planning, analytics and workflow automation. Providing integrations between key products such as Sage Intacct, Sage Payroll and Sage HR is helping to drive growth.
- Continued progress in developing our small business solutions, including Sage Accounting and Sage Active, is enabling us to build our small business engine. Sage for Accountants has now been adopted by 8,000 accountants in the UK, up from around 2,000 a year ago, as we help them digitalise their practices. Sage Active is now available in France, Spain and Germany.
- We are scaling the network by increasing Sage Business Cloud penetration, enabling more customers to connect to the Sage Network, and by introducing new cloud services. We have also enabled greater network usage by third-party software providers, generating consumption-based revenue for Sage while expanding and enriching the customer experience.
- Investing in disruptive new technologies remains a focus, as we leverage the Sage Network to embed AI-powered features across Sage Business Cloud. New and upcoming solutions include Sage Network Inbox, a connected accounting workflow management tool, and Sage Copilot, our digital assistant, both powered by generative AI technology to enable natural language interaction.

You can read more about our progress towards each of these strategic priorities on pages 18 and 19.

Sharpening our customer focus

Maintaining strong, enduring customer relationships is key to our growth. While we continue to receive recognition—for example, Sage Intacct was rated number one in customer satisfaction across 19 different categories in the G2 Fall 2023 Reports—we are focused on ensuring this strength is deeply embedded throughout the organisation.

CEO's review continued

During the year we revamped our customer experience strategy, launching a multi-year programme that significantly broadens our measurement of customer satisfaction across various solutions and services. The results are providing valuable insights enabling us to address and rectify distinct customer challenges.

We're also driving customer perception and brand awareness in our markets with distinctive global marketing and major sports partnerships including Major League Baseball, The Hundred cricket, Six Nations Rugby and the Rugby World Cup.

Investing in our talent and culture

Our colleagues are at the heart of our growth strategy. We are committed to supporting their development and to fostering a high-performance, inclusive culture that enables them to thrive. In this way we can recruit, develop and retain the very best talent, and benefit from a wide diversity of voices and experiences throughout the organisation.

During the year we invested significantly in the development of leaders and colleagues. We launched our new Leadership Academy, with over 350 leaders and aspiring leaders taking part in various programmes which aim to drive better recognition, empowerment and engagement. We also introduced other initiatives for colleagues to gain new skills, for example through undertaking projects outside their own business area, while also enhancing talent mobility and agility.

Recognising that the current environment presents challenges, we continue to invest in wellbeing, including through our Employee Assistance Programme and through flexible working practices and enhanced benefits. Our wellbeing approach is focused across four key pillars—healthy mind, healthy body, healthy finances and healthy communities—enabling us to extend holistic wellbeing support across the workforce.

We aim to build an inclusive workforce that fully represents the world around us, including a recruitment strategy that targets candidates from a broad set of backgrounds with multiple entry points into Sage. Currently 34% of leadership teams meet our FY26 gender diversity target¹, up from 33% last year and 19% at the beginning of FY22. In October 2023, Sage was recognised by Forbes as being among the World's Top Companies for Women.

Our employee satisfaction score remains high, in the upper quartile of the global benchmark. Sage has a strong global Glassdoor score of 4.1, broadly in line with last year.

Sustainability

We take pride in making a positive impact on society, through our support for customers, colleagues and communities across our markets. We believe this approach is instrumental to our long-term success, and we are strongly committed to delivering the objectives of our Sustainability and Society strategy.

Investment case

Building shareholder value

Diversified and differentiated

- Serving a wide range of SMBs across diverse geographies, with deep expertise across financials, payroll and HR.
- Broad ecosystem of partners, accountants, resellers and ISVs who enrich and expand the reach of our offering.
- Solutions backed by business advice and human customer support.

Focused on innovation

- Rolling out global cloud solutions across our markets, led by Sage Intacct.
- Adding value to existing and new customers by delivering new cloud services.
- Scaling and leveraging the Sage Network to deliver innovative AI-powered solutions, transforming the workflows of SMBs.

19 countries

£342m R&D spend

in FY23

In FY23, we evolved this strategy to integrate sustainability into everything we do, including our ways of working, the solutions we build and our culture. We are focused not only on the benefits of sustainability at Sage, but also on multiplying those benefits by helping SMBs globally to embrace a more sustainable future.

Our progress includes launching a roadmap to drive net zero carbon emissions by 2040, while our target of halving Scope 1, 2 and 3 emissions by 2030 against a 2019 baseline was validated by the SBTi. To support SMBs on their own journey to net zero, we joined forces with NatWest to deliver the NatWest Carbon Planner, powered by Sage Earth, which is available to help all UK businesses reduce their carbon footprints.

We also aim to use our technology for good, providing insights that help governments and regulators make better policy decisions for SMBs, and building digital trust in areas such as cyber security and data privacy. Through Sage Foundation, colleagues, their families and our partners dedicated more than 150,000 volunteering hours in FY23 to their communities, and in conjunction with our charity partners we helped more than 10,500 underserved entrepreneurs to grow their businesses.

Summary and outlook

Sage had a strong year in FY23, and we enter FY24 with good momentum. Despite the current macroeconomic and geopolitical challenges, SMBs continue to digitalise in order to automate processes and raise productivity. We are building a resilient platform to deliver sustained, efficient growth, and I am confident that Sage is well positioned to take advantage of the market opportunity, this year and in the longer term.

For FY24, we expect organic total revenue growth in FY24 to be broadly in line with FY23. Operating margins are expected to trend upwards in FY24 and beyond, as we focus on efficiently scaling the Group.

Strategic Report

Our Strategic Report on pages 1 to 83 has been reviewed and approved by the Board.

Steve Hare

Chief Executive Officer
21 November 2023

1. Global diversity target of no more than 60% of any one gender, in any leadership team, anywhere in Sage, by FY26.

Delivering efficient, sustainable growth

- Focused on scaling the business, with growth creating headroom to increase investment and expand margins.
- Growth supported by favourable SMB drivers including the need to raise productivity through digitalisation and compliance.
- Strong commitment to ESG supporting the long-term sustainability of Sage.

ARR growth 11%

in FY23

Robust financial model

- High-quality revenue base which is over 96% recurring, with 79% from software subscription.
- Highly cash generative, low capital intensity business, with underlying cash conversion over 100% for each of the last five years.
- Organic and inorganic investment balanced with dividends and additional capital returns to shareholders where appropriate.

Cash conversion 116%

in FY23

Our market opportunity

Sage's market position

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

Global SMB trends

SMBs play a significant role in the global economy, representing an estimated 98% of firms in our key markets and accounting for two thirds of private sector jobs. While the current global macroeconomic and geopolitical environment presents challenges for all businesses, SMBs are typically agile in their response and continue to invest in new technology to help them cope with these challenges. This investment delivers efficiency and productivity gains that help SMBs to navigate through broader economic turbulence and better plan for their future.

Our addressable market

Accounting and finance functions continue to evolve at pace, adding greater value through data-driven decision making and increasing connectivity between organisations. The addressable market for Sage, including all countries in which we sell our solutions

to organisations with up to 2,000 employees, is forecast to be £35bn in 2024. Included within this is Accounting & Financial Management, Human Capital Management, Enterprise Resource Planning, Payroll, Accountant Taxation & Compliance, and Accounting Practice Management across both cloud and on-premise deployments.

2023:
£31bn

2024:
£35bn

2025:
£39bn

Source: Company estimate based on external sources

Addressing the market opportunity through our technology

Powering digital transformation

SMBs continue to invest in software that drives operational efficiency through the automation of workflows, provision of better business insights, and improved accuracy and oversight. Beyond enhancing SMB competitiveness and efficiency, this technology breaks down boundaries between sectors and enables new forms of disruption and new types of businesses.

The role we play

We empower SMBs with our solutions, while providing advice and human support when customers need it. The foundation of our proposition is the Sage Network, a set of connected products and services where data and technology integrate seamlessly, and which enable our customers to transform their accounting, HR and payroll workflows.

Elevating human work

Digital transformation in the accounting industry is enabling humans to reduce the time they spend on low-value repetitive tasks. Using real-time trusted data, digital technology helps people to focus on analysis, collaboration and decision making, while enabling them to take a more strategic approach in their roles.

The role we play

The trusted products and services available across the Sage Network, are designed to support our customers by replacing lengthy, costly and error-prone processes, so they can focus on higher value work. As we scale the Sage Network, the growth in connections between business ecosystems generates more data, which we can use to develop new AI capabilities for customers.

Enabling responsible growth

Technology can play a critical role in creating a more sustainable future. As technology develops and its range of applications widens, there is a responsibility incumbent upon technology providers to conduct their business in an environmentally and a socially responsible way.

The role we play

We understand the importance of addressing digital inequality and tackling environmental responsibility. We elevate diverse talent, promote inclusive digital networks and provide the technology solutions that SMBs need to understand and manage their carbon emissions. Sage's success depends on our ability to engage effectively and work constructively with all of our stakeholders.

Creating trusted technology

In an era of widespread technological innovation and rapid advances in AI, SMBs are increasingly aware of the value of the data they own and expect the highest standards of data ethics to be upheld.

The role we play

Sage has a proven track record and is a trusted partner to SMBs and accountants around the world. We consistently embrace new technology to enhance our business solutions, and we do this in a secure and ethical manner that puts customers in control. We aim to use AI in a way that promotes customer trust in Sage and our products. Our commitment to upholding the highest standards is outlined in our Data and AI Ethics Principles.



Nextmune

Nextmune is a science-driven, global specialty pharmaceutical company dedicated to improving the health of animals.

“We ultimately want to move all our entities onto a single platform ... Sage Intacct Payroll fills that ideal sweet spot.”

Angela Biermann
Director of Finance and HR

Creating value for our stakeholders

Inputs

Customer base

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

Trusted advisor

Sage is a trusted brand providing award-winning customer service, which in turn generates loyalty and advocacy among customers.

People

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

Ecosystem

Sage's scale and reach is expanded through our ecosystem of accountants, resellers and technology partners.

Innovation

We are investing to ensure our products are differentiated in a changing technology landscape.

How we attract and retain customers

1 Awareness and land

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

2 Adopt

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

3 Service

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

4 Expand

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

5 Renew

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

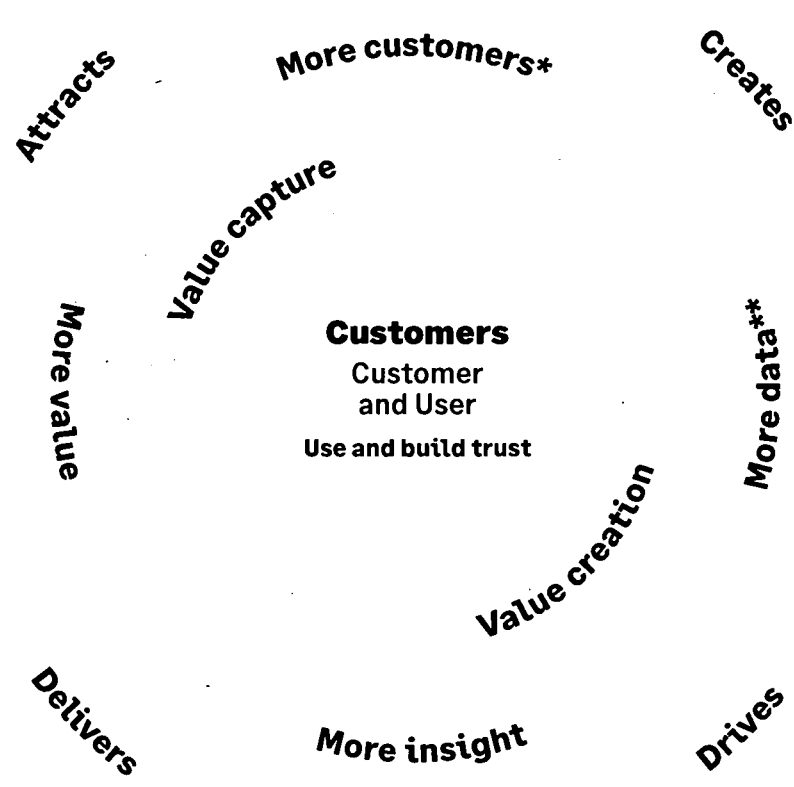
Underpinned by the Sage Network

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

Customers
102%
renewal by value

Colleagues
76
employee satisfaction (eSat)

Community
154,620
Sage Foundation volunteer hours spent helping our communities

Shareholders
19.3p
total dividend for the year

£350m
share buyback announced

More insight

Data drives the development of AI-powered 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.

Accelerating the pace of innovation

“We’re proud to offer a digital first, networked approach to accounting that’s truly scalable. The platform has an open architecture to make development efficient for Sage, while also enabling a thriving marketplace of third-party solutions.”

Aaron Harris
Chief Technology Officer

Q&A with Aaron Harris

Our Chief Technology Officer discusses how faster innovation at Sage is helping customers and powering growth.

Q What’s driving the pace of innovation at Sage?

The pace of innovation at Sage is driven by a collective, relentless ambition to transform the accounting industry. CFOs, finance leaders and their teams commonly find themselves immersed in cycles like the monthly close, quarterly financial reporting, and annual audits. The problem with these cycles is they only provide point in time, after the fact visibility and assurance, limiting SMBs from making confident, real-time decisions.

Imagine a world where business leaders have real-time, trusted information about their organisation’s financial performance. Achieving a state of continuous accounting will enable individuals to truly see what’s going on in their business, make quicker decisions, and better respond to market conditions. At Sage, our vision is straightforward. We want to propel the industry forward into one that provides AI-enabled, real-time strategic value to businesses.

Q What is the Sage Network?

We set up the Sage Network as a single platform to bring businesses together through connected accounting. At its core, the Sage Network is a set of integrated products and services enabling our customers to digitally transform their accounting and finance workflows.

The platform connects SMBs to their customers, vendors, banks, and other partners in the business ecosystem, automating workflows between businesses (even if they don’t use Sage accounting software), and helping them to run smoothly and efficiently.

Q What are the benefits it offers, both to customers and to Sage?

Customers benefit from digitised and automated workflows both within and between businesses, minimising the need for manual data processing. Take accounts payable (AP), for example, something every business in the world can relate to. Our customer research tells us SMBs consider it the number one area where automation is required to gain efficiency within the accounting team.

We've built a collection of services across the Sage Network to enable that automation, where AI is in place to read data from invoices, categorise the expenses, match the invoice to purchase orders and identify potential problems. Our customers using the platform's solutions like AP Automation report a significant improvement in productivity, creating capacity within their accounting teams to work on more strategic activities.

We're proud to offer a digital first, networked approach to accounting that's truly scalable. The platform has an open architecture to make development efficient for Sage, while also enabling a thriving marketplace of third-party solutions. Our core AI team builds services within the context of the Sage Network to meet customer needs like automating data entry. Our product teams then take those services and design a product experience that's appropriate for their market and their customers, including the best approach for pricing and packaging.

Q How does the Sage Network enable Artificial Intelligence?

By connecting Sage customers and products to a common network of services, we have the potential to harness the collective activity of millions of SMBs globally. These network services act as data pipelines for training our machine learning models.

More customer interaction drives continuous improvements to AI accuracy and efficiency. For example, when many customers interact with a common vendor, we're able to fine-tune our models to achieve a far greater level of accuracy in reading invoices than is possible using generic models. The network's global reach, span of use by SMBs, and access to general ledger data enable us to build a broad set of AI capabilities that benefit every SMB connected to the network.

Q How are you incorporating AI into your solutions?

We embed AI into our products in a number of different ways to bring productivity benefits to our customers, accountants and colleagues. This includes the use of AI to automate manual processes such as invoice processing.

For example, one of the investments we made early on is our Outlier Detection solution—the first real-time AI-driven tool for general ledger error detection. The solution learns the typical patterns of business within individual organisations and, as a result, can identify when

a transaction is anomalous. In this instance, our AI flags to a human that a transaction may need additional review. Then, if a change is applied, that change gets fed back into the machine learning models, increasing accuracy and evolving with business changes.

This solution is reviewing more than 15 million transactions per week, helping accounting teams catch and correct thousands of accounting errors before they are posted. This is important when it comes to reporting financials, ensuring errors are corrected before reaching stakeholders, resulting in real-time, accurate and, most importantly, confident reporting.

Elsewhere, we are using AI to power Sage Earth, our carbon accounting solution. Here, we use the technology to take the expenses and purchases within a business and classify them according to specific carbon emissions categories, so we can more accurately predict their environmental impact. This is helping SMBs manage and reduce their carbon emissions.

Q How can Sage protect its customers' data?









The trust customers place in Sage is vital, so we take the security of their data very seriously. We follow a set of protective measures based on recognised industry best practice and have a global team responsible for cyber security overseeing this. This team is regularly in touch with cyber security authorities and privacy regulators to keep pace with the changing threat environment.



Q Where do you see innovation at Sage heading in the future?

Our ambition is to have AI in each of our key products to allow us to go further in elevating the work of humans, freeing them from repetitive, administrative tasks and enabling them to contribute through higher-value activities. Through AI and generative AI we will help transform the accounting industry into one that provides continuous strategic value to businesses.

Our strategy at a glance

Progress towards our strategic priorities

Strategic priority		Progress in 2023	
Scale Sage Intacct			
	Accelerate the expansion of Sage Intacct in existing and new markets.	<ul style="list-style-type: none">Record Sage Intacct ARR growth during the year of around £100mContinued growth in the US, with ARR up by almost 30%Good progress in the construction vertical, complemented by the acquisition in May 2023 of Corecon (now Sage Construction Management)Strong momentum outside the US, with ARR up by over 80%Launched Sage Intacct in continental Europe, starting in France	
Expand medium beyond financials			
	Broaden the value proposition for mid-sized businesses.	<ul style="list-style-type: none">Renewal rate by value up 1 ppt to 102% with higher sales to existing customersIntegration between Sage Intacct, Sage Payroll and Sage HR launched in Canada and South Africa to drive cross-sellExpanded availability of Sage Planning, a budgeting and planning solution, and Sage Intelligent Time, an AI-powered time tracking tool, into more markets across the Group	
Build the small business engine			
	Create a scalable digital 'engine' to acquire and serve small business customers.	<ul style="list-style-type: none">Further growth in key markets across small business solutions including Sage Accounting and Sage 50Sage for Accountants now adopted by almost 8,000 accountants in the UK, up from around 2,000 a year agoIntroduced My Sage, an integrated account management tool, in the UKLaunched Sage Active, our new multi-legislation business management solution, in France, Spain and Germany	
Scale the network			
	Increase participation in Sage's digital network and accelerate the network effect.	<ul style="list-style-type: none">Enabled more customers to connect to the network by increasing Sage Business Cloud penetration from 75% to 84%Drove network participation by expanding AI-powered cloud services such as accounts payable automation, which is now growing rapidlyEnabled greater network usage by third-party software providers, generating consumption-based revenue for Sage while enriching the customer experience	
Learn and disrupt			
	Build innovative solutions underpinned by a culture of continuous learning and disruption.	<ul style="list-style-type: none">Launched Sage Network Inbox, our connected accounting workflow management toolDeveloping and testing Sage Copilot, our digital assistantIncorporated generative AI into our products for the first time to enable natural language interactionDeepened our relationships with key partners including Microsoft and AWS	
Success measures			
	Growth of Sage Intacct		Renewal rate by value
	Small segment revenue growth		

Future focus	Risks (see pages 74 to 81)	
<ul style="list-style-type: none"> • Continue to grow Sage Intacct's customer base and addressable market • Deepen capabilities in existing verticals • Drive expansion into new verticals • Accelerate international growth, with Sage Intacct due to launch in Germany in 2024 	<ul style="list-style-type: none"> • Execution of product strategy • Route to market • Customer experience • Third-party reliance • People and performance 	<ul style="list-style-type: none"> • Culture • Cyber security and data privacy • Data strategy • Readiness to scale
<ul style="list-style-type: none"> • Deliver benefits to mid-sized businesses beyond core accounting, including payroll, HR, planning, analytics and workflow automation • Integrate solutions across our portfolio to create a differentiated customer offering 	<ul style="list-style-type: none"> • Understanding customer needs • Execution of product strategy • Customer experience 	<ul style="list-style-type: none"> • People and performance • Culture
<ul style="list-style-type: none"> • Deliver a differentiated experience for both small businesses and accountants • Focus on helping accountants to digitise their businesses with advanced practice management tools • Drive Sage Active growth in continental Europe 	<ul style="list-style-type: none"> • Understanding customer needs • Execution of product strategy • Route to market • Customer experience • Third-party reliance • People and performance • Culture 	<ul style="list-style-type: none"> • Cyber security and data privacy • Data strategy • Readiness to scale • Environmental, social and governance
<ul style="list-style-type: none"> • Grow network participation, connecting more customers and products to the ecosystem • Drive data flows to power new AI features • Expand the availability of cloud-based digital services delivered by Sage and partners 	<ul style="list-style-type: none"> • Execution of product strategy • Route to market • Third-party reliance • People and performance • Culture 	<ul style="list-style-type: none"> • Cyber security and data privacy • Data strategy • Readiness to scale
<ul style="list-style-type: none"> • Continue to invest in disruptive technologies to drive innovation and accelerate our development cycle • Expand the deployment of AI-powered services into products across Sage Business Cloud 	<ul style="list-style-type: none"> • Understanding customer needs • Execution of product strategy • Developing and exploiting new business models • Customer experience 	<ul style="list-style-type: none"> • People and performance • Culture • Data strategy • Environmental, social and governance
 <ul style="list-style-type: none"> • Sage Business Cloud penetration • Availability and consumption of cloud-based digital services 	 <ul style="list-style-type: none"> • Network-powered solutions launched • Technology acquisitions, investments and partnerships 	

Strategy in action

Building sustainable growth

Scale Sage Intacct

Case study: Pizza Pilgrims



“Everything is so much quicker as there’s no more manual inputting and downloading of spreadsheets, it’s all handled in one easy-to-use system that updates in real time.”

Laura Burns Financial Controller

Founded in 2011, Pizza Pilgrims has grown from a travelling pizza van to a group of 20 pizzerias in the UK. Implementing Sage Intacct provides a solution that can scale with the brand as it grows, support multi-site operations, streamline reporting processes and integrate with point-of-sale till systems within each branch. Sage Intacct has improved the creation of Board reports with more accurate, real-time data, saving at least half a day a month and freeing up the finance team to inform better decision making.

Expand medium beyond financials



Case study: Oxford Collection

“We’ve become a more strategic partner to the business through the visibility and automation we’ve gained through Sage Intacct for both budgeting and accounting.”

Megan Walker VP Accounting and Finance

Oxford Collection is an Oregon-based hotelier, operating 16 distinctive hotels that offer business and leisure travellers a premium guest experience. With Sage Intacct Planning, Oxford Collection’s monthly forecasts reflect current data, accessible to stakeholders via Sage Intacct dashboards. Monthly forecasts now take 20 to 25 minutes to create and share with hotel managers. As a result, Oxford Collection has eliminated 20 hours a week of budget-related work previously handled by a member of its accounting and finance team.

Build the small business engine



Case study: Bee Motion

“We can work alongside clients in real time now. By having instant oversight of their performance and cash situation, we can advise them on their commercial success.”

Stefan Barrett Founder

Bee Motion provides a one-stop shop for accountancy services and independent financial advice. Sage Accounting has revolutionised the business, leading to a 30% increase in turnover since adoption. The efficiency and real-time visibility provided by Sage Accounting, has enabled the team to shift focus from purely compliance services to value-added business consultancy and cross-selling its advisory offerings. The team has also integrated Sage Payroll with Sage Accounting to further enhance the accuracy of a client’s real-time financial status.

Scale the Network



Case study: Johnny's Selected Seeds

"Sage Intacct AP automation, especially its AI features, has been a game-changer. The AI reads and extracts bill data, allowing for easier review."

Michelle Pyle Director of Finance

Johnny's Selected Seeds is an employee-owned seed producer and merchant based in Maine, US. Sage Intacct's sophisticated accounts payable (AP) automation has taken away a lot of manual work for the finance team, meaning that it only needs to do a simple review of the information in the system, as specific vendors or suppliers are automatically recognised.

Learn and disrupt



Case study: Velo

"We're favouring local suppliers, evaluating travel choices in different ways, and doubling down on flexible working practices so our team can do its bit too. The Sage Earth data is essential to this, as it is guiding the action plan and helping measure impact."

Yeni Olubamowo Finance Director

Velo is a specialist B2B marketing agency for global technology, industrial and professional services companies. Its ambition is not only to achieve net zero by 2030, but also to pioneer sustainable marketing techniques and help tell its clients' stories with credibility. Sage Earth easily connected with Velo's existing accounting software through an API, calculating an automated carbon footprint and providing insight on immediate steps to take. As a result, spending in high-impact areas has fallen by 25%.

Our key performance indicators

Measuring our progress

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

Underlying ARR growth

Definition

Annualised Recurring Revenue (ARR) is defined as the normalised reported recurring revenue in the last month of the reporting period, adjusted consistently period to period, multiplied by 12 (FY23: £2,188m ARR). ARR growth is stated on a comparable FX basis, with the prior period ARR retranslated at the current year exchange rates, to neutralise the effect of currency fluctuations.

Why we are measuring this

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

Performance

Underlying ARR increased by 11% in FY23, reflecting broad-based growth across all regions balanced between new and existing customers.

Renewal rate by value

Definition

Renewal rate by value is 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.

Why we are measuring this

Since it does not include new customer acquisition or reactivation of off-plan customers, renewal rate by value is an important measure of the strength of the existing customer base.

Performance

Renewal rate by value of 102% improved from 101% in FY22, reflecting increased sales to existing customers and good retention rates.

Selected non-financial KPIs

Customer experience

Our aim is to differentiate Sage through unique experiences that delight customers and help drive growth. In FY23, we commenced a multi-year journey to refresh our approach to how we capture, act on and measure customer feedback, significantly enhancing the insights we gather. We have extended the use of transactional Net Promoter Score¹ (tNPS) beyond sales and service interactions, to measure a much broader range of touchpoints, or 'micromoments', in the customer

journey (for example onboarding). Micromoments are the moments that matter the most to our customers and provide granular understanding of the customer experience across a variety of different solutions and services, enabling us to effectively prioritise and implement targeted, measurable improvements to better meet the needs of our customers.

Main metrics: micromoments, customer experience improvements, tNPS

1. tNPS measures customer satisfaction at a specific touchpoint within the customer journey. We also measure relationship NPS (rNPS) which enables us to gauge overall customer satisfaction regarding Sage.

Sage Business Cloud penetration

Definition

Sage Business Cloud penetration is defined as the underlying recurring revenue from Sage Business Cloud solutions as a percentage of the underlying recurring revenue of the Future Sage Business Cloud Opportunity.

Why we are measuring this

This metric measures progress in the transition of the business to Sage Business Cloud solutions. Find out more about the portfolio view of revenue on page 61.

Performance

Sage Business Cloud penetration increased to 84% in FY23, enabling more customers to connect to Sage's cloud services and ecosystem via the Sage Network.

Subscription penetration

Definition

Subscription penetration is the underlying software subscription revenue as a percentage of underlying total revenue.

Why we are measuring this

This metric shows the progress Sage is making in migrating customers to subscription.

Performance

In FY23, subscription penetration reached 79%, reflecting continued growth from subscription contracts.

Employee satisfaction

Our people bring Sage's culture to life. One of the ways we monitor and understand how happy our colleagues are working at Sage is to conduct regular colleague surveys, including measuring employee satisfaction (see page 24). The survey response rates and the findings provide insights on colleague sentiment and help to ensure that we act to preserve and enhance our culture.

Main metric: eSat

Sage Foundation volunteering

Sage Foundation is an integral part of life at Sage, and is regularly cited by colleagues as one of the reasons they enjoy working at Sage. Every colleague is given five days of paid volunteering leave every year to spend time knocking down barriers locally, connecting with the communities in which we operate. We measure engagement through the number of Sage Foundation volunteering hours (see page 30).

Main metric: Sage Foundation volunteering hours

Our people and culture

The Sage culture

Q&A with Amanda Cusdin Chief People Officer

Q What makes Sage culture stand out?

Our culture is the personality and character of Sage. It defines how we operate, behave, interact, make decisions, and get things done. Our culture is not owned by any single person or any single team; it's owned by everyone. And it's our people who bring Sage's culture to life. Year after year, we receive high response rates and feedback via our colleague survey (FY23: 85% response rate; 10,400 comments), reflecting colleague sentiment and our commitment to strengthening our culture. Both our employee satisfaction and employee net promoter score have remained high, in the upper quartile of the global benchmark, and we recently saw an increase in scores across seven of the ten questions asked of colleagues. Our Glassdoor presence has remained stable, with our global score at 4.1, and our Diversity and Inclusion Rating remains high at 4.3/5, illustrating that we're doing the right things. Our culture stands out because it's built from a great purpose, weaved into everything we do, and truly represents the values and behaviours of our organisation.

Q How does the culture bring the purpose and values to life?

We featured colleagues in a range of organic social media content (#LifeAtSage), sharing their experiences on what it's like working at Sage. Our employer brand "mentions" increased from 39,000 in 2021/22 to 161,000 in 2022/23 (according to data from the latest annual Link Humans Employer Brand Index report). Seeing our colleagues excited to share all the great things we're doing at Sage, embodying our culture internally and externally, is fulfilling. In terms of our values, our actions to "Simplify" have led to greater internal use of AI, creating efficiencies and inclusiveness for our colleagues via intelligent meeting re-cap and language translation. We've also introduced a payroll excellence programme that features a digital tool to help colleagues more easily view and understand their pay. I'm proud of the launch of our Leadership Academy, focused on developing "Human" and accountable leaders. Our leaders are key role models of our values, so much so that we introduced a customer experience scorecard measure in our FY23 bonus plan design for leaders, focused on driving improved delivery of 'micromoments' (the touchpoints that customers value), and outcomes that enhance our customer experience. Through Sage Foundation, our colleagues, partners, and customers make a real difference to our communities, and in FY23 total volunteering hours reached 154,620, including helping to build routes into education and support work readiness for young people and women.

Q What actions have we taken to embed Sage's values this year?

We have focused on helping colleagues and leaders personalise the values for themselves and their teams and translate them into everyday actions. A significant number of colleagues have taken part in values workshops and attended values-focused townhalls and other colleague engagement forums. The workshops facilitated discussions on what our values mean to individuals and to teams. They also highlighted the behaviours that we need to exhibit in order to embed a 'leader-led' approach, enabling teams to prioritise the best customer outcomes while balancing work and flexibility. We allocated each quarter of the year to focus on a different value. For example, our last quarter focused on "Human"—how to be a human leader as well as ensure "human" is at the heart of our brand and customer experience. We launched a variety of podcasts with senior leaders to share with colleagues on how "Human" shows up in our business-related activities, such as our human-centred design approach to product development and the ways in which we're making our chatbots more human.

Q What are the priorities for the year ahead?

In FY23, our colleagues were instrumental in helping Sage grow and scale, knocking down barriers for customers, society and shareholders. FY24 is all about building even further on that momentum—focusing on performance that delivers extraordinary outcomes. We're at the start of the journey, working on the value of "Human" and driving towards a high-performance culture. We will deliver on our commitment to building an inclusive workplace and drive tangible impact that is characterised by clarity, alignment, high levels of accountability, collaboration and psychological safety.

Our priority is to continue the focus on creating a culture of accountability, building trust, ensuring the right framework of support for effective leaders to role model our values, adapting quickly to change, and driving results for Sage to scale and grow. Colleague personas (profiles that describe the needs, values, and behaviours of colleagues) and the wider employer value proposition (set of benefits and rewards) aligned to those personas will be launched internally and externally. We will continue to progress against our three-year People strategy. As we navigate FY24 and beyond, the ability to put people first, solve problems creatively, connect emotionally, collaborate effectively, and never stop learning will be invaluable.

We recognise colleagues are a critical stakeholder and essential to our success. Creating a positive colleague experience is a big part of our culture: prioritising diversity and wellbeing, and developing skills. In FY23, we evolved our three-year people strategy to prioritise creating flexible workplaces and working, developing human and accountable leaders, and delivering scalable colleague experiences.

Key people measures

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

76

eSat—how happy our colleagues are working at Sage (FY22: 79)

4.3/5

Glassdoor diversity, equity and inclusion (DEI) score—how inclusive we are as an organisation

4.1/5

Glassdoor score—based on independent reviews from our colleagues (FY22: 4.2)

42%

internal fill rate—how successfully we're providing colleagues with opportunities to develop their career at Sage (FY22: 36%)

34%

of leadership teams meeting our gender diversity target (FY22: 33%)¹

12th

ranking by RateMyApprenticeship as one of the best organisations in the UK for apprenticeships

Top 13%

placing in the Forbes World's Best Employers 2023 report of all large blue-chip employers

1. Global gender diversity target of no more than 60% of any one gender, in any leadership team, anywhere in Sage, by FY26.

Our people and culture continued

How we attract, develop and retain our talent

We support the business by ensuring we have the right talent doing the right work, with the right skills when needed. This has been delivered through increased internal fill rates (FY23: 42%; FY22: 36%) together with best-in-class direct sourcing of external candidates from our internal hiring team. To improve performance in alignment with our strategy to scale the business, it's important that we continue to attract, develop and retain diverse talent. We refreshed our employer value proposition to ensure it remains aligned to our values and continues to attract a diverse workforce that creates opportunities for everyone. We want Sage to be an inclusive, energised environment, where amazing people deliver extraordinary outcomes. We also continue to cooperate closely with our Works Councils and we respect the right to collective bargaining. All colleagues in the EU are covered by collective bargaining agreements but none are covered by such agreements in the UK or North America.

Our focus on entry to Sage through our 'Pathways' and Early Careers programmes provides external apprentice and graduate scheme opportunities in all our locations across many functional areas. Our 'Pathways' programme has been instrumental in helping individuals facing employment barriers, such as those with disabilities, returning professionals, and veterans, enhancing Sage's diversity. In FY23 we welcomed almost 400 early careers colleagues from 12 countries and are looking to expand in FY24 with the development of our "Entry into Sage" strategy, which will nurture future leaders across diverse backgrounds and support the development of talent pipelines.

Developing everyone's potential and performance

To create a future-fit workforce and high-performance culture, we must promote colleague development, multi-phased careers, and career transitions. Development and continuous growth are part of the culture at Sage, and part

of our ways of working. In FY23, we focused on supporting colleagues and teams to be high performing by developing psychological safety, accountability and resilience, and feedback skills; and by understanding their strengths.

With our increased focus on internal talent mobility and targeted development, we structured our learning priorities to better enable Sage's strategy, expanding our Learning Academies to include Leadership, Data, Cloud, Innovation/Design Thinking, AI, Marketing, Collaboration, DEI, and hybrid working. We also reinforced the importance of our colleagues doing the right thing by broadening mandatory training on our core policies, with the highest completion rates achieved to date at 97%.

We recognise the critical role our managers play in developing and retaining talent and are committed to enabling "Human" leaders with the skills they need to foster recognition, empowerment, and engagement in service of high performance. In FY23, we launched our Leadership Academy and welcomed 56 VPs and Directors via our Senior Leadership Program (SLP), 379 via our extended Accountability and Transparency programme, 104 new people managers via our Managers Essential programme, and 132 non-people managers via Aspiring Leaders.

After a successful global launch of Talent Marketplace (our internal site for enhancing workforce agility, increasing talent mobility, and growing a skills-based workforce), with a 70% adoption rate (percentage of colleagues with a profile), we introduced "Gigs" to help colleagues gain exposure to new crafts and grow the skills they need through projects and opportunities, combining project needs with career development and enhancing our squad ways of working. With over 110 mentor relationships established, we're strengthening our culture and deepening our succession pipeline.

Some of our key achievements in FY23

Activated our Flexible Human Work approach and launched team agreements globally

Save and Share Programme (enabling eligible colleagues to buy discounted shares) delivered £7.9m of value to colleagues through share price appreciation

Launched ESPP (employee share purchase plan) in North America with take-up above target at 20.7%

Exceeded Sage Foundation fundraising target at \$777,000

NOVEMBER 2022

MAY 2023

JUNE 2023

SEPTEMBER 2023

An employee view

Les Ireland

Senior Project Manager

"Accelerate [Women in Finance Accelerator] has been instrumental for me in that it has made me realise that the power is truly within me to do, to feel and to achieve whatever I want. It is an active reminder to regroup, reset and invest in myself, before I can give back to others, and it is also an amazing opportunity to connect, learn and share with other women on their journeys through life and our careers. I have personally benefitted hugely from the practical strategies discussed at the workshops, and from hearing other people's experiences and tactics to overcome shared issues and maximise opportunities available to us. For the first time in 20 years, I have found my confidence to truly be myself in the workplace, to push past perceived blockers and believe in what I know to be the right thing to do. This empowerment has made me more productive, deepened my relationships and improved my overall sense of wellbeing and happiness. I am now sailing, not rowing against the tide."

Every colleague should feel supported in developing their careers and our aim is to develop world-class leaders for the future of Sage, so we are ready for tomorrow's challenges as well as today's. We take succession planning seriously and are committed to investing in our people, offering support and development to help them grow and succeed. Through our annual talent review, we identify critical roles and potential successors for these roles, whilst encouraging continuous conversations and development plans for everyone.

We instituted the CEO Open Circle forum, empowering high-potential colleagues across all functions to meet with the CEO six times each year to provide insight, feedback, and ideas as a diverse and inclusive sounding board. We also encouraged Executive Leadership Team (ELT) members to meet one-on-one with direct reports of a leader they manage, to help ensure our leadership team is connected at multiple levels of the business. We also facilitated Board colleague engagement sessions, providing the Board with greater insights into Sage's talent and succession pipeline, while helping key Sage colleagues to better understand the Board and its expectations.

Creating a colleague experience that engages and retains high-performing talent

Sage continues to drive towards becoming a high-performing organisation, where it consistently meets and beats the high standard of objectives it sets itself, delivering exceptional outcomes and outperforming competitors. High-performing teams are driven by clear direction, shared goals and feedback that's honest, constructive and actionable. Our goal setting framework, Objectives and Key Results (OKRs), has enhanced performance and allowed colleagues to better connect their contribution to Sage's strategy. Weaved into our approach to performance management and evolution of our reward programme, it will support leaders in driving continuous feedback, having meaningful conversations, and driving accountability.

We continue to ensure we're listening to colleagues and throughout FY23 we championed our value of "Simplify" by removing complexities from our onboarding and self-service processes, and utilising data tools to support colleagues in prioritising, focusing, learning, and thriving at work. In FY23, we achieved an 85% response rate to our colleague "Pulse survey" and used this insight to launch our "Women in Finance Accelerator", with a focus on increasing the gender balance in Finance at the Director, VP, and EVP level. This six-month programme successfully increased the profile and morale of female talent for 20 graduates and we are exploring rolling it out across other areas.

Our people and culture continued

Our DEI pillars

Diverse Teams

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

Equitable Culture

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

Inclusive Leadership

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

Wellbeing is a core foundation for Sage, and our holistic approach to wellbeing involves providing resources and support across four key pillars: healthy mind; healthy body; healthy finances; and healthy communities. From our Wellbeing Hub to an expansion of a Healthy Working programme, colleagues were provided with financial resources, parental and caregiver support, and mental health first aid. The global roll out of our Employee Assistance Programme is now complete, following the addition of coverage in Belgium, France, India, Israel, Kenya, Malaysia, Morocco, Namibia, Nigeria, Romania, and Singapore.

Our progressive hybrid approach continues to balance human connection and flexibility, centred on increasing office attendance to drive high performance, engagement and wellbeing. We held 150 “office magic” events (bringing colleagues together in our office spaces) globally across 36 sites, with great colleague engagement and increased connection amongst teams. A new workplace value proposition is currently taking this forward, bringing together culture, values, and sustainability, to create an environment where colleagues can thrive.

DEI is essential to making us more agile, innovative, and human. At Sage, we have a deep desire to do the right thing by our colleagues, customers, society, and shareholders. Since publishing our Global DEI strategy in FY21, focused on knocking down barriers so that everyone can thrive, we set out to drive our DEI agenda forward in FY22, targeting increases in the percentage of colleagues enrolled in our Colleague Success Networks (CSNs), our gender diversity in leadership, and more.

Sage gender and ethnicity balance

In FY23, we continued our self-declaration data gathering project, ‘All About Us’, resulting in 55% participation across UK, Ireland, US, Canada, and South Africa, helping to improve our hiring and pay gap analysis. Participation in CSNs reached 18% during FY23 (FY22: 14%). We aim for continuous improvement in this area, and we have added three further CSNs: an Ability Network and a Pride Network in South Africa, and a Faith Network in North America. Additional information on our progress against our DEI targets can be found in our Sustainability and Society Report www.sage.com/en-gb/company/sustainability-and-society.

		Board	ELT ¹	ELT and Direct Reports ²	All Colleagues ³
Number of people		11	10	102	11,326
Gender	Female	4	4	49	4,794
	Male	7	6	53	6,433
	Non-Binary	0	0	0	22
	Undisclosed	0	0	0	77
Ethnicity	Asian	0	0	4	412
	Black/African/Black S. African/Caribbean/Black British/African American	0	0	2	224
	I do not wish to self-identify my race or ethnicity	0	0	2	155
	Indigenous	0	0	0	94
	Multiple Ethnic Groups	0	1	2	122
	Other Ethnic Group	2	1	3	90
	White	9	8	63	2,871
	Undisclosed	0	0	26	7,358

Data as of 30 September 2023

1 Steve Hare and Jonathan Howell are included in both the Board and ELT data.

2 ELT and their direct reports include ELT members and those for whom they have direct line management responsibility, excluding administrative and support roles.

3 We do not report on DEI data for contractors and consultants.

The Multiplier Effect

Strategy overview

Sage has an important role in creating value for all our stakeholders including colleagues, customers, society, and shareholders. We believe a sustainable business is a resilient business and are committed to use our tools, knowledge and insight, to multiply our impact and help everyone to thrive.

Our Sustainability and Society strategy has become pivotal to how we deliver on Sage’s purpose—knocking down barriers so everyone can thrive. We want to turn barriers into opportunities, creating positive impact far beyond Sage.

In 2023, we evolved the Sustainability and Society strategy to reflect on our role in society, the outcomes of our recent materiality assessment, and our transition from commitment to action. Our updated strategy has three key pillars—Protect the Planet, Tech for Good, and Human by Design—all underpinned by Sustainability by Design, which is about integrating sustainability deep into our business and operations. Each of the pillars is supported by clear priorities and a rigorous plan. This evolved approach also reflects a closer alignment with our strategic business priorities.

For further detail visit:
www.sage.com/en-gb/company/sustainability-and-society
FY23 Sustainability and Society Report
FY23 Climate Change Report

Snapshot of our 2023 highlights

- Named in the FT’s European Climate Leaders list.
- Sage Earth is now powering NatWest’s Carbon Planner, making it simpler for UK businesses to understand their carbon footprint and reduce their emissions.
- Launched Data and AI Ethics Principles.
- Enhanced governance, appointing a Non-executive Director and Board Sponsor for ESG.
- Sustainability Masterclasses launched to help customers build green and resilient businesses.
- Underserved Entrepreneurs Research Report published, aimed at understanding the barriers faced by entrepreneurs from socio-economically disadvantaged backgrounds.
- We were ranked 12th by RateMyApprenticeship, UK.

154,620
volunteering hours

USD \$777,096
funds raised

SBTi
validated near-term
climate ambitions

Top 50
in Gender Equality List

**The Multiplier
Effect**

Protect the Planet

Tech for Good

Human by Design

Sustainability by Design

Sage Foundation

Materiality assessment

A robust materiality assessment is the bedrock of a strong sustainability strategy. It also informs how we manage risk and harness opportunities to ensure Sage remains a business fit for the future. This year, to help us better understand our impact on the society and environment as well as the related risks and opportunities, our assessment was informed by the requirements for 'double materiality' as outlined by the European Sustainability Reporting Standards (ESRS), which underpin the EU Corporate Sustainability Reporting Directive (CSRD). Our assessment was also informed by the GRI 2021 Standards.

Using our 2021 material topics as a starting point, we engaged with 180 internal and external stakeholders, including our Executive Leadership Team (ELT), colleagues, investors, customers, and suppliers. We supplemented this with insights from an ESG AI platform (Datamaran) that allowed us to scan thousands of financial and non-financial

reports, regulations in key jurisdictions, and media articles. This enabled us to streamline, merge and identify additional topics in line with stakeholder expectations.

As a result, we identified 8 topics as 'strategically significant' and 'very important' to our strategy due to their considerable impact on society and the environment or on Sage. This work ensures our approach to sustainability remains focused on the most material topics.

We continually monitor business developments, risks and opportunities, sustainability trends, changes in legislation and the needs and perspectives of our stakeholders so that our sustainability agenda remains focused on what matters most.

For further detail visit:

www.sage.com/en-gb/company/sustainability-and-society

FY23 Materiality Methodology

Strategically significant

Climate change
Cyber security and data privacy
Diversity, Equity and Inclusion
Innovation to empower customers and SMBs

Topics that have strategically significant impact on society or Sage. These topics are closely related to Sage's business strategy. They are covered by strategic commitments, reporting strategy, and risk management approach.

Very important

Colleague development and retention
Data and AI ethics
Digital equality
Local community investment, and support

Topics that are very important and have high impact on society or Sage. They support our business strategy. We are addressing these by developing policies, setting targets, and robust reporting.

Foundational

Biodiversity and ecosystems
Business conduct
Governance effectiveness
Human rights
Pollution
Resource use and circular economy
Tax and regulatory compliance
Water and marine resources
Wellbeing and colleague health and safety

Topics related to operational management or 'business as usual' or regulatory requirements and emerging topics that must be addressed from a compliance and ongoing management perspective.

Note: Topics are listed in alphabetical order and do not reflect a hierarchy of importance.

Sustainability and Society continued

Protect the Planet

Climate change is an immediate threat to human wellbeing, functioning society, and planetary health. Our opportunity to secure a viable and sustainable future for all is rapidly closing. Rapid and sustained greenhouse gas (GHG) emissions reductions across sectors are critical to limit warming to 1.5°C.

The Protect the Planet pillar has been a particular focus in FY23, with the identification of three priority areas:

- **Getting Sage to net zero:** achieving net zero by 2040 across our value chain.
- **Supporting SMBs in achieving net zero:** helping SMBs decarbonise through our solutions and education.
- **Advocating for enabling policies and standards:** advocating to put SMBs at the centre of the net zero transition.

We have made good progress across all areas (see next page).

Getting Sage to net zero: this has been a key focus, as we have strengthened efforts to build a credible and ambitious transition plan to net zero that will continue to reduce emissions.

Supporting SMBs in achieving net zero: we launched season 3 of the Sage Member Masterclass series on Sustainability and Resilience, where industry leaders provided SMBs with talks and articles on sustainability. In FY23, Sage acquired Spherics, a carbon accounting tool, that we rebranded to Sage Earth and is now building momentum. We launched an enhanced customer pilot for Sage Accounting and Sage 50 customers in the UK, offering personalised recommendations and actions.

Advocating for enabling policies and standards: during COP27, Sage launched the SME Climate Impact Report, authored in collaboration with Oxford Economics and the International Chamber of Commerce. The findings of the report are a call to action for government and policymakers to help SMBs become more sustainable, given the influential role they play in the economy.

We have also further integrated ESG and climate change into our principal and operational risks, as part of our Enterprise Risk Management framework. All climate risks and opportunities are captured within our Enterprise Risk Management system, Riskconnect, and managed as part of our ESG Principal Risk. Please refer to ESG Principal Risk (see page 81) and in our TCFD reporting (see pages 38 to 45).

For further detail visit:

www.sage.com/en-gb/news/press-releases
SME Climate Impact Report

Performance against targets

Sage to net zero	<ul style="list-style-type: none"> Get Sage to net zero by 2040 and reduce absolute Scope 1, 2, and 3 GHG emissions by 50% by 2030, from a 2019 base year aligned to SBTi 	On track
Support SMBs in achieving net zero	<ul style="list-style-type: none"> Help our customers reduce their GHG emissions by 2030 by providing access to carbon management solutions and expertise 	Early stage
Policy and advocacy for SMBs	<ul style="list-style-type: none"> Put SMBs at the forefront of the transition to net zero by making sure their voice is heard and lobbying for simplified standards 	On track

Key achievements

Getting Sage to net zero

- We developed a robust net zero Transition Plan with a clear glidepath¹ and action plans to make sure we deliver on our mid-term goal of 50% reductions by 2030. We have made good progress. Since 2019 our market based emissions have fallen by 16.4% against an SBTi glidepath of 18%, reducing from 231,957 tCO₂e to 193,951 tCO₂e in FY23.
- In collaboration with the Planetary Accounting Network, we've also developed an environmental policy based on a whole planet approach. Consequently, environmental considerations have become part of wider Sage policies such as Procurement, Risk Management, Travel and Expenses, and Flexible Working.
- Working with industry experts on carbon accounting, we are developing an approach to model the full lifecycle carbon impact of our products, starting with Sage 100 and Sage Intacct.
- We have launched carbon literacy training with groups of colleagues in the UK.
- Sustainability and Rewards teams have worked together to develop a sustainable rewards strategy to provide colleagues with benefits that incentivise climate action.
- We launched an engagement programme with our high emitting suppliers, to increase accuracy of carbon emissions data and to align with our carbon reduction targets.

Supporting SMBs in achieving net zero

- We launched the Sage Member Masterclass series on Sustainability and Resilience with over 1,000 views to date.
- Sage and NatWest have joined forces to make it simpler for UK businesses to understand their carbon footprint, reduce their emissions and tackle climate change more effectively. Sage Earth now powers NatWest's Carbon Planner to automate a key part of the process of calculating a company's emissions.

Advocating for enabling policies and standards

- Sage is representing SMBs at the All-Party Parliamentary Group on ESG, ensuring SMBs are part of the climate conversation in the UK.
- In 2023, we started collaborating with Bankers for Net-Zero (B4NZ) with the aim of helping unlock access to capital by automating GHG reporting for every SME in the UK.
- In collaboration with the International Chamber of Commerce, PwC and Strand Partners, Sage launched a new report at COP28 calling for simplified standards for SMB sustainability reporting.

What's next

We have made good progress in a short amount of time, but we know our fight against climate change is a long-term commitment. In FY24, we will continue to test and strengthen our net zero transition plan and deepen our understanding of climate related risks. We will be rolling out further training to colleagues, based on the success of carbon literacy training, and embedding sustainability more closely into our product strategy. We will also continue to engage with governments and industry bodies on streamlining reporting for SMBs.

For further information on TCFD please refer to pages 38 to 45

For further detail visit:

www.sage.com/en-gb/company/sustainability-and-society

FY23 Sustainability and Society Report

FY23 Climate Change Report

FY23 ESG Databook

1. Glidepath—a model that visually plots the impact of each decarbonisation action and how these align with Sage's current emissions and future targets.

Sustainability and Society continued

Tech for Good

Our ambition is to be the trusted network for SMBs, creating an integrated experience of digital and human connections. We believe using data and AI ethically is about more than corporate reputation. It is essential for the success of our business.

Tech for Good is about supporting SMBs to thrive by building trusted and inclusive digital networks and solutions. We have therefore identified three priority areas:

- **Data for good:** using data and visualisations to help progress sustainable development.
- **Building digital trust:** building trust and security into our network while maintaining high levels of Data and AI ethics.
- **Empowering entrepreneurs:** empowering people through Sage Foundation to grow businesses and develop the skills they need.

As a technology company with a global footprint, we have a responsibility to help address digital inequality. We are doing this, over time, by ensuring the accessibility of our products and by providing access to opportunity through digital and STEM learning. In FY23 we conducted research to start informing the future direction of the Sage Foundation.

Performance against targets

Data for Good	<ul style="list-style-type: none"> Support SMBs and advance the UN Sustainable Development Goals (SDGs) by using our data to create visualisations (reports, trends, analytics) that can inform better decision making by 2025 	On track
Build Digital Trust	<ul style="list-style-type: none"> Expand our Trust and Security Hub to support SMBs in going digital safely by 2025 Embed Data and AI Ethics Principles into the fabric of Sage by 2025 Our 2025 accessibility target is for cloud products to meet Web Content Accessibility Guidelines (WCAG) criteria 	On track Early stage Early stage
Empowering Entrepreneurs	<ul style="list-style-type: none"> Support 34,000 under-served entrepreneurs to scale and grow their businesses and equip 33,000 individuals with skills for greater opportunities through Sage Foundation by 2024 	On track

Key achievements

Data for Good

Innovation to empower customers and SMBs

- We published economic reports for multi-stakeholder audiences around the Sustainable Development Goals relevant to SMBs, notably Decent Work and Economic Growth, and Climate Action.
- We teamed up with Smart Data Foundry and the Centre of Economics and Business Research to launch the Sage Small Business Tracker. It analyses anonymised Sage Accounting and Payroll data to look at how SMBs are performing in real terms in the current economic climate.

Building digital trust

Cyber security and data privacy

- We expanded our Trust and Security Hub to support SMBs in going digital safely by 2025—further advice and guidance for SMBs was added to engage technical and business leaders according to their requirements and provide a baseline of guidance.

Data and AI Ethics

- Data and AI Ethics Principles were launched. Data and AI Ethics policy is also in place, including reference to privacy and security. The Principles and policy are overseen by a newly formed Data and AI Ethics Council that includes members from the ELT.
- In 2023, we published a Blueprint for Digital Led Growth report. The report included policy and strategy recommendations, such as enabling SMBs to take climate action by simplifying ESG reporting and ensuring that AI regulation does not become overly complex so SMBs can safely adopt cutting-edge technologies. Following the report launch, our CEO, Steve Hare, was invited to join the UK Prime Minister's Business Council.

Digital equality

- Two of our products, Accounting Individual and Client Management, are currently accessible, successfully passing WCAG 2.1 grade AA automated tests. Roadmap commitments are being developed for the rest of our cloud products and we are investing in systems, training, and strengthening executive sponsorship and oversight.

Empowering entrepreneurs

Local community investment and support

- In 2023, we published the 'Underserved Entrepreneurs Research Report', conducted with Corporate Citizenship. This research project is aimed at understanding the barriers faced by entrepreneurs from socio-economically disadvantaged backgrounds and will help us inform how to amplify Sage Foundation's impact in the future.
- Sage colleagues, partners, friends and families volunteered 154,620 hours and raised USD \$777,096.
- A significant benefit for Sage's partners is that they can also join Sage Foundation programmes and along with more than 200 other Sage partners, can achieve their own social impact goals. Included in the figure above, is the contribution from our partners who in 2023, volunteered 3,106 hours and raised US \$354,933 for non-profit organisations around the world.

What's next

We are committed to building a trusted and inclusive digital network. Through our Tech for Good pillar we will continue to ensure everyone has equal opportunities to access data and technology, while championing data protection, security, and the ethical use of data.

For further detail visit:

www.sage.com/en-gb/company/digital-newsroom

Decent work

Economic growth

Climate action

Blueprint for Digital Led Growth report

Underserved Entrepreneurs Research Report

Sustainability and Society continued

Human by Design

Human by Design is our way of putting colleagues at the heart of our business. Evidence is clear that diverse businesses that do the right thing are resilient businesses.

Under this pillar we have identified three priority areas:

- **Diversity, Equity and Inclusion:** promoting diversity, equity and inclusion at all levels of Sage.
- **Future Fit Work:** developing an inclusive work culture that attracts and retains talent and develops skills for the future.
- **Wellbeing:** promoting a workplace where our colleagues can feel and perform at their best and thrive.

Key achievements

Diversity, Equity and Inclusion

- Listed in the Business in the Community (BITC)/Times Top 50 for Gender Equality List.
- Currently 34% of leadership teams are reaching our target to achieve representation of no more than 60% of any one gender in leadership teams by FY26.
- We added three new Colleague Success Networks: an Ability Network and a Pride Network in South Africa, and a Faith Network in North America.

Performance against targets

DEI	• Achieve leadership team representation with no more than 60% of any one gender by FY26	On track
	• Increase 'All About Us' participation to 65% across 10 participating countries by 2024	On track
	• Foster a greater sense of belonging and inclusion with 20% of colleagues actively participating in the Colleague Success Network by 2024	On track
Future Fit Work	• Connect 70% of colleagues to our internal Talent Marketplace, increase internal fill rate to 45% by 2023	On track
	• Colleagues to complete 5,000 Future Fit learnings by 2025	On track
	• Achieve a 20% YOY increase in Pathways hires up to 2025, with 500+ people receiving work readiness training each FY	Delayed
Wellbeing	• Roll out our Colleague Assistance Programme to all countries by 2024	On track
	• Double the number of Healthy Mind coaches by 2025	On track

- We have appointed a Global ELT Ambassador for Race and Ethnicity, setting transparent race and ethnicity targets to increase representation and progression into ELT long-term incentive plans.

Future Fit Work

- Over 1000 'future skills' learnings accessed by colleagues, supporting how we upskill colleagues on essential skills.
- In FY23 we welcomed almost 400 early careers colleagues from twelve countries.

Wellbeing

- In 2023, we introduced a Healthy Working programme, initially in North America and Iberia, and soon to be rolled out globally. This programme comprises tailored e-learning, and personal recommendations to improve colleague health, wellbeing, and comfort at work.
- Additionally, all managers were requested to include wellbeing within performance reviews of their reports.

What's next

We will continue to prioritise improving how we gather and utilise data, drive internal and external engagement, and try and test innovative ways to diversify our teams and leadership. Focus areas for the year ahead will include, embedding allyship into essential training for all managers and expansion of 'All About Us' scope geographically and by function. Our Workplace Value Proposition will be rolled out, starting with our new North America hub in Atlanta. The Healthy Working Programme will be rolled out globally.

For further information on Colleague development and retention, please refer to pages 48 and 49

For further detail visit:

www.sage.com/en-gb/company/sustainability-and-society

FY23 Gender Pay Gap Report

FY23 Ethnicity Pay Gap Report

Sustainability by Design

Sustainability by design underpins our strategy as it sets our ambition to integrate sustainability into everything we do.

Key achievements

Enhanced governance

During the year, we evolved the Sustainability and Society (S&S) steering group into a formal S&S management committee comprising ELT members and chaired by our Chief People Officer, Amanda Cusdin. This improved governance process helps provide strategic direction and ensures that our targets, objectives and supporting programmes remain relevant, ambitious and on track for delivery.

The Committee advises and aligns on strategic priorities for implementation, including policies and processes, providing strategic direction with a clear mandate to functional leadership teams for delivery.

The Committee comprises of ELT members and senior leaders, including the General Counsel and Company Secretary, Chief Risk Officer and Chief Corporate Affairs Officer. The Committee ensures there is adequate management and Board oversight on progress against the S&S strategy, ensuring ESG risks and opportunities are adequately addressed as well as providing strategic guidance to the business in order to deliver against priorities. The Committee meets quarterly, sharing discussion summaries and outputs with the CEO and broader ELT through regular briefing sessions, and with the Board through Maggie Chan Jones, our Non-executive Director responsible for ESG.

FY23 activities included:

- Using the double materiality process, we have assessed our sustainability risks and opportunities aligned to our Enterprise Risk Management (ERM).
- We integrated climate risk into our ERM.

- We undertook a training needs analysis to better understand the skills and capability needed within Sage to deliver against our sustainability commitments and continue to integrate sustainability across the business.
- Delivered a successful Board engagement session to raise awareness on sustainability and climate change.
- Initiated the process to review our suite of policies through a sustainability lens.
- Integrating sustainability deliverables into ELT OKRs and bonus and LTIP structure.

Policies & controls

- We continue to strengthen our supply chain due diligence process by setting clear expectations through the Supplier Code of Conduct, utilising third-party assessments, monitoring legal and reputational incidents, and employing ESG questionnaires to better understand actual performance. We work closely with our business partners, agents, and other intermediaries to secure formal adherence to our third-party Code of Conduct.
- We established a partnership with EcoVadis to strengthen ESG due diligence within our supply chains.
- Our Internal Audit team conducted an audit on our Anti-Bribery and Corruption policy, resulting in further enhancements to internal practice, procedures and governance controls.
- We started further detailed assessment of sales and business processes to prepare for implementing additional and enhanced customer due diligence controls.

What's next

We are on a journey to integrate sustainability throughout our business. We have made good progress in 2023, and we will continue to build on this in 2024 and beyond. This will include upskilling and educating colleagues, recognising the importance of empowering colleagues to make more sustainable choices. We will also continue to embed how we manage our sustainability risks, impacts and opportunities, developing an ESG risk register and continuing to ensure we have the right policies and controls in place to manage these risks. Building on the strong foundations this year, we also plan to further assess human rights across our value chain.

The Task Force on Climate-related Financial Disclosures

Compliance Statement FCA Listing Rules

In this report, we set out our climate-related financial disclosures consistent with all of the Task Force on Climate-related Disclosures (TCFD) recommendations and recommended disclosures pursuant to Listing Rule 9.8.6 (R) (8). This includes all four of the TCFD pillars and the 11 recommended disclosures set out in the report entitled "Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures" published in October 2021 by the TCFD. In completing this work we made use of TCFD guidance material including the TCFD technical supplement on the use of scenario analysis, TCFD Guidance on Metrics, Targets, and Transition Plans, and the TCFD Guidance for All Sectors. We are reporting against the TCFD framework in line with FCA Listing Rules.

In FY24, we plan to continue our progress in reporting against all four pillars of the recommendations. More detailed information on FY24 priorities in reporting against TCFD is outlined in the table below alongside progress made in FY23 and a summary of how we are consistent with TCFD recommendations.

Given the extensive nature of our TCFD disclosures, we have included additional detailed information in our Climate Report.

Companies Act 2006

Our disclosure also meets the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 amended sections 414C, 414CA, and 414CB of the Companies Act 2006.

UK Climate-related Financial Disclosures (CFD)

Sage is compliant with the new mandatory climate-related financial disclosure requirements under UK CFD. As stated above, our disclosures are consistent with all of the TCFD recommendations. Under the Strategy pillar, we outline the rationale for the chosen scenarios used to assess the resilience of our business to climate, and our timeline for refreshing the analysis undertaken so that we continue to monitor changes over time.

TCFD Compliance Status

TCFD recommendation	Summary and FY24 priorities
Governance	
a) Describe the Board's oversight of climate-related risks and opportunities Cross-reference for the disclosure in the report <ul style="list-style-type: none"> Governance—page 103 	Fully aligned with TCFD recommendations The Board is accountable for our approach to climate-related risks and opportunities and approves sustainability policies. The Board is ultimately responsible for setting the Group's risk appetite and for risk management and internal control systems, delegating authority to the Audit and Risk Committee in setting the Group's risk appetite and implementing appropriate oversight of ESG risks. Updates on ESG matters, including as relevant to climate change, are provided to the Board and Audit and Risk Committee via management in addition to the regular updates provided by the CEO Board briefing. The Board was updated in September on our Net zero plan and progress against our Science Based Targets. This year, the Board attended training on Sustainability, Environment and Climate Change. FY24 priorities We continue to monitor the training that is in place for the Board and Executive Leadership Team as part of our sustainability training plan.
b) Describe the management's role in assessing and managing climate-related risks and opportunities Cross-reference for the disclosure in the report <ul style="list-style-type: none"> Governance—page 103 Remuneration—pages 129 to 163 	Fully aligned with TCFD recommendations The CEO and Executive Leadership Team (ELT) are accountable for the Group's climate strategy and approach to TCFD. The Executive Vice President (EVP) of Sustainability and Society is responsible for the implementation of Sage's "Protect the Planet" climate action plan, including the assessment and management of climate-related risks and opportunities, with oversight from Sage's Sustainability and Society Committee. Sage's Sustainability and Society Committee includes a subset of ELT members. Sage has also appointed Maggie Chan Jones as a designated director providing specific board oversight on the ESG agenda. The Sustainability and Society Committee meets quarterly and progress on the Protect the Planet pillar is a standing agenda item. The CEO and ELT receive a debrief after each Sustainability and Society Committee meeting with key updates, matters discussed, and actions. This informs updates provided to the Board by the CEO. A proportion of the Executive Directors' Performance Share Plan (PSP) awards each year are driven by strategic non-financial measures; in FY23 this included a measure relating to climate (see our Remuneration Policy on pages 129 to 163). FY24 priorities We will continue to consider how climate-related issues are integrated into budgets, business plans, performance objectives, capital expenditure and our investment decisions. Furthermore, we consider climate in our due diligence approach, including our mergers and acquisitions and energy procurement process.

TCFD recommendation

Summary and FY24 priorities

Strategy**a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term**

Cross-reference for the disclosure in the report

- See climate risks and opportunities table below

Fully aligned with TCFD recommendations

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, including material financial and non-financial impacts.

In FY22, we disclosed 11 identified climate risks and opportunities, including information on the impact on our business, maturity of our assessment, relevant time horizons, and mitigation and adaptation plans. Those identified as the most material were taken forward for further climate scenario analysis.

A full breakdown of our climate risks and opportunities can be found on pages 44 and 45.

In FY23, we conducted further analysis of two of the above transition risks, the increasing cost of energy and carbon, and potential economic impact of climate change on the Sage global customers by sector and geography (changing customer behaviours and needs). The outputs of this work will strengthen our understanding of the effects of climate-related risks and opportunities on the Sage financial statements. The full results of this analysis will be shared in FY24 TCFD disclosures.

FY24 priorities

We will conduct an updated risk and opportunity screening of all climate risk and opportunity categories outlined in the TCFD framework to ensure they are complete and relevant and to verify underlying assumptions and scenarios.

b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning

Cross-reference for the disclosure in the report

- See climate risks and opportunities table below
- Further information can be found in our Climate Report

Fully aligned with TCFD recommendations

We are well positioned to support global climate awareness and action through our products such as Sage Earth, whilst managing our own climate-related risks and opportunities. In the table below, we provide an overview of our climate risks and opportunities; a more detailed breakdown of impact, mitigations, and adaptations can be found within our Climate Report <https://www.sage.com/en-gb/company/sustainability-and-society/>.

We're working with SMBs to amplify and scale our impact from role-modelling through our own sustainability journey to sharing our lessons learnt and skills. This year we continued to roll out Sage Earth and launched our online Sustainability Masterclasses series. Through these initiatives we've been able to reach more SMBs and engage them in sustainability and climate topics—knocking down some of the barriers to effective climate action they face.

In FY23, we developed a robust Net Zero Transition Plan outlining our pathway to meeting Scope 1, 2, and 3 emissions reduction targets, which is detailed in our Climate Report <https://www.sage.com/en-gb/company/sustainability-and-society/>. Sage commissioned an independent review with ERM, a world-leading sustainability consultancy, to test our Net Zero Transition plan and projections. This review concluded the Net Zero Transition Plan and projections were sufficiently ambitious, with realistic, achievable near-term 2030 and 2040 net zero targets. The review also identified risks and opportunities to strengthen and accelerate our Net Zero Plan. These have been reviewed with the Sage Audit and Risk Committee, and will be monitored as part of existing risk management process.

The climate change scenario analyses undertaken in line with TCFD recommendations did not identify any material impact on the Group's financial results, going concern, or viability.

However, the impact from climate change and the associated risks are constantly evolving, and the Group will continue to monitor this risk and consequent impact (see note 1 of the Group financial statements on page 189). Therefore, we will continue to assess how our Transition Plan impacts the financial statements and also our longer-term financial performance. Furthermore, our business strategy is informed by the outputs of the Net Zero Transition Plan.

FY24 priorities

- Continue to monitor how we quantify the financial impacts of our climate risks and opportunities, and integrate the outcomes into our strategy and financial planning.
- In our Climate Report, we have outlined our alignment against the framework of the Transition Plan Taskforce (TPT) and we will continue to progress our alignment in FY24 against the published TPT framework. This will include refinement of sensitivity analysis and scenario analysis to better understand the impact of climate on our business, and the activities required to underpin our net zero commitments.

TCFD disclosure continued

TCFD recommendation

Summary and FY24 priorities

Strategy continued

c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

Cross-reference for the disclosure in the report

- See our Climate Report for detailed scenario analysis—page 36

Fully aligned with TCFD recommendations

In FY22, climate scenario analysis was undertaken to evaluate the following most material physical and transition risks under high- and low-carbon scenarios:

- Hosting resilience.
- Damage to facilities.
- Workforce productivity.
- Changing customer behaviour and needs.

The physical risk analysis was carried out using Representative Concentration Pathway (RCP)2.6 (1.6°C–2°C), RCP4.5 (2.1°C–3°C), and RCP8.5 (3.1°C–4°C) scenarios, forecasting to 2050. The transition risk analysis was completed using the NGFS “Below 2 Degrees” (1.7°C plus) and the “Current Policy” (3.0°C plus) scenarios, forecasting until 2100. The scenarios have been chosen to provide a range of possible climate outcomes, including a fast transition scenario in which transition risks are likely to be more pronounced and a “business as usual” scenario which would lead to more severe physical risks. We acknowledge that the models used in assessing our risks are inherently uncertain and contain some underlying assumptions which affect their outcome.

In FY23, further climate scenario analysis was undertaken against the transition risk ‘Changing Customer Needs and Behaviours and Needs’, evaluating the relative impact of climate change against the different industry sectors and geographies our customers operate in. Working with Oxford Economics, a leader in global economic forecasting, we reviewed the economic impact of climate change across our customer base, evaluating different geographies and sectors and relative GDP forecast performance against a range of climate scenarios, ranging from RCP 1.9 (below 1.5°C) to RCP 7.0 at the medium to high end of projections.

The output of this work will enable Sage to support our customers on the transitional risks associated with climate change.

Furthermore, we conducted a detailed analysis evaluating the future cost of carbon, evaluating the options available to allow Sage to credibly neutralise any residual emissions in support of our 2040 net zero ambition. Sage will provide a further update on our approach to carbon removal and storage to neutralise the final <10% of residual scope 1, 2, and 3 emissions in due course, while recognising the immediate priority to rapidly cut near-term emissions.

The additional analysis undertaken during FY23 has not highlighted a severe strategic risk to Sage resulting from climate change in the short to medium term. We will continue to expand the quantification of financial impact of both risks and opportunities, as our understanding and data evolve.

Sage has a range of measures and activities in place to manage identified climate change impacts, as detailed on pages 7 and 8 of our Climate Report.

FY24 priorities

We will reassess which risks we conduct further detailed climate scenario analysis on, including the frequency of update. In FY24, we will review our analysis on the four risks that have currently been modelled.

Risk management

a) Describe the organisation's processes for identifying and assessing climate-related risks

Cross-reference for the disclosure in the report

- Risk management—page 81

Fully aligned with TCFD recommendations

Identification of climate risks is consistent with our approach to overall risk management. Climate change is considered a sub-risk to our ESG Principal risk and is therefore managed in line with key operational risks at Group level.

In FY21, we identified a list of climate risks and opportunities, using a combination of regulatory guidance, risk, and TCFD best practice and internal expert judgement, supported by our external environmental consultants EcoAct. All climate risks and opportunities are assessed against our ERM framework, including inherent and residual risk.

In FY22, we disclosed 11 identified climate risks and opportunities, including information on the impact of our business, maturity of our assessment, relevant time horizons, and mitigation and adaptation plans. Those identified as the most material were taken forward for further climate scenario analysis.

In FY23, we conducted a double materiality assessment that was informed by the CSRD and the standards developed thereunder, being the ESRS. Climate change was identified as one of eight topics defined as “strategically significant” and “very important” to our strategy due to its considerable impact on society and the environment and/or on Sage.

This helped us to better understand Sage's broader impact on the environment and emerging global regulatory requirements related to climate change as well as the related risks and opportunities.

FY24 priorities

As outlined in our Strategy disclosure above, we will support our ongoing monitoring of climate risks at function level by conducting a detailed bottom-up review of all climate risk and opportunity categories outlined in the TCFD framework.

TCFD recommendation

Summary and FY24 priorities

Risk management continued**b) Describe the organisation's processes for managing climate-related risks**

Cross-reference for the disclosure in the report

- Risk management—page 81

Fully aligned with TCFD recommendations

Our ERM Framework helps Sage manage ESG and related climate risks, enabling a consistent approach to the identification, assessment, management, and oversight of risks.

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

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

FY24 priorities

We will continue to consider how we engage with stakeholders across the value chain to aid risk identification and management.

c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management

Cross-reference for the disclosure in the report

- Risk management—page 81

Fully aligned with TCFD recommendations

Climate-related risks are managed as part of our ERM Framework. This helps Sage manage strategic, operational, commercial, financial, compliance, change, and emerging risks and enables a consistent approach to the identification, management and oversight of risks.

ESG is classified as a Principal Risk, and in FY22 we added climate change as a sub-risk.

Supported by our central Sustainability and Society team, functions across Sage are responsible for integrating climate-related risks within their respective areas of responsibility.

For example, climate risks associated with cloud hosting are considered by the Sage Product team, whereas physical risks to the built environment resulting from extreme weather are considered by the Sage Property team as part of business continuity planning.

FY24 priorities

As part of our broader sustainability strategy, we will further educate colleagues on the impact of climate change and what it means for Sage, for different parts of our business and individually. Using the insights developed from climate scenario analysis the education campaign will support colleagues to practically consider climate risk and opportunities as part of ongoing risk management practices.

Metrics and targets**a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process**

Cross-reference for the disclosure in the report

- See climate risks and opportunities table below
- Further information can be found in our Climate Report

Fully aligned with TCFD recommendations

Sage has been reporting on energy and carbon emissions since 2018, providing us with a robust baseline from which to plan our journey to net zero. Our carbon emissions calculations are also subject to independent limited assurance. In June 2022, our near-term 2030 commitment was validated by the Science Based Targets Initiative (SBTi). In June 2023, our net zero target was submitted for validation with the SBTi, with completion expected in H1 FY24, confirming our commitment to become net zero by 2040.

We have made good progress in reducing emissions against our target commitment. Since FY19 our market-based emissions have fallen by 16.4%, against an SBTi glidepath of 18%, reducing from 231,957 tCO₂e to 193,951 tCO₂e in FY23.

Our Net Zero Transition Plan <https://www.sage.com/en-gb/company/sustainability-and-society/> outlines the specific actions that will be taken to achieve our near-term 2030 target.

In FY23, we carried out an exercise to reassess the metrics we have in place to monitor and measure our climate risks and opportunities. The review recommended several qualitative and quantitative metrics and targets which are described in page 40 to 44 of our Net Zero Transition Plan.

Executive remuneration

In FY22, we introduced a set of performance measures to include relevant ESG metrics. In FY23, the weighting of ESG measures increased from 15% to 20%, including progress in reducing carbon emissions against our SBTi-approved Net Zero Transition Plan, which now accounts for 7.5%.

Read more in our Directors' Remuneration Report on pages 129 to 163.

Our most recent global emissions footprint can be found on page 17 of our Sustainability and Society Report.

FY24 priorities

We will continue to monitor the climate metrics we have in place, providing quantitative disclosures where appropriate. In addition, a review of internal carbon pricing will be completed to evaluate the role it can provide in supporting our strategy to achieve net zero.

TCFD disclosure continued

TCFD recommendation

Summary and FY24 priorities

Metrics and targets continued

b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG metrics and the related risks

Cross-reference for the disclosure in the report

- Further information can be found in our Climate Report

Fully aligned with TCFD recommendations

Sage calculates and discloses emissions from Scope 1 and Scope 2, in compliance with Streamlined Energy and Carbon Reporting (SECR) regulations.

Scope 1 and 2 emissions: UK and global ¹	Current reporting year Oct 2022–Sept 2023		Previous reporting year Oct 2021–Sept 2022		Previous reporting year Oct 2020–Sept 2021	
	UK and offshore area	Global (excluding UK and offshore area)	UK and offshore area	Global (excluding UK and offshore area)	UK and offshore area	Global (excluding UK and offshore area)
Total GHG emissions data						
Emissions from activities which the Company owns or controls, including combustion of fuel and operation of facilities (Scope 1)/tCO ₂ e	196	1,030	250	548	666	395
Emissions from the purchase of electricity, heat, steam, or cooling by the Company for its own use (Scope 2 Indirect) Location-based emissions (tCO ₂ e)	738	2,518	652	2,853	1,110	3,216
Scope 2 (Indirect) Market-based emissions (tCO ₂ e)	13.3	1,395	6.1 ²	2,035 ²	162	3,138
Total gross Scope 1 and location-based Scope 2 emissions (tCO ₂ e)	933	3,548	902	3,401	1,776	3,611
Energy consumption* used to calculate above emissions (kWh)	4,217,496	12,202,282	4,276,721	10,479,910	8,636,694	9,899,169
Carbon intensity ratio: location-based CO ₂ e emissions reported above normalised to tCO ₂ e per total GBP £1,000,000 revenue (Scope 1 and 2)** (tCO ₂ e/revenue)	2.2	2.0	2.2	2.2	4.7	2.5

- The table sets out Sage's mandatory reporting on greenhouse gas emissions and global energy use pursuant to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the SECR under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.
- FY22 figures re-instated following external limited assurance.

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

** Global revenue in FY223 is £2,184m for Sage during the reporting period. It was £1,949m for the previous year's reporting period.

Sage also screens and discloses emissions across all relevant Scope 3 categories as covered within our SBTi target.

In FY23, limited assurance of our GHG report has been provided by Bureau Veritas; a copy of the statement can be found in our Sustainability and Society Report on pages 46 and 47.

Further detail on our Scope 1, 2, and 3 GHG emissions and protocol aligned methodology and emissions can be found in our Sustainability and Society Report on page 17.

Energy efficiency actions

Business travel:

Air travel is the highest source of emissions within business travel (85%). In FY23 a carbon emission's travel dashboard was introduced, to engage and build awareness with colleagues across our functions and geographical regions.

Property related:

We continued to manage our sites effectively and efficiently in FY23. Our Sustainable Property strategy will continue to improve the efficiency of our property estate, whilst transitioning buildings to clean low-carbon sources of energy. Sage has seen a year-on-year increase of certified renewable energy and for FY23 Sage reached 68%, compared to 45% in FY22. Examples of energy efficiency initiatives include a LED replacement project within our Johannesburg office, saving 42 metric tonnes of carbon annually.

Reduce, reuse, recycle:

The IT department continued their 'Re-use', 'Resell', 'Recycle' policy. This involves collecting old equipment and ensuring it is upcycled and recycled. Sage sells the equipment to an external party and donates the proceeds to charity.

TCFD recommendation

Summary and FY24 priorities

Metrics and targets continued**b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG metrics and the related risks continued****Cross-reference for the disclosure in the report**

- Further information can be found in our Climate Report

Methodology

Our methodology underlying our disclosed emissions remains consistent with the previous year and is based on the "Environmental Reporting Guidelines: including mandatory greenhouse gas emissions reporting guidance" (March 2020) issued by the Department for Business, Energy & Industrial Strategy (BEIS). This methodology is consistent with the World Resources Institute's Greenhouse Gas Protocol (GHGP) Corporate Accounting and Reporting Standard.

We have also used the UK Government emissions factors for company reporting (published by BEIS in 2023), combined with the most recent International Energy Agency (IEA) international conversion factors (2022) for non-UK electricity within our reporting methodology. We have also used EcoAct's emission factors tool for Well to Tank (WTT) and WTT (Transport & Distribution) for non-UK sites as BEIS/DBT no longer publishes them. These emission factors are based on the specific fuel mix of each country's electricity generation. For Scope 3 emissions sources, we have used a combination of the Comprehensive Environmental Data Archive (CEDA version 6) and UK government greenhouse gas emission factors.

As our data collection improves, we aim to collect more supplier specific data. Our purchased goods and services calculation has used supplier-specific data from the CDP Supply Chain questionnaire where relevant. Working with CDP and other partners we aim to increase the proportion further in subsequent years as more suppliers make use of this service.

In some cases, we have extrapolated total emissions by using available information from part of a reporting period and extending it to apply to the full reporting year. For example, this has occurred where supplier invoices for the full reporting year were not available prior to the publication of this year's Annual Report and Accounts. Extrapolations have taken place based on a hierarchy of data availability in line with the GHGP guidance for carbon accounting.

For further details, our methodology document can be found at www.sage.com/investors.

Reporting period

Our Mandatory Greenhouse Gas reporting period is 1 October 2022 to 30 September 2023 and is aligned with our financial reporting year.

Organisational boundary and responsibility

We report our emissions data using an operational control approach to define our organisational boundary which meets the definitional requirements of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the UK Streamlined Energy & Carbon Reporting (SECR) regulations 2019 in respect of the energy consumption and emissions for which we are responsible. Under this approach, we have accounted for 100% of GHG emissions from operations over which Sage has control.

Carbon intensity

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

c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets**Cross-reference for the disclosure in the report**

- See climate risks and opportunities table below
- Further information can be found in our Climate Report

Fully aligned with TCFD recommendations**Targets related to net zero**

We have committed to net zero by 2040, and to reduce absolute Scope 1, 2, and 3 emissions by 50% by 2030 against a 2019 baseline. We are also committed to the SBTi, the UN climate change Race to Zero and the UN Global Compact Business Ambition for 1.5°C.

We have made good progress. Since FY19 our market-based emissions have fallen by 16.4%, against an SBTi glidepath of 18%, reducing from 231,957 tCO₂e to 193,951 tCO₂e in FY23.

See our climate report for more detail on our near-term and net zero target.

Metrics and targets related to our climate risks and opportunities

We have set a number of metrics and targets in relation to our climate risks and opportunities, as outlined in more detail within our Climate Report <https://www.sage.com/en-gb/company/sustainability-and-society/>. For example, the opportunities for renewable energy procurement will be monitored via the percentage of electricity sourced from renewable energy contracts and New Products and Services will align to our executive remuneration target to enable access to carbon accounting functionality via Sage suites.

FY24 priorities

We will continue to monitor the climate targets we have in place, providing quantitative disclosures against targets where possible.

TCFD disclosure continued

Our key climate-related risks and opportunities

Key—Stakeholder groups



Colleagues



Customers



Society



Shareholders

Key

● High impact
Quantitative
climate scenario
analysis performed

● Medium impact
Good understanding,
further work desirable

● Low impact
Further work is required
to fully impact, mitigate,
and adapt

Key—Risk assessment period

Short term 1-5 years

Medium term 5-15 years

Longer term 15-30 years

Sage has selected time horizons that are harmonised with those of national and international climate policy and goals including the 2015 international Paris Agreement and the three year strategic plan of the business.

Maturity



Increase



No change



Decrease

Transition risks

Changing Customer Behaviour and Needs



Sub-type

Market

The Sage business model is closely linked to economic activity and the success of SMB markets. However, SMB markets and businesses are more exposed and less resilient to the impacts of climate change. An increase in global disruption due to climate change could reduce economic activity and lead to a lower demand for Sage services.



S-M

✓ (2023)

Increasing Cost of Energy and Carbon



Sub-type

Regulation

Opening offices, providing hosting services, and outsourcing data centres are energy-intensive operations. If the cost of carbon increases, this could make the Group's operating costs more expensive. Sage may need to mitigate costs and risk through increased carbon efficiency, and/or consider where these costs are absorbed.



S-M

✓ (2023)

Reputational Damage



Sub-type

Reputation

Stakeholders' expectations regarding ambitious carbon targets and climate advocacy are increasing. They are applying greater scrutiny to how Sage aligns all business activities to its Net Zero Transition Plan. Sage may suffer reputational damage if targets are missed or if it is not sufficiently active in this space.



S-M

Physical risks

Workforce Productivity



Sub-type

Chronic physical

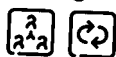
An increasing number of extreme weather events may leave offices and homes unfit for work. This could reduce workforce productivity by making it difficult for employees to work during certain times.



S

✓ (2022)

Damage to Facilities



Sub-type

Acute physical,
Chronic physical

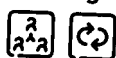
Extreme weather events have the potential to disrupt or damage Sage sites/facilities. Flooding, heatwaves, wild fires, droughts, and rising sea levels could all impact our facilities. Insufficiently prepared facilities could be unable to deal with more frequent and intense occurrences of such events.



S

✓ (2022)

Hosting Resilience



Sub-type























Acute physical,
Chronic physical

Sage has a number of centralised public cloud providers, as well as hosting services. This infrastructure could be vulnerable to persistent and extreme weather events. These events could become more frequent, reducing service availability and customer experience.



S-M

✓ (2022)

		Maturity	Time horizon	Climate scenario analysis
Opportunities				
Retaining and Hiring Superior Talent  	It is increasingly important for employers to demonstrate sustainability as a cultural value. This can help attract and retain environmentally conscious talent. A more climate-informative hiring process can show how active Sage is in retaining and attracting talent.		S-M	
Sub-type Efficient and mindful workforce				
Renewable Energy Procurement   	Sage could ingrain renewable energy provision into our facility management plans. This would incentivise Sage building managers, landlords, and hosting services to develop and innovate more carbon-efficient buildings. The combined pressure from Sage, its peers, and society can help reduce carbon emissions and costs.		S-M	
Sub-type Energy source				
Site Strategy    	Our property strategy presents an opportunity to reduce the business's carbon footprint, operational costs, and vulnerability to extreme weather events.		S-M	
Sub-type Resource efficiency				
New Products and Services    	Climate change demands are presenting a new opportunity for Sage to develop products and services for its SMB customers' that will help them tackle the challenges of climate change and put sustainability at the core of their business.		S-M	
Sub-type Products and services				
Enhanced Brand    	Sage has an opportunity to help SMBs fight climate change and be their voice for the future, supporting them when it comes to lobbying for change.		S-M	
Sub-type Reputation				

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 www.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, together with associated whistleblowing procedures and grievance mechanisms 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 FY23 identified any systemic issues or breaches of our obligations under the Bribery Act 2010. The anti-bribery and corruption policy is supported by our gifts & hospitality and conflicts of interest policies and their supporting declaration and approval procedures, as well as periodic audits and reminders. Further details on our policies and procedures in this area can be found on page 40 of our Sustainability and Society Report www.sage.com/en-gb/company/sustainability-and-society.



Governance and oversight

We recognise that assurance over our business activities and those of our partners and suppliers is essential. During FY23 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 68 onwards.



Tax strategy

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

Non-financial and Sustainability Information Statement

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

Environmental matters	pages 30 to 33, and 38 to 45	Anti-corruption and anti-bribery	page 46
Our employees	pages 24 to 29, and 48 and 49	Climate-related disclosures	pages 38 to 45
Social matters	pages 30 to 36, 46, and 52 and 53	Business model	pages 14 and 15
Human rights	page 46	KPIs	pages 22 and 23
		Principal Risks	pages 74 to 81

Stakeholder engagement

Listening to our stakeholders

How we define and engage with our key stakeholders

Engaging regularly with our stakeholders is fundamental to our strategy. We strive to maintain an open, authentic, and positive stakeholder engagement across our stakeholder community including colleagues, customers, society, and shareholders.

We keep appropriate coverage across all of our stakeholder groups by embedding it into our Non-executive Directors' engagement plan. Each year the Board also reviews the key stakeholder categories to ensure the assessment of their needs and interests remain relevant and aligned with the Group's strategy. Key stakeholder considerations are integrated into Sage's Board papers to enable the Board to proactively consider them in all discussions and decision making. Sage's section 172(1) statement for FY23 on pages 56 to 59 demonstrates how Sage's stakeholders influenced some of the decisions taken by the Board during the year while recognising that situations will exist where not every stakeholder interest can be addressed in full.

In addition to the four key stakeholder groups, we recognise that other groups of stakeholders are also important to the Group's activities. The Board has regard for and engages with such groups to the extent that they are affected by, and themselves affect, the operations of the Group. Sage's suppliers, for instance (including third-party hosting providers), are significant to Sage and its business, and therefore the Group seeks to develop and foster relationships with them to maximise value and efficiency. Through our governance model, which the Board ultimately oversees, Sage implements a thorough supplier onboarding process and procurement lifecycle (including to appropriately manage data privacy and security matters). Our Supplier Code of Conduct clearly sets out the standards of behaviour we expect from all our suppliers across a range of issues, which all suppliers are required to follow.

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

Our key stakeholders



Colleagues

Read more on pages 48 and 49



Customers

Read more on pages 50 and 51



Society

Read more on pages 52 and 53



Shareholders

Read more on pages 54 and 55

Stakeholder engagement continued



Colleagues

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

Why they matter to Sage

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

What matters to them

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

How Sage engages at Board level

- The Board Associate role aims to enhance decision making by the Board, and is a key feature of our chosen method of engagement with the workforce for the purposes of the UK Corporate Governance Code 2018. The Board hears feedback from the Board Associate at meetings and the Board Associate undertakes internal initiatives to increase the visibility of the role and communicate its impact on Board discussions and decision making.
- In June 2023, the Board Associate hosted an interview with Drummond Hall, who provided colleagues with an insight into Sage's transformation since he joined the Board and highlighted the opportunities Sage has moving forward. The Board Associate also hosted a discussion with Roisin Donnelly and Maggie Chan Jones in July 2023 to share their perspectives with colleagues on their first six months as Sage Board members.
- The Board received regular updates on colleagues, including on the results of Sage's bi-annual colleague surveys.

How Sage engages across the Group

- During FY23, we launched a three-week campaign to encourage participation in the All About Us programme, which helps us identify areas of underrepresentation in the organisation and the barriers that communities of colleagues face. Colleagues were invited to voluntarily and confidentially disclose information about themselves, which helps us build a much more inclusive Sage and allows us to understand inequities and create policies and initiatives to address the needs of colleagues.
- As part of our ongoing disability inclusion journey, we launched a Free to Focus Hub in North America, which simplifies the way colleagues request workplace adjustments and accommodations.
- In April 2023, we introduced free premium access to the mindfulness app Calm for Sage colleagues and up to five friends or family members. So far, 2,923 colleagues have signed up to use Calm since introduction.
- We strengthened our network of Healthy Mind Coaches. These are trained volunteers from around Sage who are there to lend a listening ear and guide colleagues towards support if they are struggling with their wellbeing or have mental health concerns. Sage has over 90 Healthy Mind Coaches and colleagues have access to Healthy Mind Coaches in any Sage location.
- Our Colleague Success Networks play an important role in supporting the Group's DEI journey. Events such as Managing Neurodiversity at Home and in the Workplace were held, as well as the attendance of Sage networks at various events including London Trans+ Pride and Christopher Street Day Pride parade in Frankfurt.

Outcomes from engagement

- We were listed in the Times Top 50 for Gender Equality List and ranked 12th in RateMyApprenticeship, UK. We introduced a Healthy Working programme, initially in North America and Iberia, and soon to be rolled out globally.
- Following its initial roll out in UKIA, during the year we launched Sage Talent Marketplace for colleagues in a number of locations. Sage Talent Marketplace is an internal talent mobility tool that empowers colleagues to take control of their career development. Sage Talent Marketplace's AI engine matches colleagues to internal career opportunities, vacancies, learning, mentors, gigs, and projects based on their skills, talents, and values. So far over 70% of colleagues at Sage are on the platform.
- In May 2023, we introduced the Sage Data Academy. During a Data Pulse Survey, colleagues told us that they believed data is important to the future success of the Company and to them in their roles, helping them make informed decisions. The Sage Data Academy has the aim of enhancing our collective data skills and knowledge, promoting best practices around becoming insight and value driven, and encouraging continuous learning for colleagues working in and around data across the Company.

- Colleague engagement sessions were also held throughout the year with the Board in Newcastle, Paris, and Atlanta. Andrew Duff visited the Madrid office in February 2023, where he met with colleagues to gain an understanding of their work, and visited the Newcastle office in September 2023. Roisin Donnelly visited the Newcastle office as part of her induction to meet the team and gain further understanding of the Sage business following her appointment to the Board.
 - The Board received updates on the implementation of the Group's DEI strategy to monitor progress on delivery and ensure Sage achieves its three DEI principles of Diverse Teams, Equitable Culture, and Inclusive Leadership.
 - Oversight of Sage's health and safety performance and approach to monitoring and reporting of colleague incidents.
 - A key part of Board engagement is the focus on culture throughout the Group. Further details on how the Board monitors culture can be found on pages 104 and 105.
-
- We delivered on the commitment to ensure all colleagues globally have access to an Employee Assistance Programme (EAP) by the end of FY23. The EAP provides a confidential 24/7 helpline to support colleagues through whatever is going on in their life at work or at home.
 - Our Code of Conduct provides unambiguous guidance for all colleagues on how the Group does the right thing and sets clear expectations across Sage for compliance with ethical standards. All Sage colleagues are required to complete Code of Conduct training bi-annually.
 - An independent and anonymous whistleblowing hotline is provided 24/7. Calls and email/online reports are monitored by the external provider and Sage's hotline representatives, investigated by Sage's Risk team, and reported to the Audit and Risk Committee.
 - Our Health and Safety and Wellbeing policies are designed to ensure a healthy, safe, and supportive working environment at Sage that protects the wellbeing of all colleagues.
 - Sage TV Live broadcasts presentations on strategy and quarterly performance updates by the CEO and CFO, Executive Leadership Team, and senior management. Multimedia channels are also used internally for sharing information and as a depository of internal news items of interest.
-
- We conducted Pulse Surveys during the year, which allow the Board greater insight into colleague sentiment across the Group and provide direct feedback on areas that can be improved. In March 2023, 87% of Sage colleagues completed the Pulse Survey, which was the highest-ever response rate. The highest number of comments was also received (21,400), which included thousands of ideas about how to improve both the colleague and customer experience at Sage. The September 2023 Pulse Survey also received outstanding participation, with 85% of Sage colleagues completing the survey and providing 10,000 comments.
 - We have a flexible inclusive working structure that creates opportunities for teams to come together to connect, collaborate, and innovate. Striking the right balance makes it possible for the Group to achieve great outcomes for colleagues, customers, and the community.

For further information, please see the People section on pages 24 to 29

Stakeholder engagement continued



Customers

We build every experience with human insight and ingenuity

Why they matter to Sage

- Our brand promise puts customers at the heart of everything we do, helping businesses thrive and flow. SMBs are the growth engine of the global economy. Accountants are the professionals who rely on us to help them deliver a great service to their clients, whatever their size. We recognise that our customers are a diverse and dynamic group and we endeavour to build every experience for them with human insight and ingenuity.

What matters to them

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

How Sage engages at Board level

- Regular updates from the CEO are provided to the Board on the operational priorities in place to deliver a high-quality customer experience.
- The Board hears regular updates on and monitors key customer measures across the Group and key themes from customer feedback.
- Regular Cyber Security updates are provided to the Board and this year the Board's understanding of Sage's work to reduce cyber risks across the business was enhanced by an engagement activity on Cyber Security in February 2023.
- Product demonstrations were provided to the Board during the year to help Board members understand how Sage's products were being evolved to meet customer needs.

How Sage engages across the Group

- Our Customer Connect initiative continued. The initiative includes activities such as call listening to help colleagues understand Sage's customer pain points and assistance needs, whilst customer visits enable colleagues to meet customers, ask questions, and gather insights directly.
- Following the previous launch of Sage Membership in the UK and US, we launched Sage Membership in South Africa, which includes expert human support from our Sage product specialists, community forums where members can hear from industry experts, and Member Masterclasses, which include a range of content, such as talks and articles from business experts to help with specific business challenges.
- We continued to scale Sage Intacct through product enhancements, extended vertical reach, and geographical expansion. During the year, Sage Intacct was launched in France, with other European markets due to follow in FY24.

Outcomes from engagement

- We have evolved our approach to how we capture, act on, and measure customer feedback. By mapping micromoments (specific occasions or touchpoints in the customer journey), we aim to capture actionable insights to help us clearly understand and improve the customer journey.
- Regular monitoring of Net Promoter Scores across the Group allows Sage to assess customer sentiment and identify areas where we can refine the customer experience. This will help address pain points as well as generate additional value for customers in areas which would help them most.

- Our partners are also core to the Group's strategy and are an extension of the Sage team. Sage works with an extensive network of partners, who contribute to our mutual growth and ambition to enable customer success. Our community of partners includes accountants, resellers, IP builders, and service providers who represent the Sage brand in the market. They help bring our solutions to life, serving customers locally and creating an ecosystem of complementary solutions and services.

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

- In May 2023, the Board received an update on Sage's UKIA business, with a focus on how Sage was developing its propositions to meet the needs of small business customers and accountants.
- In July 2023, the Board received an update on Sage's European business, including areas of focus for new and existing customers and the new products which were being launched in the region.
- The Board received updates during the year on the development of the Sage Network, with a particular focus on understanding its benefits for customers and how AI services and offerings were being integrated into the customer experience.
- During the year, Andrew Duff visited our Madrid office and attended a customer session with the local leadership team.
- Attended a customer Q&A event with four Sage Intacct partners and customers in Atlanta in September 2023 to help the Board understand their experiences of working with Sage.

- In Europe we launched Sage Active, a multi-legislation business management solution for SMBs, into new markets including France, Spain, and Germany.
- In June 2023, we expanded our partnership with Amazon Web Services (AWS), focusing on helping SMBs speed up their digital transformation and benefit from the latest technology. As part of this relationship, we will make Sage Intacct available on the AWS cloud platform for customers in the US for the first time, which would in turn enable our customers to scale at pace by modernising their finance function and unlocking efficiencies.
- In April 2023, Sage published "The Human Firm" by Will Farnell, a book that will help accounting professionals looking to build a better practice for their clients and their team, to use the best of technology to drive forward a more human, emotional connection and understanding of clients.
- We introduced the Sage Managed Services Programme that provides partners with a platform to provide client services. It is designed to help partners scale, by taking on bigger clients and offering higher-value services.

- The Customer Connect initiative enables Sage to keep its finger on the pulse with customers, allowing us to make sure we remain attuned to their needs and help their businesses to thrive.
- Furthering our partnership with Microsoft in FY23 meant that we were able to remove friction from day-to-day tasks for customers submitting and approving accounting and people processes directly through Teams, rather than in the Sage Intacct or Sage People applications, reducing the need to toggle between solutions.

Stakeholder engagement continued



Society

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

Why it matters to Sage

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

What matters to them

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

How Sage engages at Board level

- As part of regular CEO Board briefings the Board receives updates on the Sustainability and Society strategy.
- The Board held a deep dive session and training on ESG in February 2023, including on delivering our current commitments and evolving our Sustainability and Society strategy and an update on the Sage Foundation.
- During the year we were pleased to appoint Maggie Chan Jones as the Non-executive Director with oversight on ESG.
- An update on Sage's Net Zero Transition Plan and the progress of Sage's FY23 TCFD disclosures was provided to the Board in September 2023. Further information on TCFD can be found on pages 38 to 45.

How Sage engages across the Group

- We joined forces with NatWest to make it easier for businesses to understand their carbon footprint. NatWest's Carbon Planner is now powered by Sage Earth, automating a key part of the process of calculating a company's emissions.
- We launched the Travel Insights Dashboard. The dashboard is designed to empower colleagues with insights into their own actions regarding business travel, to help positively adjust behaviour, including reducing personal CO₂ footprint and contributing directly to reducing Sage's CO₂ emissions.
- Our Data and AI Ethics Principles were launched, overseen by a new Data and AI Ethics Council that includes members from the ELT.
- Sage's Sustainable Supply Chain strategy is a key component of our wider Sustainability and Society strategy. The strategy enables us to procure goods and services responsibly, ensuring our supply chain is free from risks such as modern slavery and that suppliers meet our standards of ethical conduct.

Outcomes from engagement

- We were able to make 2 products accessible to people with disabilities by meeting WCAG criteria.
- Sage was able to expand its TCFD disclosures after the progress made in strengthening governance and the integration of climate-related objectives in executive remuneration, leadership performance, and risk management.
- Sage demonstrates the pathway to achieve 2030 climate commitments through a robust Net Zero Transition Plan. Sage's Net Zero Transition Plan considers the latest guidance from the Transition Plan Taskforce and industry best practice, enhancing Sage transparency and credibility beyond core mandatory disclosure compliance.
- We were named in the FT's 2023 Europe's Climate Leaders list.

- We believe that by supporting communities to knock down barriers to digital and economic equality and to protect the planet, we can play a role in creating a more equal society. Research in our communities shows that starting a business and becoming your own boss is seen as a route to a better life.
- People in underrepresented groups or sectors hardest hit by crisis need support to start and grow businesses, as this is a proven route to long-term employment, high job satisfaction, and wealth creation.

- The Board receives detailed papers and in-person updates on Sage's position on non-financial disclosures including regulatory requirements and voluntary disclosures such as GRI and SASB.
- Updates on Sage Foundation colleague participation were provided to the Board and in September 2023 the Board attended Sage Foundation "Mini Grow" mentoring sessions with local Atlanta not for profits. A photo taken at the event is included on page 58.

- We expanded our Trust and Security Hub to support SMBs to go digital safely.
- During the year we evolved the Sustainability Steering Committee into the Sustainability and Society Committee. This management committee provides strategic direction and has overall accountability for successful delivery of our Sustainability and Society strategy, and comprises ELT members and other senior leaders.
- We announced a new partnership with Morehouse College, a historically black liberal arts college (HBCU) in Atlanta. Sage will invest in Morehouse's software engineering programme and Sage experts will help teach a series of new software engineering courses at Morehouse.
- Through the Sage Foundation we connect with the communities in which we operate.

For further details on achievements, please refer to the Sustainability and Society section on pages 30 to 37

- In March 2023, Sage Earth received two edie awards nominations (Product Innovation of the Year: Software, systems and services and Business Leader of the Year for Sage's VP of Carbon Accounting). The edie awards are the UK's largest sustainability awards, celebrating leadership across the space, and we are proud to have been recognised.
- The Sage Foundation surpassed its fundraising target for FY23, raising over \$750,000, and, in response to the earthquake disaster in Morocco, launched a scheme to match colleague donations up to £200 (or local equivalent) to support the crisis.
- The Sage Foundation partnered with Kiva, a crowdfunding platform that lends money to unbanked underserved entrepreneurs, to double colleagues' \$50 credits to mark Earth Day. So far, 4,827 colleagues have used their Kiva credit, and together with them we have supported 17,283 entrepreneurs (15,347 of whom are women) across 63 countries and provided \$341,000 of funding.
- Through the Sage Foundation, Sage volunteers contributed 154,620 hours during FY23.
- We conducted a research project with Corporate Citizenship, which will help us understand the barriers faced by entrepreneurs from socio-economically disadvantaged backgrounds and inform us on how to amplify Sage Foundation's impact in the future.

For further details on Sage Foundation activities, please refer to the People section on pages 24 to 29

Stakeholder engagement continued



Shareholders

We target sustainable growth in shareholder value

Why they matter to Sage

- Our shareholders are our providers of equity capital without whom Sage could not grow and invest for future success, and are key beneficiaries in the value we create.
- They provide us with input and feedback concerning the development and implementation of our strategy, and we consider their views when making investment decisions.

What matters to them

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

How Sage engages at Board level

- At each Board meeting the Board receives Investor Relations updates.
- Market sentiment updates from Sage's brokers were also provided to the Board during the year.
- Andrew Duff held a round of meetings with most of the top 15 shareholders in Sage, providing an opportunity to discuss the Group's strategic progress and to listen to shareholder feedback.
- Feedback from investor meetings is also circulated to the Board after Sage's full-year and half-year results announcements, and quarterly trading updates where relevant.
- The Chair of the Remuneration Committee consulted individually with Sage's top shareholders and proxy agencies on Sage's proposed FY24 Executive Director remuneration arrangements.

How Sage engages across the Group

- Shareholder engagement is the responsibility of the Executive Directors and the principal day-to-day activity of the Investor Relations team, which develops and manages Sage's relationships with investors and analysts.
- Results announcements are prepared and published by the Investor Relations team.
- Analyst events are also held with senior management to provide opportunities to ask questions.
- Senior management are available to meet investors, and did so during the year, for example at one-on-one meetings and at the webinar event on Sage's Product and Innovation strategy in September 2023.

Outcomes from engagement

- Proactive engagement with shareholders and analysts has helped ensure support for the Group's management and strategy, and buy-in to capital allocation decisions.
- We have fostered constructive relationships with our top shareholders at multiple levels within the organisation, including the Chair, CEO and CFO, ELT, and Investor Relations team.

Shareholder activities during FY23:	UK and US investor roadshows for FY22 results	Annual General Meeting
	NOVEMBER/DECEMBER 2022	FEBRUARY 2023

- The Chair and other Non-executive Directors, including the chairs of the Board Committees, are available to attend meetings with major shareholders at the request of either party to gain an understanding of any issues or concerns.
- At Sage's AGM, all Board directors are present, which provides a key opportunity for the Board to engage with shareholders and for shareholders to vote on the resolutions put to them.
- Sage's material communications to investors, including results announcements and the Annual Report, were reviewed and approved by the Board prior to release.
- The Board recommended an interim and final dividend payment during the year.

- Shareholder views were sought and considered during the year when conducting our ESG materiality exercise, which is described on page 31.
- The Investor Relations team provides updates on the equity markets shareholder views to selected teams throughout Sage on an ongoing basis.
- Our website www.sage.com/investors continues to be an important channel for communicating with all stakeholders, including investors.

- We have received positive feedback from analysts and shareholders following engagement events, UK and US investor roadshows in November/December 2022, May 2023 and September 2023.
- We have proactively targeted new investors, particularly those based in the US, resulting in Sage's proportion of US institutional ownership increasing to 38%.

**UK and US investor
roadshows for
H1 FY23 results**

**US investor
roadshow**

**Product and Innovation—
webinar for investors
and analysts**

MAY 2023

SEPTEMBER 2023

Section 172(1) statement

Principal decisions during FY23

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

The Board is mindful of its duties under section 172(1) and the likely long-term consequences of any decisions it makes; the need to foster the Company's relationships with all its stakeholders; the interests of its employees; the impact of the Company's operations on the environment and in the local communities; the desire to maintain a reputation for high standards of business conduct; and the need to act fairly as between members.

The Board believes that in order to truly achieve long-term sustainable success, the interests of all our key stakeholders must be considered in Board decision making, which ensures that the tone is set from the top by living our Values.

The sustainability of the business and balancing stakeholders' respective needs and expectations is important. The Board understands that engagement with our stakeholders is integral to informing Directors on the things that are most important to them and the potential impact that Board decisions could have on those stakeholders. The Board seeks the opportunity to engage with stakeholders and further information on how our Board and the wider Group engaged with our stakeholders during FY23 is set out on pages 47 to 55.

Our wider leadership team is delegated by the Board to appropriately manage the day-to-day operations so that the principles of section 172(1) are embedded within the business and how we operate. For further information on our governance framework, please refer to page 92.

Section 172(1) limbs

- a)** The likely consequences of any decision in the long term



- b)** The interests of the company's employees



- c)** The need to foster the company's business relationships with suppliers, customers, and others



- d)** The impact of the company's operations on the community and the environment



- e)** The desirability of the company maintaining a reputation for high standards of business conduct



- f)** The need to act fairly as between members of the company



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

Section 172 duties	Read more	Pages
Consequences of decisions in the long term	Chair's statement	6
	Strategic priorities	18–21
	Our approach to sustainability	30–37
	TCFD disclosure	38–45
	Stakeholder engagement	47–55
	Principal Risks and uncertainties	74–81
	Viability Statement	82–83
	Board activities	100–103
	Corporate Governance Report—Nomination Committee	110–117
	Directors' Remuneration Report	129–163
	Directors' Report	164–170
Interests of employees	Chair's statement	6
	CEO's review	8–11
	Our people	24–29
	Stakeholder engagement—Colleagues	48–49
	Principal Risks and uncertainties	74–81
	Chair's introduction to governance: Engagement with our stakeholders	87
	Board activities	100–103
	How the Board monitors culture	104–105
	Our Board Associate	106–107
	Chair's statement	6
Fostering business relationships with suppliers, customers, and others	CEO's review	8–11
	Business model	14–15
	Strategic priorities	18–21
	Our approach to sustainability	30–37
	Non-financial information statement—Ethics and governance	46
	Stakeholder engagement: Customers and Society	50–53
	Principal Risks and uncertainties	74–81
	Governance	84–109
	Board activities	100–103
	Chair's statement	6
	CEO's review	8–11
Impact of operations on the community and the environment	Our approach to sustainability	30–37
	TCFD disclosure	38–45
	Non-financial information statement—Ethics and governance	46
	Stakeholder engagement—Society	52–53
	Principal Risks and uncertainties	74–81
	Board activities	100–103
	Chair's statement	6
	CEO's review	8–11
	Our approach to sustainability	30–37
	TCFD disclosure	38–45
Maintaining high standards of business conduct	Non-financial information statement—Ethics and governance	46
	Stakeholder engagement	47–55
	Board activities	100–103
	How the Board monitors culture	104–105
	Board evaluation	108–109
	Audit and Risk Committee	118–128
	Chair's statement	6
	CEO's review	8–11
	Our people	24–29
	Our approach to sustainability	30–37
	TCFD disclosure	38–45
Acting fairly between members	Non-financial information statement—Ethics and governance	46
	Stakeholder engagement—Shareholders	54–55
	Engagement with shareholders	99
	Board activities	100–103
	Directors' Remuneration Report	129–163
	Directors' Report	164–170

Section 172(1) statement continued

Principal decisions by the Board

Key—Stakeholder groups



Colleagues



Customers



Society



Shareholders

Sage North America Headquarters

Section 172(1) limbs



Stakeholders considered



Principal decision by the Board

Approval of capital expenditure to deliver a new North America Headquarters

Board considerations

Following the Covid-19 pandemic, ways of working have radically changed to a more flexible hybrid model that requires a rethink of the future office experience to ensure this provides a dynamic, motivational destination of choice for existing and future colleagues. The Board is mindful that Sage must create an office experience in its North America Headquarters that supports our brand, reflects our culture, enhances colleague performance, and creates connections with our customers.

Sage has a rich history in Atlanta, having established a North American presence there in 1998 with the acquisition of Peachtree Accounting. In February 2023, Sage senior management commenced an extensive search to find a new North America Headquarters in the city, one which would provide an enhanced collaborative experience for hundreds of our colleagues, foster creativity and innovation, as well as enable Sage to deliver strong experiences for our customers and partners and connect with the community.

The proposed new space is in Ponce City Market in the heart of Midtown Atlanta and will provide opportunities to strengthen Sage's engagement within the Atlanta community and allow Sage to actively participate in the ever-growing tech landscape of Atlanta. Senior management's proposal to the Board highlighted that Atlanta offers a diverse talent market and a competitive cost of living, which are critical components for attraction and retention of top talent. The new North America Headquarters location will help Sage continue to make its own positive contribution to the city. As part of the relocation decision, the environmental credentials of the new building were also considered including occupants' connectivity to the natural environment with the use of natural materials, ventilation, and air quality improvements, and external and internal views of nature. The Board noted that the new building is built from Georgia-grown timber, a first for this type of construction in Georgia and one that directly aligns with our ESG values and strategy.

During the Board visit to Atlanta in September 2023, the Board took the opportunity to make a site visit. Please see a photo taken during the visit above.

Outcome

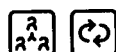
In February 2023, the Board approved the capital expenditure to deliver a new North America Headquarters in Atlanta, Georgia. The Board considered the positive impact on society, including the building's environmental credentials, the colleague experience and wellbeing, and the potential benefits for our customers.

Audit tender process

Section 172(1) limbs



Stakeholders considered



Principal decision by the Board

Approval of the appointment of KPMG LLP (KPMG) as the Company's external auditor for the financial year ending 30 September 2025. The appointment is subject to shareholder approval at the 2025 AGM and an updated independence assessment.

Board considerations

In line with relevant legislation, Sage is required to conduct an audit tender every 10 years. Ernst & Young LLP (EY) has been Sage's auditor since 2015, meaning that Sage was required to undertake an audit process ahead of the FY25. The Audit and Risk Committee, on behalf of the Board, carried out a tender process in FY23 for its external audit services to provide enough time for an orderly transition to a new external auditor, if required.

The Board agreed that it was important to run a thorough process and maintain a reputation for high standards of business conduct, to follow good practice, and to treat all participating audit firms fairly and transparently. The audit tender process was led by the Audit and Risk Committee Chair, supported by a Steering Committee made up of Audit and Risk Committee members and senior management. The Steering Committee was tasked to feed back its findings to the Audit and Risk Committee. During the process it was crucial for the Board to consider that stakeholders may have different objectives. Aligning stakeholder objectives early in the process was important to ensure that stakeholder expectations had been considered to make a fully informed decision.

Three firms were invited to participate, of which one was an audit firm outside of the 'Big Four'. The other two 'Big Four' firms were not invited to participate due to conflicts of interest. After an initial meeting with the Steering Committee, the decision was made to proceed with two of the three audit firms. The extensive selection process included:

- Setting out a clear and objective decision-making criteria.
- Assessment of the tendering firms, including the Lead Partner.
- A number of meetings with formal presentations to the Steering Committee.
- An assessment of the FRC's annual audit quality inspection results.

The participating firms were assessed over several areas including:

- Audit quality and approach.
- Depth and breadth of capabilities of the team, including audit culture.
- Understanding the business, industry and audit risks.
- Sustainability.
- Audit service, including use of technology in the audit.
- Independence.

For further information on the selection process, please refer to pages 127 and 128.

The Audit and Risk Committee subsequently set out its recommendation to the Board, with a justified preference for one of the firms. The Board noted that the Audit and Risk Committee's aim was to identify the audit firm that would provide the highest-quality and most effective audit.

Outcome

Following the conclusion of a formal competitive audit tender process, having considered the scoring criteria, key factors, input, and observations from the Audit and Risk Committee, the Board approved the appointment of KPMG as the Company's external auditor for the financial year ending 30 September 2025. In coming to its final decision the Board deliberated on the likely consequences of decisions in the long term for the benefit of our shareholders and colleagues. The appointment is subject to receiving shareholder approval at the 2025 AGM and an updated independence assessment.

For further information on the audit tender process, please refer to pages 127 and 128.

Financial review

“Sage performed well in FY23, driving double-digit growth through consistent strategic execution. We continue to invest in our business, whilst driving operating efficiencies to increase profitability. This is supported by strong cash flows and a robust balance sheet.”

Jonathan Howell
Chief Financial Officer

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

Introduction

Sage performed well in FY23, delivering double-digit revenue growth, increased profitability and strong cash flows.

Underlying recurring revenue grew by 12% to £2,096m and underlying total revenue grew by 10% to £2,184m.

The increase in recurring revenue was driven by a 25% rise in Sage Business Cloud revenue to £1,628m, reflecting strength from new customer acquisition, higher sales to existing customers and continued good retention rates.

Organic recurring revenue grew by 11% to £2,095m (FY22: £1,882m), while organic total revenue grew by 10% to £2,182m (FY22: £1,986m).

The Group's underlying operating profit grew by 18% to £456m. This represents an underlying operating margin of 20.9%, 140 basis points higher than the prior year, driven by operating efficiencies as we focus on scaling the Group.

The Group also achieved a 22% increase in underlying basic EPS of 32.3p, together with a 37% increase in free cash flow to £404m, underpinned by strong cash conversion of 116%.

Statutory and underlying financial results

Financial results	Statutory			Underlying		
	FY23	FY22	Change	FY23	FY22	Change
North America	£973m	£818m	+19%	£973m	£849m	+15%
UKIA ²	£627m	£586m	+7%	£627m	£575m	+9%
Europe	£584m	£543m	+7%	£584m	£558m	+5%
Group total revenue	£2,184m	£1,947m	+12%	£2,184m	£1,982m	+10%
Operating profit	£315m	£367m	-14%	£456m	£386m	+18%
% Operating profit margin	14.4%	18.9%	-4.5 pts	20.9%	19.5%	+1.4 pts
Profit before tax	£282m	£337m	-16%	£424m	£355m	+20%
Profit after tax	£211m	£260m	-19%	£329m	£269m	+22%
Basic EPS	20.7p	25.5p	-19%	32.3p	26.4p	+22%

1. Underlying and organic revenue and profit measures are defined in the Glossary.
2. United Kingdom & Ireland, Africa and APAC.

The Group achieved statutory and underlying total revenue of £2,184m in FY23. Statutory total revenue increased by 12% compared to the prior year, reflecting underlying total revenue growth of 10% together with a 2-percentage point foreign exchange tailwind, principally relating to the US Dollar in North America.

Statutory operating profit decreased by 14% to £315m, reflecting an 18% increase in underlying operating profit to £456m offset by a £131m increase in recurring and

non-recurring items³, including a £53m one-off gain on business disposals in FY22 together with property restructuring and M&A-related charges in FY23.

Statutory basic EPS decreased by 19% to 20.7p, reflecting lower statutory operating profit, slightly higher statutory net finance costs and the post-tax impact of non-recurring items. Underlying basic EPS increased by 22% to 32.3p, reflecting higher underlying operating profit and a slight reduction in the Group's underlying effective tax rate.

Total revenue bridge	FY23	FY22	Change
Statutory	£2,184m	£1,947m	+12%
Recurring items	–	£2m	
Impact of FX ⁴	–	£33m	
Underlying	£2,184m	£1,982m	+10%
Disposals	–	(£7m)	
Acquisitions	(£2m)	£11m	
Organic	£2,182m	£1,986m	+10%

Statutory and underlying total revenue was £2,184m in FY23. Underlying revenue in FY22 of £1,982m reflects statutory revenue of £1,947m retranslated at current year exchange rates, resulting in a foreign exchange tailwind of £33m, together with a £2m fair value adjustment to deferred income relating to the acquisition of Brightpearl.

Organic total revenue in FY23 was £2,182m, reflecting underlying revenue of £2,184 adjusted for £2m of revenue from the acquisition of Spherics and Corecon during the year. Organic revenue in FY22 of £1,986m reflects underlying revenue of £1,982m, adjusted for £5m of revenue from Sage's business in Switzerland and £2m of revenue from the South

African payroll outsourcing business, both of which were sold during FY22, and £11m of revenue from Lockstep, Futrl and Brightpearl which were acquired during FY22.

Revenue by portfolio

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

Underlying recurring revenue by portfolio ⁵	FY23	FY22	Change	Organic Change
Cloud native ⁶	£596m	£445m	+34%	+30%
Cloud connected ⁷	£1,032m	£855m	+21%	+21%
Sage Business Cloud	£1,628m	£1,300m	+25%	+24%
Products with potential to migrate	£316m	£429m	-26%	-26%
Future Sage Business Cloud Opportunity⁸	£1,944m	£1,729m	+12%	+12%
Non-Sage Business Cloud ⁹	£152m	£146m	+4%	+4%
Underlying recurring revenue	£2,096m	£1,875m	+12%	+11%
Sage Business Cloud penetration	84%	75%		

3. Recurring and non-recurring items are defined in the Glossary and detailed in note 3.6 of the financial statements.

4. Impact of retranslating FY22 revenue at FY23 average rates.

5. The 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.

6. Recurring 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.

7. Recurring 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.

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

9. Recurring 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.

Financial review continued

Underlying recurring revenue from cloud native solutions grew by 34% to £596m, driven by Sage Intacct together with other solutions including Sage Accounting, Sage Payroll and Sage HR, through new customer acquisition and growth from existing customers. Organic cloud native recurring revenue growth, which is adjusted for the contribution from acquisitions in the current and prior year, was 30%.

Underlying recurring revenue from cloud connected solutions increased by 21% to £1,032m, reflecting growth

in the Sage 50 and Sage 200 franchises, driven by existing and new customers, together with the continued migration of products to Sage Business Cloud through the integration of cloud functionality.

Overall, the Future Sage Business Cloud Opportunity, which represents products in or with a clear pathway to Sage Business Cloud, performed strongly with recurring revenue growth of 12%. The revenue performance of the Non-Sage Business Cloud portfolio was in line with expectations.

Revenue by type

Underlying revenue mix	FY23	FY22	Change	Organic Change
Software subscription revenue	£1,732m	£1,484m	+17%	+16%
Other recurring revenue	£364m	£391m	-7%	-7%
Underlying recurring revenue	£2,096m	£1,875m	+12%	+11%
Other revenue (SSRS)	£88m	£107m	-18%	-18%
Underlying total revenue	£2,184m	£1,982m	+10%	+10%
Subscription penetration	79%	75%		

Underlying recurring revenue growth of 12% to £2,096m, was supported by a 17% increase in software subscription revenue to £1,732m, 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 7% to £364m reflects customers migrating from maintenance and support to subscription contracts. Other revenue (SSRS) declined by 18% to £88m, in line with our strategy to transition away from licence sales and professional services implementations.

Revenue by region

North America	FY23	FY22	Change	Organic Change
Underlying total revenue	£973m	£849m	+15%	+14%
Underlying recurring revenue	£944m	£815m	+16%	+15%
% Sage Business Cloud penetration	86%	79%	+7 ppts	+7 ppts
% Subscription penetration	78%	73%	+5 ppts	+5 ppts
Underlying recurring revenue	FY23	FY22	Change	Organic change
US	£819m	£703m	+16%	+15%
Of which Sage Intacct	£312m	£241m	+30%	+30%
Canada	£125m	£112m	+12%	+12%

North America achieved underlying recurring revenue growth of 16% to £944m and total revenue growth of 15% to £973m. Adjusting for the impact in the US of the acquisitions of Brightpearl and Lockstep during FY22, organic recurring and total revenue growth was 15% and 14%, respectively. Sage Business Cloud penetration increased to 86%, up from 79% in the prior year, driven by growth in cloud native and cloud connected solutions, while subscription penetration increased to 78%, up from 73% in the prior year.

Cloud native growth was driven primarily through Sage Intacct, which delivered strong recurring revenue growth of 30% to £312m, reflecting further progress in attracting new customers and continued strong sales to existing customers.

Recurring revenue in the US increased by 16% to £819m, reflecting growth in Sage Intacct alongside growth in cloud connected solutions, driven by new and existing customers across the Sage 200 and Sage 50 franchises. Total revenue for the US increased by 15% to £846m.

In Canada, recurring revenue increased by 12% to £125m and total revenue by 11% to £127m, driven mainly by Sage 50 cloud, and supported by strong growth in Sage Intacct.

UKIA	FY23	FY22	Change	Organic Change
Underlying total revenue	£627m	£575m	+9%	+8%
Underlying recurring revenue	£611m	£557m	+10%	+9%
% Sage Business Cloud penetration	90%	79%	+11 pts	+11 pts
% Subscription penetration	89%	88%	+1 pts	+1 pts
Underlying recurring revenue	FY23	FY22	Change	Organic Change
UK & Ireland (Northern Europe)	£466m	£429m	+9%	+8%
Africa & APAC	£145m	£128m	+13%	+13%

In the UKIA region, underlying recurring revenue grew by 10% to £611m and total revenue grew by 9% to £627m. Adjusting for the impact in the UK & Ireland of the acquisitions of Brightpearl and Futrli during FY22, organic recurring and total revenue growth was 9% and 8%, respectively. Sage Business Cloud penetration reached 90%, up from 79% in the prior year, while subscription penetration increased to 89%, up from 88% in the prior year.

In the UK & Ireland, recurring revenue increased by 9% to £466m, reflecting growth in cloud native solutions, supported by further growth in Sage 50 cloud.

Cloud native revenue growth was driven by continued growth in small business solutions, together with Sage Intacct as we continue to drive scale through both the direct and partner channels. Total revenue in the UK & Ireland increased by 8% to £471m.

Africa & APAC delivered strong recurring revenue growth of 13% to £145m, driven by growth in cloud native solutions, including Sage Accounting, Sage Payroll and Sage Intacct, and supported by local products. Total revenue in Africa & APAC increased by 11% to £156m.

Europe	FY23	FY22	Change	Organic Change
Underlying total revenue	£584m	£558m	+5%	+5%
Underlying recurring revenue	£541m	£503m	+7%	+8%
% Sage Business Cloud penetration	73%	64%	+9 pts	+8 pts
% Subscription penetration	70%	65%	+5 pts	+5 pts
Underlying recurring revenue	FY23	FY22	Change	Organic change
France	£284m	£264m	+7%	+7%
Central Europe	£123m	£115m	+7%	+10%
Iberia	£134m	£124m	+9%	+9%

Europe achieved underlying recurring revenue growth of 7% to £541m and total revenue growth of 5% to £584m. Adjusting for the impact of the Swiss disposal in FY22, organic recurring revenue growth and total revenue growth was 8% and 5%, respectively. Sage Business Cloud penetration increased to 73%, up from 64% in FY22, while subscription penetration reached 70%, up from 65% in FY22.

In France, recurring revenue increased by 7% to £284m, with a strong performance in cloud connected, particularly Sage 200 cloud, supported by growth in cloud native solutions. Total revenue in France increased by 5% to £295m.

Central Europe achieved recurring revenue growth of 7% to £123m, while total revenue increased by 1% to £142m. Adjusting for the disposal of the Swiss business, organic recurring and total revenue growth in Central Europe was 10% and 5% respectively. Growth in the region was driven by Sage Business Cloud, with a particularly strong performance in HR solutions.

In Iberia, recurring revenue increased by 9% to £134m, with further progress in cloud connected supported by growth in cloud native solutions. Total revenue grew by 6% to £147m.

Operating profit

The Group increased underlying operating profit by 18% to £456m (FY22: £386m). Underlying operating margin increased by 140 basis points to 20.9% (FY22: 19.5%), driven by operating efficiencies as we scale the Group. On an organic basis, adjusting for the full-year impact of acquisitions and disposals during FY22, operating profit increased by 22% to £457m (FY22: £374m), and margin increased by 220 basis points to 21.0% (FY22: 18.8%).

Financial review continued

Operating profit—underlying and organic reconciliation to statutory

Operating profit bridge	FY23		FY22	
	Operating profit	Operating margin	Operating profit	Operating margin
Statutory	£315m	14.4%	£367m	18.9%
Recurring items ¹⁰	£103m	—	£83m	—
Non-recurring items:				
• Property restructuring	£32m	—	—	—
• Employee-related costs	£9m	—	—	—
• Gain on disposal of subsidiaries	—	—	(£53m)	—
• Reversal of restructuring costs	(£3m)	—	(£20m)	—
Impact of FX ¹¹	—	—	£9m	—
Underlying	£456m	20.9%	£386m	19.5%
Disposals	—	—	(£1m)	—
Acquisitions	£1m	—	(£11m)	—
Organic	£457m	21.0%	£374m	18.8%

The Group achieved a statutory operating profit in FY23 of £315m (FY22: £367m). Underlying operating profit of £456m in FY23 reflects statutory operating profit adjusted for recurring and non-recurring items. Recurring items of £103m (FY22: £83m) comprise £54m of amortisation of acquisition-related intangibles (FY22: £42m) and £49m of M&A-related charges (FY22: £39m). In FY22, there was a further £2m deferred income adjustment relating to the acquisition of Brightpearl.

Non-recurring items in FY23 comprise a £32m charge for a property restructuring programme undertaken during the year, following a strategic review of the Group's property portfolio, together with a £9m employee-related charge for French payroll taxes relating to previous years. This is partly offset by a £3m (FY22: £20m) reversal of employee restructuring costs. Non-recurring items in FY22 also comprise gains on the disposals of Sage Switzerland (£49m) and the South African payroll outsourcing business (£4m).

In addition, the retranslation of FY22 operating profit at current year exchange rates has resulted in an operating profit tailwind of £9m in that year. This has led to a 10-basis point margin tailwind from foreign exchange to 19.5% (FY22 underlying as reported: 19.4%).

Organic operating profit of £457m in FY23 reflects underlying operating profit of £456m adjusted for £1m of losses from Spherics (now rebranded Sage Earth), which was acquired during the year. Organic operating profit of £374m in FY22 reflects underlying operating profit of £386m adjusted for £1m of operating profit from the South African payroll outsourcing business, which was sold during the prior year, and £11m of operating losses from businesses acquired during the prior year.

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

11. Impact of retranslating FY22 operating profit at FY23 average rates.

EBITDA

EBITDA was £553m (FY22: £477m) representing a margin of 25.3%. The increase in EBITDA principally reflects the improvement in underlying operating profit.

	FY23	FY22	Margin
Underlying operating profit	£456m	£386m	20.9%
Depreciation & amortisation	£54m	£55m	
Share-based payments	£43m	£36m	
EBITDA	£553m	£477m	25.3%

Net finance cost

The statutory net finance cost for the period increased to £33m (FY22: £30m), reflecting the impact of interest on new debt issuances, partly offset by higher interest income on deposits. The statutory net finance cost is broadly in line with the underlying net finance cost of £32m (FY22: £31m).

Taxation

The underlying tax expense for FY23 was £95m (FY22: £86m), resulting in an underlying tax rate of 23% (FY22: 24%). The statutory income tax expense for FY23 was £71m (FY22: £77m), resulting in a statutory tax rate of 25% (FY22: 23%). The FY23 underlying tax rate has decreased due to the benefit of higher tax incentive claims in the US, UK, and France, partly offset by an increase in the UK corporation tax rate.

Earnings per share

	FY23	FY22	Change
Statutory basic EPS	20.7p	25.5p	-19%
Recurring items	8.8p	6.7p	
Non-recurring items	2.8p	(6.5)p	
Impact of foreign exchange	—	0.7p	
Underlying basic EPS	32.3p	26.4p	+22%

Underlying basic EPS increased by 22% to 32.3p, reflecting higher underlying operating profit. Statutory basic EPS decreased by 19%, with the increase in underlying basic EPS offset by the change in post-tax impact of recurring and non-recurring items, including one-off gains on business disposals in FY22 together with property restructuring and higher M&A-related charges in the current year.

Cash flow

Sage remains highly cash generative with underlying cash flow from operations of £528m (FY22: £402m), representing underlying cash conversion of 116% (FY22: 107%). This strong cash performance reflects further growth in subscription revenue and continued good working capital management. Free cash flow of £404m (FY22: £295m) reflects strong underlying cash conversion.

Cash flow APMs	FY23	FY22 (as reported)
Underlying operating profit	£456m	£377m
Depreciation, amortisation and non-cash items in profit	£51m	£51m
Share-based payments	£43m	£36m
Net changes in working capital	—	(£40m)
Net capital expenditure	(£22m)	(£22m)
Underlying cash flow from operations	£528m	£402m
Underlying cash conversion %	116%	107%
Non-recurring cash items	(£11m)	(£23m)
Net interest paid and derivative financial instruments	(£24m)	(£21m)
Income tax paid	(£85m)	(£62m)
Profit and loss foreign exchange movements	(£4m)	(£1m)
Free cash flow	£404m	£295m

Statutory reconciliation of cash flow from operations	FY23	FY22 (as reported)
Statutory cash flow from operations	£505m	£368m
Recurring and non-recurring items	£41m	£55m
Net capital expenditure	(£22m)	(£22m)
Other adjustments including foreign exchange translations	£4m	£1m
Underlying cash flow from operations	£528m	£402m

Financial review continued

Net debt and liquidity

Group net debt was £561m at 30 September 2023 (30 September 2022: £733m), comprising cash and cash equivalents of £696m (30 September 2022: £489m) and total debt of £1,257m (30 September 2022: £1,222m). The Group had £1,326m of cash and available liquidity at 30 September 2023 (30 September 2022: £1,270m).

The decrease in net debt in the period is summarised in the table below:

	FY23	FY22 (as reported)
Net debt at 1 October	(£733m)	(£247m)
Free cash flow	£404m	£295m
New leases	(£14m)	(£6m)
Disposal of businesses	–	£43m
Acquisition of businesses	(£26m)	(£315m)
M&A and equity investments	(£30m)	(£22m)
Dividends paid	(£190m)	(£183m)
Share buyback	–	(£249m)
Purchase of shares by Employee Benefit Trust	(£1m)	(£32m)
FX movement and other	£29m	(£17m)
Net debt at 30 September	(£561m)	(£733m)

The Group's debt is sourced from a syndicated multi-currency revolving credit facility (RCF), and from sterling and euro denominated bond notes. The Group's RCF was refinanced in December 2022 into a new facility of £630m which expires in December 2028, having been extended by one year in November 2023, with an extension option for a further year subject to specific provisions. At 30 September 2023, the RCF was undrawn (FY22: undrawn).

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

The Group established a Euro Medium Term Note (EMTN) programme in January 2023 and issued €500m of 5-year notes in February 2023, with a coupon of 3.82%. This issuance funded the repayment of the Group's outstanding US private placement loan notes totalling £326m (US\$400m) and enabled the Group both to extend the maturity of its debt portfolio and to diversify its funding sources.

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

Capital allocation

Sage's disciplined capital allocation policy is focused on accelerating strategic execution through organic and inorganic investment, and delivering shareholder returns. During FY23 Sage completed the acquisition of Spherics, an innovative carbon accounting solution, and Corecon, a construction project management solution.

Sage has a progressive dividend policy, intending to grow the dividend over time while considering the future capital requirements of the Group. The final dividend proposed by the Board is 12.75p per share, taking the total dividend for the year to 19.3p, up 5% compared to the prior year (FY22: 18.4p).

The Group also considers returning surplus capital to shareholders. Alongside our FY23 results, we have announced a share buyback programme of up to £350m, reflecting the Board's confidence in the future prospects of the Group, together with Sage's strong cash generation and robust financial position. Sage continues to have considerable financial flexibility to drive the execution of its growth strategy.

	FY23	FY22 (as reported)
Net debt	£561m	£733m
EBITDA (last twelve months)	£553m	£468m
Net debt/EBITDA ratio	1.0x	1.6x

The Group's EBITDA over the last 12 months was £553m, resulting in a net debt to EBITDA leverage ratio of 1.0x, down from 1.6x in the prior year. Sage intends to operate in a broad range of 1x to 2x net debt to EBITDA over the medium term, with flexibility to move outside this range as business needs require.

Group return on capital employed (ROCE) for FY23 was 19% (FY22 as reported: 18%).

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 2023 and a number of downside sensitivities, and remain satisfied that the going concern basis of preparation is appropriate. Further information is provided in the Directors' Report on pages 164 and 165 and in note 1 of the financial statements on pages 188 and 189.

Foreign exchange

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

Average exchange rates (equal to GBP)	FY23	FY22	Change
Euro (€)	1.15	1.18	-3%
US Dollar (\$)	1.23	1.28	-4%
Canadian Dollar (C\$)	1.65	1.63	+1%
South African Rand (ZAR)	22.31	20.21	+10%

Future revenue reporting changes

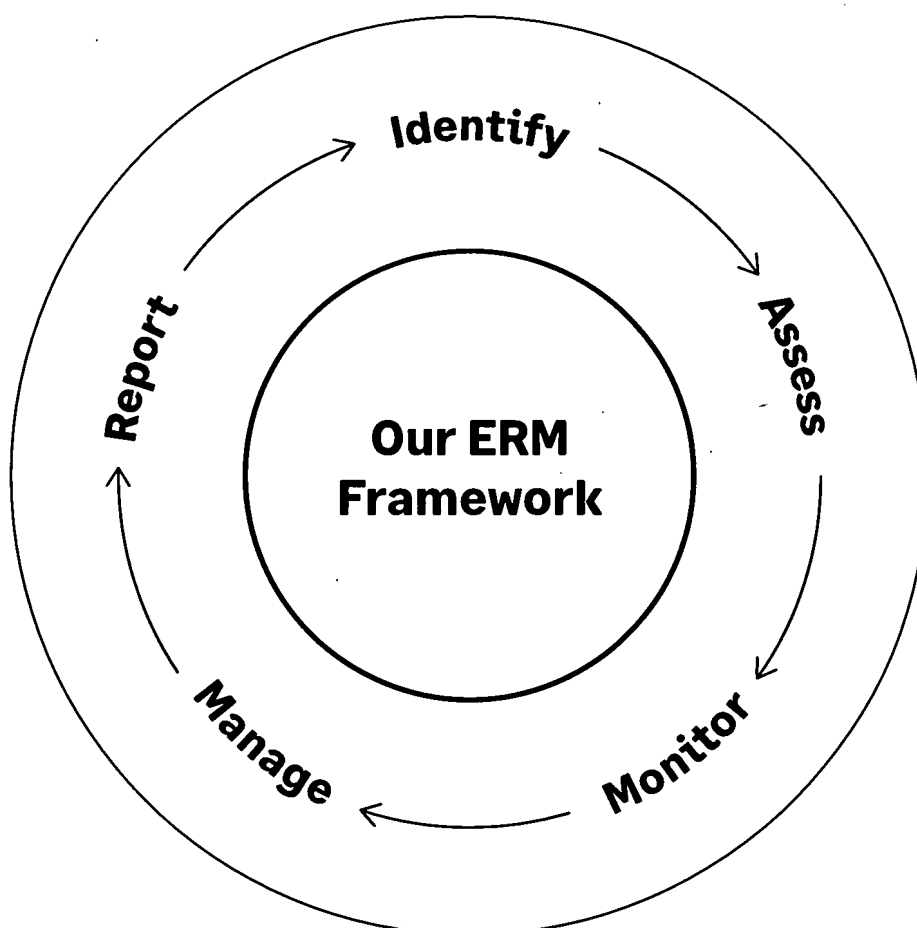
In FY24 we intend to simplify our revenue reporting, to enable continued, clear understanding of progress and performance given the recent evolution of the Group. These changes will include:

- Focusing revenue metrics and analysis on total rather than recurring revenue¹², as their growth rates increasingly converge reflecting the reduction in other revenue (SSRS). ARR will continue to be provided as one of Sage's strategic KPIs.
- Reporting revenue performance principally on a regional basis going forward. Accordingly, the tables relating to revenue by portfolio and by type will no longer be provided; however, we will continue separately to provide cloud native, Sage Business Cloud and subscription revenue and commentary.

Further details of these changes will be published in December 2023.

12. Consistent with this change, Sage's FY24 guidance is based on total revenue, rather than on recurring revenue as in previous years.

Risk Management Framework



Our Enterprise Risk Management (ERM) Framework helps Sage manage strategic, operational, commercial, financial, compliance, change, and emerging risks, and enables a consistent approach to identifying, managing, and overseeing risks.

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

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

How we identify risks

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

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

How we assess risks

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

How we manage risk

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

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

In addition to the Principal Risks, business risks are identified and recorded at a regional or functional level. These risks are owned and managed within their respective management structures and are reviewed on an ongoing basis. Formal review of these risks takes place quarterly through Regional and Functional Risk Forums, which are described in the diagram on the next page.

Risk reporting and monitoring

We consider risks both individually and collectively to fully understand our risk landscape. By analysing the correlation between risks, we can identify those that have the potential to cause, affect, or increase another risk. This exercise informs our scenario analysis, particularly the combined scenario used in the Viability Statement on pages 82 and 83.

Business risks are consolidated into a Group-wide view and presented to our senior leaders, who add their own input from a strategic, functional, and emerging-risk perspective. Business risks are then escalated in line with the Risk Management Policy and via our ERM Framework to Regional or Functional Risk Forums and then to the Global Risk Committee. This escalation process provides organisational visibility to emerging, strategic, commercial, operational, financial, and compliance risks, as well as supporting action and accountability for risk management. As part of the escalation process, the risks are analysed to consider whether they need to be included in the current set of Principal Risks, or whether a new Principal Risk should be created. You can read more about Principal Risks on pages 74 to 81.

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

Risk management continued

Risk governance

Top down

Oversight, accountability, and assessment of Principal Risks, significant operational risks, and emerging risks



Bottom up

Identification and assessment of risk exposures at regional and functional level

The Board

Ultimately responsible for setting Sage's risk appetite
Responsible for risk management and internal control systems
Establishes appropriate governance arrangements and acts as a champion of "top-down" risk culture

Audit and Risk Committee

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

Global Risk Committee

Provides oversight of risk appetite and approach to risk management strategy
Acts as a point of escalation for Regional and Functional Risk Forums
Provides oversight and approval of Sage's Principal Risks and their risk appetite statements

Regional and Functional Risk Forums

Responsible for reviewing key operational and strategic risks that could implicate the regional strategy plans or Sage's Principal Risks
Responsible for providing oversight of risks from key functions such as Product, Security, Data Privacy, and IT

The Board

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

Audit and Risk Committee

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

Global Risk Committee

The Global Risk Committee is chaired by the General Counsel and Company Secretary, supported by the EVP Chief Risk Officer, Chief Executive Officer, and Chief Financial Officer.

Other Principal Risk Owners are invited to attend the Global Risk Committee when relevant. The Committee meets quarterly and has the responsibility for providing direction and support for managing risk across Sage, including setting and monitoring the risk appetite of each Principal Risk and ensuring effective mitigations for these. The Committee also provides the Board and the ARC with information to enable them to discharge their responsibility for reviewing the Company's internal financial controls and risk management and internal control systems.

Regional and Functional Risk Forums

All business areas must adopt the ERM Framework. To do this, each business area either has a Regional or Functional Risk Forum to review key operational as well as strategic risks that could implicate the execution of the regional or functional strategy plan, while ensuring there are sufficient mitigation plans in place to prevent those key risks from materialising. Risks are escalated from operational Risk Owners to the Forums, and on to the Global Risk Committee where necessary.

Three lines model

First Line
All colleagues
identify, own,
operate

Second Line
Sage Risk and
Controls
Guide, support,
oversee

Third Line
Sage Assurance
Independent and
objective

Three lines model

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

First Line is all our colleagues who are at the forefront of the business. It is our colleagues who hold the necessary skills and knowledge to help identify and manage risks within our business. Colleagues in the first line have ultimate accountability for the management and ownership of risk while ensuring those risks are managed through the wider risk framework.

Second Line consists of the Risk and Controls team. The team is responsible for setting the framework, policies, tools, and techniques to enable the First Line to manage risk effectively. As part of this role, the team is on hand to provide support and guidance to ensure a consistent approach to managing risk is maintained. This includes supporting the Global Risk Committee, and the Regional and Functional Risk Forums in fulfilling their responsibilities.

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

Risk management continued

Risk culture

Sage recognises that culture underpins the effectiveness of the ERM Framework and supports an effective control environment. Sage's values set out how our strategy should be executed and help ensure that a culture of managing risks effectively is linked to daily business activities and outcomes. Our Code of Conduct reinforces these values and sets clear expectations across Sage for compliance with ethical standards. Values form a significant part of our colleague performance-management process, and in FY23, culture continued to be managed as a Principal Risk.

During FY23, we continued to deliver our compliance training programme, including a refreshed Code of Conduct learning module, to existing colleagues, new starters, and colleagues joining through acquisition. Through demonstrating clear alignment between learning content and Sage Values, we are able to support accountability and empower values-aligned, risk-based decision making in the business.

Business case study

The Sage strategy is dependent on data and therefore it's essential to successfully manage risks that may arise when working with data. This year, we have created new Data and AI Ethics principles that are designed to support our purpose, underpin our ambition, embody our Values, and support our strategy. They will provide us with clear guardrails within which to operate, while ensuring we manage risks relating to data privacy, security, intellectual property, and AI bias.

To define the Principles, we started with customer insight and a comprehensive understanding of the industry landscape. Then, a team of experts across our business evolved the principles from existing frameworks, and took account of external guidance, to ensure they reflected the opportunities and risks we see in emerging technology.

There are eight principles that focus on:

- 1 Data security and privacy first**
- 2 Customer choice**
- 3 Customer benefit**
- 4 Charging for data**
- 5 Using data for good**
- 6 Data quality matters**
- 7 Diversity management**
- 8 Human-centric AI**

 **You can read more about the eight principles on our website within the Trust and Security Hub**

To support the implementation of the principles, we have set up a new Data and AI Ethics Council, which includes members from the Executive Leadership Team. The Council will oversee and govern activities relating to data and AI ethics in line with these principles.

Horizon scanning

Global conflicts (e.g. Russia-Ukraine, Israel-Gaza), trade war between US and China, energy shortages, rising interest rates and inflation are just some of the events which may have a material impact on Sage and our customers. To maintain resilience in this continually changing external landscape, Sage has developed an ongoing horizon scanning process. This process enables us to monitor external events and trends and the resultant effect they may have on our colleagues, customers, and partners. External risks are reviewed at every Global Risk Committee meeting to ensure Sage is proactively responding to material events.

Part of our horizon scanning involves looking beyond the present by considering emerging risks. We run a series of workshops with representatives of all Sage business areas including Marketing and Customer Experience, Product, Security, Sustainability, People, Finance, and Strategy.

During the workshops we consider current external mega-trends and global threats and opportunities over the short, medium, and long term. Through these workshops we are able to define a set of scenarios that may have an impact on Sage, as well as the potential time horizon of each scenario. Key themes identified during the process are listed in the table below. We then evaluate the extent of planning and mitigation Sage needs to put in place to ensure we are adequately prepared and protected for our key emerging risks. The plans and mitigations are considered by the Global Risk Committee.

Emerging Risk Scenario	Time horizon		
	1-2 years	3-5 years	Over 5 years
1. There is a risk that operating models of SMBs are reshaped through AI and automation. If Sage products are unable to keep pace with the changes or if Sage is unable to develop a reputation as a trusted leader in the accounting and payroll software market in incorporating AI into products, it may have a significant impact on market share and profitability.		●	
2. New regulations can create emerging opportunities (e.g. e-invoicing) as well as risks. Governments around the world are considering new regulations on data, cyber security, AI, and digital services. There is a risk that these regulations may introduce stricter controls and affect our ability to achieve the product strategy.		●	
3. There is a risk that Sage does not achieve the right balance in its investment strategy between efficiency and profitability, and building resilience, and this limits Sage's adaptability and capability to be resilient to external shocks.			●
4. There is a risk of a public backlash against large tech companies, due to concerns on data and AI ethics and erosion of privacy, increasing inequality, and compromising democratic and institutional systems. This would result in significant reduction in use of cloud software, including Sage's cloud solutions.			●
5. There is a risk that colleagues expect companies to take a stand on contentious or polarised issues that may have an unintended negative consequence on their reputation. Organisations face historic challenges within a competitive talent landscape and Sage will need to ensure the right balance between the needs and expectations of current and prospective colleagues and external stakeholders.		●	
6. A global economic downturn or an inflationary wage-price spiral, resulting in increased default of SMBs. This could lead to an increase in customer churn and a reduced ability to sell to new or existing customers. Additionally, increased labour costs in key markets could make it difficult for Sage to retain and attract talent.	●		

Principal Risks and uncertainties

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

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

In accordance with principles M, N, and O of the 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.
- 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 control systems on pages 68 to 73, and about the associated work of the Audit and Risk Committee on pages 118 to 128.

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

Key



Scale Sage Intacct



Expand medium beyond financials



Build the small business engine



Scale the network



Learn and disrupt

Risk exposure change



Stable







Decreasing






Increasing

Principal Risk	Risk context	Management and mitigation
1. Understanding customer needs If Sage fails to anticipate, understand, and deliver against the capabilities and experiences of current and future customer needs, then customers will find alternative solution providers.	<p>Understanding of how to attract new customers while retaining existing customers is essential to building sustainable growth. This requires a deep and continuous flow of insights supported by processes and systems.</p> <p>By understanding the needs of our customers, Sage will differentiate itself from competitors, build compelling value propositions and offers, use key drivers to identify opportunities, influence product and process roadmaps, decrease churn, and support more effective revenue generation.</p>	<ul style="list-style-type: none"> • Brand-health surveys to provide an understanding of customer perception of the Sage brand and its products, used to inform and enhance our market offerings. • A Market and Competitive Intelligence team to provide insights that Sage uses to win in the market. • Proactive analysis of customer activity and churn data, to improve customer experience. • Customer Segmentation Framework and the customer market analysis by region to help inform product roadmaps. • Customer Advisory Boards, Customer Design Sessions, and closed-loop feedback to constantly gather information on customer needs.
Trend 		
Strategic alignment 		
Link to viability scenario Data breach Existing or new market disruptor Global economic shock Cloud operations failure	Executive Owner Chief Marketing Officer	



Principal Risk	Risk context	Management and mitigation
<p>2. Execution of product strategy If we fail to offer the capabilities and experiences outlined in our product strategy, we will not meet the needs of our customers or commercial goals.</p> <p>Trend </p> <p>Strategic alignment </p> <p>Link to viability scenario Existing or new market disruptor Global economic shock Cloud operations failure</p>	<p>We need to execute rapidly a prioritised product strategy that continues to simplify our product portfolio and focuses on our drive to create the Sage Network that will benefit our customers.</p> <p>Executive Owner Chief Product Officer</p>	<ul style="list-style-type: none"> • A robust product organisation supported by a governance model to enable the way we build products. • Migration framework in key countries to support our customers as they move to the cloud. • Continued expansion of Sage Intacct outside of North America and for additional product verticals. • Several successful product launches in key regions (e.g. Sage Active in Europe). • Enhancing accessibility of Sage cloud products to WCAG 2.1 AA standard by the end of 2025. • A strong focus on accountants through a tailored Sage for Accountants proposition. • Launch of Sage Earth, a carbon accounting solution to help SMBs easily understand and reduce their environmental impact.
<p>3. Developing and exploiting new business models Sage is unable to develop, commercialise viability scenario and scale new business models to diversify from traditional Software as a Service (SaaS), especially consumption-based services and those which leverage data.</p> <p>Trend </p> <p>Strategic alignment </p> <p>Link to viability scenario Data breach Existing or new market disruptor Cloud operations failure</p>	<p>We must be able to rapidly deploy new innovations to our customers and partners by introducing technologies, services, or new ways of working.</p> <p>Innovation requires us to address how we change and transform our people, processes viability scenario and technology, and how we differentiate our products and increase customer efficiencies.</p> <p>Executive Owner Chief Marketing Officer</p>	<ul style="list-style-type: none"> • A business unit solely focused on scaling the Sage Network. • Continued digitalisation and automation of Sage products through Sage Network and AI services. • Enhanced, consistent digital experience for all Sage Business Cloud users through the Sage Design System. • Strategic acquisition (e.g. Spherics) and collaboration with partners to complement and enable accelerated innovation. • A new Venture Studios team asked to search for new business models that may align with the Sage vision.

Principal Risks and uncertainties continued

Principal Risk	Risk context	Management and mitigation
<p>4. Route to market If we fail to deliver a globally consistent blend of route to market channels in each market, Sage will miss the opportunity to efficiently deliver the right capabilities and experiences to our current and future customers.</p> <p>Trend </p> <p>Strategic alignment </p> <p>Link to viability scenario</p> <p>Data breach Existing or new market disruptor Global economic shock Cloud operations failure</p>	<p>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 telephone channels, via our accountant network, and through partners, valued-added resellers, and independent software vendors (ISVs).</p> <p>We use these channels to maximise our marketing and customer engagement activities. This can shorten our sales cycle and ensure we improve customer retention.</p> <p>Executive Owner President North America and President EMEA</p>	<ul style="list-style-type: none"> • Market data and intelligence support decision making regarding the best routes to market. • Specified colleagues are in place to support partners, and to help manage the growth of targeted channels. • Sale processes are targeted and configured by region for key customer segments and verticals. • A specific Onboarding Squad enhances user journeys to enable customer conversion. • Acceleration of new partnerships to support the Sage Network. • Centre of Excellence to support our indirect sales and third-party approach.
<p>5. Customer experience If we fail to provide 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.</p> <p>Trend </p> <p>Strategic alignment </p> <p>Link to viability scenario</p> <p>Data breach Existing or new market disruptor Global economic shock Cloud operations failure</p>	<p>We must maintain a sharp focus on the relationship we have with our customers, constantly offering the products, services, and experiences they need for success. If we do not, they are likely to find another provider who does. Conversely, if we meet or exceed their expectations, customers will stay with Sage, increasing their lifetime value, and becoming our greatest marketing advocates.</p> <p>While Sage is known for its high-quality customer support, this area requires constant, proactive focus. By helping customers 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 our customers to be successful and, in turn, improve financial performance.</p> <p>Executive Owner Chief Marketing Officer</p>	<ul style="list-style-type: none"> • Customer-journey mapping to ensure appropriate strategy alignment and alignment to Target Operating Model. • Introduction of micromoments, which are customer experiences broken down into moments that matter most to our customers. We use micromoments to prioritise improvements. • "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 us to identify customer challenges rapidly, and respond in a timely manner to emerging trends. • Sage Membership offered to all customers, providing customers with access to curated resources, tools, and a connected community of business leaders.



Principal Risk	Risk context	Management and mitigation
<p>6. Third-party reliance If we do not make our partners an integral and aligned part of Sage's go-to-market strategy, we will fail to provide the right capabilities and experiences to our customers.</p> <p>Trend </p> <p>Strategic alignment </p> <p>Link to viability scenario Cloud operations failure</p>	<p>Sage relies on third-party providers to support the delivery of our products to our customers through the provision of cloud native products.</p> <p>Sage also has an extensive network of sales partners critical to our success in the market, and suppliers it relies on.</p> <p>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.</p> <p>Executive Owner Chief Product Officer</p>	<ul style="list-style-type: none"> • Centre of Excellence for our indirect sales and third-party partners. • Specified colleagues in place to support partners, and to help manage the growth of targeted channels. • Managed growth of the API estate, including enhanced product development that enables access by third-party API developers and optimisation of API integrations to improve efficiency. • Enhanced third-party management framework, to support global alignment, execution, and oversight of third-party activities. • A specialised Procurement function supporting the business with the selection of strategic third-party suppliers and negotiation of contracts, and the implementation of a Sustainable Supply Chain Strategy.
<p>7. People and performance If we fail to ensure we have engaged colleagues with the critical skills, capabilities, and capacity we need to achieve our strategy, we will not be successful.</p> <p>Trend </p> <p>Strategic alignment </p> <p>Link to viability scenario Data breach</p>	<p>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 right talent to navigate change, but will also need to provide an environment where colleagues can develop to meet these new expectations.</p> <p>By empowering colleagues and leaders to make decisions, be innovative, and be bold in meeting our commitments, Sage will be able to create an attractive working environment. By addressing what causes colleague voluntary attrition, and embracing the values of successful technology companies, Sage can increase colleague engagement and create an aligned high-performing team.</p> <p>Executive Owner Chief People Officer</p>	<ul style="list-style-type: none"> • Extensive focus on hiring channels to ensure we are attractive in the market through our enhanced employee value proposition and enhanced presence through social media such as Glassdoor, Comparably, Twitter, LinkedIn, and Facebook. • Reward mechanisms designed to incentivise and encourage the right behaviour, with a focus on ensuring fair and equitable pay in all markets. • A series of Learning Academies and talent programmes to support the development of internal talent including sponsorship programmes, and new Director, graduate, and apprentice programmes. • An improved OKR framework to define measurable goals and track outcomes of colleague success. • Implementation of Talent Marketplace solution to support identification of capabilities and gaps, talent pipeline, development and career pathways, and mentoring. • Adoption of a Strategic Workforce Planning Framework across the business.




Principal Risks and uncertainties continued

Principal Risk	Risk context	Management and mitigation
<p>8. Culture If we do not define, shape, and proactively manage our culture in line with our Values and Behaviours, we will find it difficult to achieve our strategic priorities and purpose; we will risk disengaging colleagues, increasing attrition, and affecting our ability to attract and retain diverse talent.</p> <p>Trend </p> <p>Strategic alignment </p> <p>Link to viability scenario Data breach</p>	<p>The development of a shared behavioural competency that encourages colleagues to always do the right thing, put customers at the heart of business, and improve innovation is critical in Sage's success. Devolution of decision making, and the acceptance of accountability for those 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 with a rich digital environment.</p> <p>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 encourage the engagement that results in increased market share.</p> <p>Executive Owner Chief People Officer</p>	<ul style="list-style-type: none"> Integration of Values and Behaviours into all colleague priorities including talent attraction, selection, and onboarding as well as OKRs. All colleagues are encouraged to take up to five paid Sage Foundation days each year, to support charities and provide philanthropic support to the community. A DEI strategy focused on building diverse teams, an equitable culture, and fostering inclusive leadership. This is supported by measurable plans and metrics to track progress, ensuring Sage meets its commitments, including no tolerance of discrimination, equal chances for everyone, an inclusive culture, removing barriers, and DEI education. Refreshed Code of Conduct training for all colleagues (including anti-bribery and corruption requirements) delivered as snippets, allowing Sage to signpost relevant training at colleagues' point of need. Core elearning modules rolled out across Sage, with regular refresher training. Whistleblowing and incident-reporting mechanisms in place to allow issues to be formally reported and investigated.

Principal Risk	Risk context	Management and mitigation
<p>9. Cyber security and data privacy</p> <p>If we fail to collect, process, and store data responsibly, and ensure an appropriate standard of cyber security across the business, we will not meet our regulatory obligations and will lose the trust of our stakeholders.</p> <p>Trend</p> <p></p> <p>Strategic alignment</p> <p></p> <p>Link to viability scenario</p> <p>Data breach</p> <p>Cloud operations failure</p>	<p>Information is the lifeblood 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 need to use our data efficiently and effectively to improve business performance.</p> <p>Executive Owner</p> <p>General Counsel and Company Secretary</p>	<ul style="list-style-type: none"> Multi-year cyber security programmes in IT and Product to ensure Sage is continuously improving, and reduce cyber risk 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 include internal and external validation of compliance. All colleagues are required to undertake awareness training for cyber security, information management, and data protection, with a focus on the GDPR requirements. A Cyber Security Risk Management Methodology is deployed to provide objective risk information on our assets and systems.
<p>10. Data strategy</p> <p>If we fail to recognise the value of our data assets, create effective data foundations, and capitalise on their use, we will not be able to realise their full potential to secure strategically aligned outcomes.</p> <p>Trend</p> <p></p> <p>Strategic alignment</p> <p></p> <p>Link to viability scenario</p> <p>Data breach</p> <p>Existing or new market disruptor</p>	<p>Data is central to the Sage strategy and deliver our ambition to deliver sustainable growth by expanding the Sage 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.</p> <p>Successful ability to use data will accelerate our growth and will be key in helping customers transform how they run and build their businesses.</p> <p>Executive Owner</p> <p>Chief of Staff</p>	<ul style="list-style-type: none"> A strategy across customer, product, and enterprise data to support the delivery of customer value and solve customer problems, including the use of enhanced AI/ML capabilities. A global Data function to increase focus and alignment across the organisation. A defined set of Data and AI Ethics principles to ensure we use customer data responsibly to achieve our strategy. A new Data and AI Ethics Council, which includes members from the Executive Leadership Team and will govern activities relating to data and AI ethics. Plan to increase participation in the Sage Network, which will contribute to more data to support the delivery of real customer value and solve real customer problems. Governance policies, processes and tooling to enhance and manage the quality and trust in our data. The implementation of data architecture and associated data models that facilitate data sharing and utilisation. A data asset register, and associated use case catalogue, to enable effective prioritisation and value creation.

Principal Risks and uncertainties continued

Principal Risk	Risk context	Management and mitigation
<p>11. Readiness to scale As Sage's ambition grows, if it fails to ensure its cloud products can build and operate at an industrial, global scale it will erode its competitive advantage.</p> <p>The hosting of products must achieve economies of scale, aligned to ambition, in parallel with the ability to accelerate to market with quality. Both must be achieved with reduced environmental impact and no customer impact.</p> <p>If not addressed, Sage's cloud products would be less resilient and less able to respond to its customers' expectations.</p> <p>Trend </p> <p>Strategic alignment </p> <p>Link to viability scenario Data breach Cloud operations failure</p>	<p>As Sage continues to build sustainable growth, we continue to focus on scaling our current and future platform-services environment in a rigorous, agile, and speedy manner to ensure we provide a consistent and healthy cloud platform and associated network.</p> <p>Sage must provide the right infrastructure and operations for all customer products, a hosting platform together with the governance to ensure optimal service availability, performance, security protection, and restoration (if required).</p> <p>Executive Owner Chief Product Officer</p>	<ul style="list-style-type: none"> • Migration of products to public cloud offerings to improve scalability, resilience, and security. • Accountability across product owners, underpinned by ongoing risk assessments and continuous improvement projects. • Formal onboarding process through ongoing portfolio management. • Incident and problem management change processes adhered to for all products and services. • Service-level objectives including uptime, responsiveness, and mean time to repair. • 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. • All new acquisitions are required to adopt Sage cloud operation standards.

Principal Risk	Risk context	Management and mitigation
<p>12. Environment, social, and governance</p> <p>If Sage fails to fully, and continually, respond to the range of opportunities and risks associated with ESG it will erode its reputation and competitive advantage.</p> <p>Sage would also be less resilient and able to respond to its internal and external expectations and damage stakeholder trust. Sage may also incur higher cost of capital, and lose credibility unless it can demonstrate strong ESG credentials to the market.</p> <p>Trend</p> <p></p> <p>Strategic alignment</p> <p> </p> <p>Link to viability scenario</p> <p>Global economic shock</p>	<p>We invest in education, technology, and the environment to give individuals, SMBs, and our planet the opportunity to thrive.</p> <p>Internally, it is essential that Sage understands the potential impact of climate change on its strategy and operations and considers appropriate mitigations.</p> <p>Societal and governance-related issues are integral to Sage's purpose and Values and to the achievement of Sage's strategy.</p> <p>You can read more about the work we are doing on ESG in the Sustainability and Society Report.</p> <p>Executive Owner Chief People Officer</p>	<ul style="list-style-type: none"> • Sage's Sustainability and Society strategy, informed by a rigorous materiality assessment, focusing on three pillars: Protect the Planet, Tech for Good, and Human by Design. • Ensuring adequate executive oversight through the Sustainability and Society Committee. • Enabling accountability through integration on ESG measures within long-term incentive plans. • A strict portfolio governance approach to working cross-functionally to meet sustainability commitments. • An integrated framework for the management of ESG-related risk and, in particular, physical and transitional climate risks, as detailed by TCFD.

Principal Risks and uncertainties continued

Viability Statement

Assessment of prospects and viability period

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

The Directors have assessed the prospects of the Group by considering the Group's current financial position, its recent and historic financial performance and forecasts, its business model and strategy (pages 14 and 15 and 18 to 21) and the Principal Risks and uncertainties (pages 74 to 81).

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

- A high-quality recurring revenue base.
- Resilient cash generation and healthy liquidity position, which is supported by strong underlying cash conversion of 116%, reflecting the strength of the subscription business model.
- A well-diversified small and medium-sized customer base.

The Directors have reviewed the period used for the assessment and determined that 3 years remained suitable. The Directors are of the view that projections over a 3-year period remain appropriate given the relative predictability of cash flows associated with Sage's subscription business during this period. This period aligns our viability statement with our 3-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 Sage operates in.

No scenario modelled over the 3-year period leads to insufficient liquidity headroom. The Directors have no reason to believe the Group will not be viable over a longer period.

Assumptions

The financial forecasts contained in the Group's 3-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 by providing additional functionalities to our existing customers. The plan also assumes that the Group continues to generate resilient cash conversion in excess of 100%, pays debt and interest instalments as they fall due and that the existing borrowing facilities remain available to the Group. Based on the Group's current liquidity profile, no debt maturities fall within the 3-year period.

The assessment process

In forming the viability statement, the Directors carried out a rigorous assessment of the Principal Risks and uncertainties facing the Group which could affect the business model. These are reviewed by the Board and the Audit and Risk Committee quarterly and are a foundation for the Group's strategic plan. The risk process is outlined in more detail on pages 68 to 73.

As part of the assessment, the Group stress tests the 3-year plan using various severe but plausible scenarios. To achieve this, management reviewed the Principal Risks and considered which might threaten the Group's viability. None of the individual risks would, in isolation, compromise the Group's viability, and so several different severe scenarios were considered where Principal Risks arose in combination. The scenarios were developed with input from the Group's Global Risk Committee, which comprises representation from key functions across the business.

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

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

The monetary impact of each scenario was estimated by a cross-functional group of senior leaders, including representatives from Finance, Risk and Controls, ESG, Cloud Operations, IT, Product Marketing and Legal, who evaluated the possible consequences for the Group should each scenario arise.

As set out in the Audit and Risk Committee's report on page 122, 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 that would be required to reduce cash to minimum working-capital requirements. The result of the reverse stress testing has highlighted that such a scenario would only arise following a highly significant deterioration in performance, well in excess of the assumptions considered in the viability scenarios set out on the next page.

Scenario modelled	Linked Principal Risks
<p>(i) Data breach</p> <p>The deliberate targeting or accidental release of customer data that breaches data privacy laws or societal expectations in any region, could have a significant impact on Sage's reputation in the market, as well as affect its regulatory compliance with the various data-protection laws Sage is subject to.</p>	<ul style="list-style-type: none"> • Understanding customer needs • Customer experience • New business models • Route to market • People and performance • Culture • Cyber security and data privacy • Data strategy • Readiness to scale
<p>(ii) Existing or new market disruptor</p> <p>The entry of a new player, or the expansion of an existing market player in the financial and accounting-management markets with a free or very low-cost offering that significantly disrupts Sage's total market share.</p> <p>Additionally, businesses that increasingly act as the intermediary between Sage and the end customer using our APIs, may seek to disintermediate Sage.</p>	<ul style="list-style-type: none"> • Understanding customer needs • Execution of product strategy • New business models • Route to market • Customer experience • Data strategy
<p>(iii) Global economic shock</p> <p>The crystallisation of a global economic shock that leads to a global economic downturn or an inflationary wage-price spiral, resulting in increased default of small- and medium-sized businesses.</p> <p>This could lead to a significant increase in customer churn and a reduced ability to sell to new or existing customers. Additionally, increased labour costs in key markets, could make it difficult for Sage to retain and attract talent.</p>	<ul style="list-style-type: none"> • Execution of product strategy • Route to market • Customer experience • Understanding customer needs • ESG • People and performance
<p>(iv) Cloud operations failure</p> <p>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. The risk also considers the extent to which hosting infrastructure supporting Sage's cloud operations could be physically damaged through an adverse climate event.</p>	<ul style="list-style-type: none"> • Understanding customer needs • Execution of product strategy • New business models • Route to market • Customer experience • Cyber security and data privacy • Readiness to scale • Third-party reliance

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

Confirmation of longer-term viability

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

Governance at Sage

UK Corporate Governance Code 2018 Compliance Statement

The Board continues to assess its approach to corporate governance by applying the provisions of the UK Corporate Governance Code 2018 (the “Code”) and is pleased to confirm compliance with all relevant Code provisions throughout FY23. A copy of the Code is publicly available on the website of the UK Financial Reporting Council at www.frc.org.uk.

Throughout this corporate governance report, we have provided an insight into how corporate governance operates across the Group and how we have applied the principles set out in the Code.

As permitted by the Code, the Board has continued with its chosen alternative approach to workforce engagement, through the Board Associate programme. The programme plays a crucial role in strengthening the colleague voice in the Boardroom, leading to more informed decision making by the Board, as well as educating colleagues on the role of the Board at Sage.

Further details on the role of the Board Associate and its effectiveness can be found on pages 106 and 107.

Board Leadership and Company Purpose	Pages	Audit, Risk, and Internal Control	
Purpose and culture	inside front cover, 24 to 29, 78, 104 to 105	Significant reporting and accounting matters	121 to 123
Shareholder engagement	54 to 55	Fair, balanced, and understandable	124
Colleague engagement	48 to 49	Viability Statement and going concern	122
Other stakeholder engagement	47 to 59	Risk management and internal controls	124
Conflicts of interest	97 and 98	Internal audit	125
		External auditor	126 to 128
		Principal and emerging risks	74 to 81
Division of Responsibilities		Remuneration	
The role of the Board	92	Remuneration principles	132 and 133
The role of the Board Committees	92 to 94	Remuneration Policy	139 to 143
Board composition	94	Pensions and benefits	156
Committee composition	97	Directors' shareholdings and share interests	159
Independence of Non-executive Directors	96 to 97	External advisors	162
Time commitment	96		
Composition, Succession, and Evaluation			
Board composition and succession	110 to 117		
Diversity, equity, and inclusion	115 to 117		
Annual re-election of Directors	96		
Induction, Director training, and development programme	95 to 96		
Board effectiveness and evaluation	108 to 109		

Chair's introduction to governance

Strong governance to protect sustainable growth

Andrew Duff

Chair

Dear shareholder,

I am pleased to introduce our Governance Report for the year ended 30 September 2023, on behalf of the Board.

Good governance is central to the success of the business. Good processes married to a good culture adds value to, and is supportive of, a value creating business strategy.

This report sets out our approach to effective corporate governance and how it contributes to the development and delivery of our strategy and protects stakeholder value.

Board composition and succession

The Board, together with the Nomination Committee, continued to monitor the Board composition, skills matrix and broader aspects of diversity, with a focus on scheduled succession planning activities for Non-executive Directors. On recommendation of the Nomination Committee, the Board approved the appointment of two new Non-executive Directors and the succession of the Senior Independent Director role this year.

We were delighted to welcome Maggie Chan Jones and Roisin Donnelly to the Board with effect from December 2022 and February 2023 respectively. Maggie's deep international marketing and brand experience has contributed richly to Board discussions and decision making as we continue to strengthen our brand positioning. Roisin's appointment is a further valuable addition to the Board as she brings extensive experience on digital transformation and practical board and committee experience.

You can read more about Maggie and Roisin's first year on the Board along with their induction process on pages 95 and 96.

In May this year, the Nomination Committee initiated an internal search for a new Senior Independent Director to succeed Drummond Hall when he steps down from the Board at the end of December 2023. As part of this process, a brief was prepared outlining the characteristics and experience being sought in our next Senior Independent Director and I subsequently consulted with all members of the Board to garner views and understand who amongst the Non-executive Directors may wish to be considered for the role. At the September Nomination Committee and Board meeting it was unanimously agreed that Annette Court should succeed Drummond as Senior Independent Director, given Annette's position as a trusted and valued Board member and her strong knowledge of the Group. During his tenure, Drummond has been a significant asset with his deep knowledge of Sage's business, and we thank Drummond for his considerable contribution to Sage and wish him every success for the future.

Further information on our Senior Independent Director selection process can be found in the Nomination Committee Report on pages 110 to 117.

I am pleased to confirm that the Board meets the target set by the Parker Review with regard to ethnic diversity at Board level and is on track from January 2024 to meet the targets set by the FTSE Women Leaders Review, at which point the Board will meet all three targets specified in the FCA's Listing Rules, which we have reported against this year.

For more information on our Board diversity and composition, please see page 94.

Purpose, culture and engagement

Our purpose is at the core of our strategy, enabling small and medium sized businesses to thrive. It is at the forefront of our decision-making and strategy development which is championed by the Board, who consider how the initiatives progressed by management throughout the year have advanced our purpose.

The Board plays a leading role in shaping the culture of the Company by promoting growth-focused and values-based conduct and ensuring that the long-term sustainable success of our business remains connected to the interests of our stakeholders. We believe that in order to progress our strategy, the Board must consider all stakeholders relevant to a decision and satisfy themselves that any decision upholds our culture and values.

“Good governance is central to the success of the business.”

This year, I have spent considerable time with our colleagues and leadership teams across the business in Newcastle, Madrid, Paris and Atlanta, as I believe that the Board is responsible for promoting and demonstrating a culture in which all Sage colleagues feel well-equipped and supported to perform at their very best. Through the year the Board has also been presented with excellent insight into colleague sentiment and views, with several tools used to monitor the culture, including the role of the Board Associate and our programme of engagement activities.

You can read more about how the Board monitors culture and the role of the Board Associate on pages 104 to 107. Further details on how the Board has engaged with our stakeholders and discharged our section 172 duties during the year can be found on pages 47 to 59.

Focused on ESG

Our ESG initiatives were a constant feature on the Board's and its Committees' agendas throughout FY23, including an engagement session in February to enhance the Board's contribution to Sage's sustainability and climate strategy. As ESG initiatives continue to be developed, the Board will ensure that they remain aligned to our purpose of ensuring that we play our part in creating long-term sustainable value.

Further information can be found in our Sustainability and Society Report, visit www.sage.com/en-gb/company/sustainability-and-society.

Board evaluation and effectiveness

Each year, the performance of the Board, its Committees, and individual Directors is reviewed in accordance with the Code, to ensure they are operating effectively and to identify development opportunities, where necessary. This year, an internally facilitated effectiveness review was led by myself and supported by the Company Secretary. The Board was pleased by the results of the effectiveness reviews and concluded that the Board continues to operate effectively, with a positive culture and strong sense of accountability to stakeholders.

Our progress against last year's areas of focus, as well as the outcome of this year's effectiveness review, can be found on pages 108 and 109.

Looking forward

As we remain focused on efficiently scaling the Group, our overarching objective is to be both a successful and also a responsible Company with a focus on creating sustainable value. This is undertaken whilst upholding the highest standards of corporate governance and promoting an inclusive culture for our colleagues. I would also like to thank all colleagues for their hard work and dedication during the year, and my fellow Board members and the Executive Leadership Team for continuing to provide strong leadership.

I encourage all stakeholders to take every opportunity presented to engage with the Company and I would welcome you to attend the forthcoming Annual General Meeting on 1 February 2024.

Andrew Duff

Chair
Board of Directors

Our leadership

Board of Directors

Key

● Audit and Risk Committee
See pages 118 to 128

● Nomination Committee
See pages 110 to 117

● Remuneration Committee
See pages 129 to 163

C Committee Chair

Changes to the Board and to Board Committees during FY23 and as at the date of this report

- Maggie Chan Jones was appointed to the Board on 1 December 2022
- Roisin Donnelly was appointed to the Board on 3 February 2023
- Annette Court was appointed to the Nomination Committee on 1 March 2023
- Roisin Donnelly was appointed to the Remuneration Committee on 1 March 2023
- Annette Court will be appointed as Senior Independent Director with effect from 1 January 2024 following Drummond Hall's retirement on 31 December 2023

Information on Board succession planning activities can be found on pages 110 to 117.

Further information on the composition of the Board and its Committees can be found on page 94.

C

Andrew Duff
Chair

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

Gender
Male

Ethnicity
White

Nationality
British

Skills
Andrew has a wealth of experience as a non-executive director and chair, with a strong track record of transforming high-profile international businesses. He is an effective leader with strategic insights and international experience.

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

Key previous experience
Non-executive chair and chair of nomination committee of Elementis plc

Non-executive chair and chair of nomination committee of Severn Trent plc

Senior independent director and chair of remuneration committee of Wolseley plc

Chief executive officer of npower

Key external commitments
Non-executive director of UK Government Investments Limited

Steve Hare
Chief Executive Officer

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

Gender
Male

Ethnicity
White

Nationality
British

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

He has a broad knowledge of Sage, having joined the Board in January 2014 as CFO. Steve has an extensive understanding of the drivers and priorities needed for the commercial delivery of Sage's strategy and in creating a high-performance culture.

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

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

Key external commitments
None

Jonathan Howell
Chief Financial Officer

Appointed
15 May 2013 as a Non-executive Director and as Chief Financial Officer on 10 December 2018

Gender
Male

Ethnicity
White

Nationality
British

Skills
Jonathan is a highly experienced group finance director, chair and non-executive director. He has significant financial and accounting experience, gained across several sectors, which allows him to provide substantial insight into the Group's financial reporting and risk management processes.

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

Key previous experience
Group chief financial officer of Close Brothers Group plc

Group chief financial officer of London Stock Exchange Group plc

Non-executive director of EMAP plc

Chair of FTSE International

Key external commitments
Non-executive director of Experian plc

● **Sangeeta Anand**
Independent Non-executive Director

Appointed
1 May 2020

Gender
Female

Ethnicity
Asian

Nationality
American

Skills
Sangeeta is a Silicon Valley-based senior technology leader with extensive experience in leading P&L and growth across a range of public, PE-owned and startup companies. She has deep operating experience in transforming complex product portfolios and go-to-market to capture cloud opportunity. Sangeeta's technology and business experience includes cybersecurity, cloud, enterprise software, SaaS and application services.

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

Senior vice president of F5 Networks Inc

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

Vice president of Cisco Systems

Key external commitments
Independent board member of Direktiv.IO

● ● **Dr John Bates**
Independent Non-executive Director

Appointed
31 May 2019

Gender
Male

Ethnicity
White

Nationality
British, American

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

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

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

Head of industry solutions and chief marketing officer of Software AG

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

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

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

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

Key external commitments
Chief executive officer of SER Group Holding GmbH

Director and president of SER Group Inc

<div>C</div> <div>Jonathan Bewes</div> <div>Independent Non-executive Director</div>	<div>Maggie Chan Jones</div> <div>Independent Non-executive Director</div>	<div>C●●●</div> <div>Annette Court</div> <div>Independent Non-executive Director</div>	<div>●</div> <div>Roisin Donnelly</div> <div>Independent Non-executive Director</div>	<div>●●●●</div> <div>Drummond Hall*</div> <div>Senior Independent Director</div>	<div>●</div> <div>Derek Harding</div> <div>Independent Non-executive Director</div>
<div>Appointed 1 April 2019</div> <div>Gender Male</div> <div>Ethnicity White</div> <div>Nationality British</div> <div>Skills Jonathan has a wealth of accounting and financial experience and has previously served as chair on an audit committee. He has strong investment banking experience gained over a 25-year career in the sector. Jonathan has advised boards of UK and overseas companies on a wide range of financial and strategic issues, including financing, corporate strategy and governance.</div> <div>Key previous experience Investment banking experience with Robert Fleming, UBS, and Bank of America Merrill Lynch Chartered accountant with KPMG Vice-chair, corporate and institutional banking at Standard Chartered Bank plc</div> <div>Key external commitments Senior independent director and chair of the audit committee of Next plc Non-executive director and chair of the audit and risk committee of the Court of the Bank of England</div>	<div>Appointed 1 December 2022</div> <div>Gender Female</div> <div>Ethnicity Asian</div> <div>Nationality American</div> <div>Skills Maggie has deep international marketing and brand experience gained from her time spent at some of the world's largest technology companies. She was SAP's first woman chief marketing officer, responsible for driving global marketing across more than 180 countries. Maggie is recognised as an industry thought-leader in the marketing and technology sector and was previously named as one of the 'Most Influential CMO' in the world by Forbes.</div> <div>Key previous experience Non-executive director of Avast plc Chief marketing officer of SAP</div> <div>Key external commitments Chief executive of Tenshey, Inc Non-executive board advisor to Outinue Non-executive director and member of the nomination and responsible business committees of BT Group plc Director at large and member of the audit and strategic investment committees of the US Tennis Association</div>	<div>Appointed 1 April 2019</div> <div>Gender Female</div> <div>Ethnicity White</div> <div>Nationality British</div> <div>Skills Annette has experience of serving as chair of a remuneration committee, as well as in executive and non-executive director roles at the highest levels, including as chair of FTSE 100 companies. Annette has a strong technology background combined with a record of using ecommerce to drive commercial success. Annette has expertise in mentoring leaders to achieve greater clarity of purpose and provide a practical approach to problem-solving.</div> <div>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 Non-executive director of Foxtons Group plc Chair of Admiral Group plc</div> <div>Key external commitments Chair of WH Smith PLC Director of Admiral Europe Compañía de Seguros</div>	<div>Appointed 3 February 2023</div> <div>Gender Female</div> <div>Ethnicity White</div> <div>Nationality British</div> <div>Skills Roisin brings extensive customer, marketing and branding experience to the Board, gained during her executive career at Procter & Gamble. She has a strong background in digital transformation and data, and significant knowledge and experience of developing ESG strategies at board level.</div> <div>Key previous experience Non-executive director of Just Eat plc Non-executive director of HomeServe Limited Non-executive director of Holland & Barrett Limited Non-executive director of Bourne Leisure Limited</div> <div>Key external commitments Non-executive director of NatWest Group plc Non-executive director of Premier Foods plc</div>	<div>Appointed 1 January 2014</div> <div>Gender Male</div> <div>Ethnicity White</div> <div>Nationality British</div> <div>Skills Drummond is an experienced non-executive director and board chair with a wealth of experience gained across a number of customer-focused blue-chip businesses in the UK, Europe and the US. He has strong knowledge of marketing and customer service and brings deep insight to how Sage may expand markets and delight customers.</div> <div>Key previous experience Senior independent director of WH Smith PLC Senior independent director of FirstGroup plc Chair of Mitchells & Butlers plc</div> <div>Key external commitments None</div>	<div>Appointed 2 March 2021</div> <div>Gender Male</div> <div>Ethnicity White</div> <div>Nationality British</div> <div>Skills Derek has significant financial experience, including leading business transformations and sharp financial acumen. He has broad experience across a range of commercially focused financial and operational roles including strategy, investor relations, mergers and acquisitions.</div> <div>Key previous experience Chief financial officer of Senior plc Group finance director of Shop Direct Finance director of Wolseley UK</div> <div>Key external commitments Chief financial officer of Spectris plc</div>

* Drummond Hall will retire from the Board on 31 December 2023.

Our leadership continued

Executive Leadership Team

Steve Hare

Chief Executive Officer and member of the Executive Leadership Team

See Board of Directors, page 88

Jonathan Howell

Chief Financial Officer and member of the Executive Leadership Team

See Board of Directors, page 88

Walid Abu-Hadba

Chief Product Officer

Appointed
1 January 2022

Skills and experience

Walid has extensive industry experience and leadership skills gained in the technology sector, with a breadth of sector experience including software development and products. He is passionate about driving strategy and building the culture that delivers tangible, customer-centric solutions.

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

Aziz Benmalek

President—North America

Appointed
1 March 2022

Skills and experience

Aziz leads Sage's business across North America and is accountable for Sage's commercial performance and operations in the US and Canada. He also leads Sage's Partners and Alliances strategy globally. Aziz joined Sage in 2020 and has over 20 years of experience gained in the technology sector in various roles, leading the vision, strategy, sales, marketing, business development, and technical enablement.

Derk Bleeker

President—EMEA

Appointed
1 October 2019

Skills and experience

Derk leads our business across Europe, the Middle East and Africa (EMEA) and is accountable for Sage's commercial performance and operations in these regions. Derk joined Sage in 2014 and has held a number of commercial, finance, M&A and strategy leadership roles, most recently as Sage's Chief Development and Strategy Officer.

He has in-depth experience as a leader of corporate development, gained from working for a global industrial and medical technology company.

He also has experience in private equity and as an M&A specialist in investment banking.

Vicki Bradin

General Counsel and Company Secretary

Appointed
1 October 2016

Skills and experience

Vicki leads the Legal, Company Secretariat, Cyber Security, Risk, Compliance, Assurance, Procurement and Business Travel teams. She has extensive corporate legal experience, built over 20 years in global and magic circle law firms and in-house at large multi-nationals and UK-listed companies. Vicki contributes in-depth software and technology sector knowledge and experience across a breadth of legal areas including M&A, litigation, risk and intellectual property.

Amanda Cusdin
Chief People
Officer

Appointed
1 October 2017

Skills and experience

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

Before joining Sage, Amanda spent 18 years within a number of FTSE organisations, where she worked across all aspects of Human Resources to drive change and transformation, with particular focus on M&A integration. She is passionate about developing talent and leadership, and creating truly inclusive organisations which promote diversity.

Aaron Harris
Chief Technology
Officer

Appointed
1 April 2019

Skills and experience

Aaron is responsible for Sage's technology strategy and software architecture. He has more than 20 years of high-tech engineering experience in business applications and software development strategies.

Aaron was a founding leader of Sage Intacct, which was acquired by Sage in 2017.

He led the company's product vision and technology direction, establishing Sage Intacct as the innovation leader in cloud financial management solutions.

Cath Keers
Chief Marketing
Officer

Appointed
8 September 2020

Skills and experience

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

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

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

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

Amy Lawson
Chief Corporate
Affairs Officer

Appointed
1 March 2022

Skills and experience

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

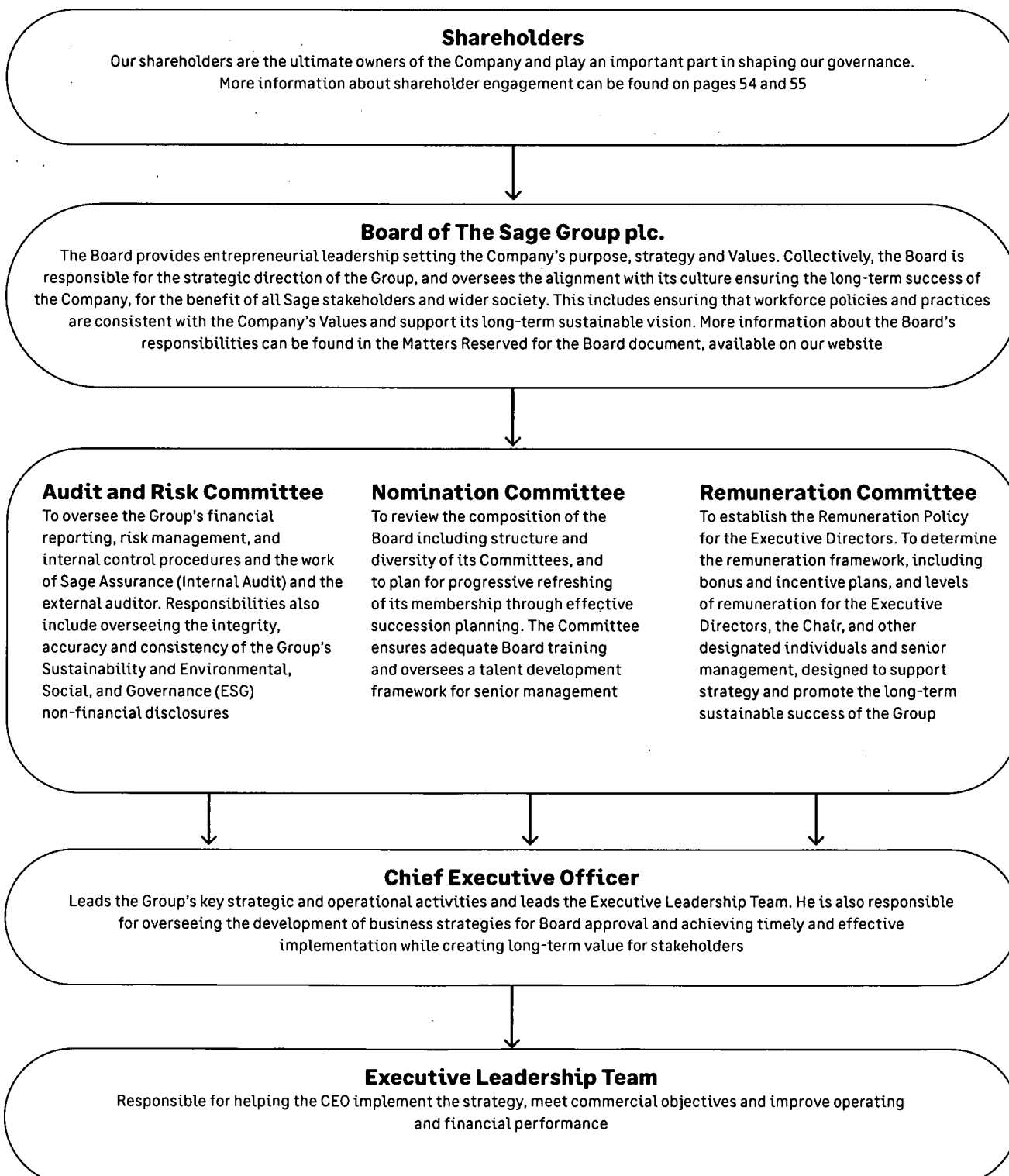
She sets the global communications strategy across PR, colleague communications, public affairs and technology analyst relations.

Amy is also a former Board Associate at Sage.

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

Our governance framework

The Company's robust, clear and efficient governance framework ensures the effectiveness of the decision-making process for the Board, its Committees and senior leadership.



Roles and division of responsibilities

There is a clear and distinct division of the roles of the Chair and the Chief Executive Officer, with each having a clearly defined remit, as established and agreed by the Board.

Andrew Duff

Chair

- Leadership and effective operation of the Board in directing the Company
- Leads the annual review of the Board's effectiveness
- Sets the Board agenda
- Promotes an inclusive and open culture in the Boardroom, welcoming and encouraging constructive debate and effective decision making
- Creates conditions for the Board to be effective as individuals and as a collective
- Ensures the views of all stakeholders are understood and considered appropriately in Board discussion and decision making (please see pages 47 to 55 for more information)
- Promotes the highest standards of corporate governance, assisted by the Company Secretary and demonstrates objective judgement

Steve Hare

Chief Executive Officer

- Develops and proposes the corporate strategy for Board consideration, and leads the implementation of the strategy (including sustainability), as approved by the Board
- Ensures the Chair and Board are advised and updated regarding any key matters
- Leads the Executive Leadership Team in overseeing the operational and financial performance of Sage
- Ensures risks are rigorously managed and Sage maintains a disciplined and strong internal control environment
- Identifies potential acquisitions and disposals and monitors the competitive environment
- Ensures Sage operates in line with its values by doing the right thing and keeping its promises

Jonathan Howell

Chief Financial Officer

- Manages the Group's financial affairs including any tax and treasury matters
- Supports the CEO in implementing the corporate strategy and overseeing 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

Drummond Hall*

Senior Independent Director

- Provides support and acts as a sounding board for the Chair
- Serves as an intermediary for the Non-executive Directors
- Acts as an alternative contact for shareholders, if concerns have not been addressed through normal channels of communication
- Leads the performance appraisal of the Chair by the Non-executive Directors
- * Annette Court will become Sage's Senior Independent Director following Drummond Hall's retirement on 31 December 2023

Sangeeta Anand, Dr John Bates, Jonathan Bewes, Maggie Chan Jones, Annette Court, Roisin Donnelly and Derek Harding

Independent Non-executive Directors

- Contribute, challenge and monitor the delivery of strategic objectives and Group performance
- Oversee internal controls and Enterprise Risk Management Framework and ensure they are rigorous
- Provide external perspectives, independent insight and support based on relevant experience
- Engage with internal and external stakeholders and take their views into account in their decision making
- Perform a key role in succession planning together with the Board Committees, Chair and Senior Independent Director
- Serve on Committees and contribute to the effectiveness of those Committees
- Devote sufficient time to the Company to meet their responsibilities
- Shape our governance and culture across the Group

Vicki Bradin

Company Secretary

- Ensures the Board and its Committees receive relevant and timely information in order to function effectively and efficiently
- Ensures clear and timely information flow between the Board and its Committees and between senior management and Non-executive Directors
- Advises and keeps the Board updated 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 Non-executive Directors' terms of appointment are available for inspection at Sage's Registered Office.

Corporate governance report continued

Board governance

The Board is responsible for the overall leadership of the Group and for setting the tone from the top for the Group's Values and standards and ensuring this permeates throughout the Group. The Board is supported by a further Board Committee, the Disclosure Committee, which ensures compliance with the obligations of the UK Market Abuse Regulation and supports the Board in assessing when Sage may have inside information and ensures accurate and timely disclosure. The Disclosure Committee members include the Chair, Chief Executive Officer, Chief Financial Officer, Chair of the Audit and Risk Committee and the General Counsel and Company Secretary.

The Company has established a number of additional supporting management committees, including two corporate committees, the Business Investment Committee and the Mergers and Acquisitions Committee. The Business Investment Committee reviews and decides on matters relating to purchases over a certain threshold outside of the Group's Delegation of Authority. The Mergers and Acquisitions Committee considers proposals to acquire, divest and/or make investments in businesses at the appropriate tollgates outlined in the Merger, Acquisition & Divestiture Policy. There are further management committees which help drive efficiencies, mandated by the CEO and CFO and their membership is made up of either Executive Directors and/or senior management within the business, accordingly.

The Board and Group's subsidiary entities operate within a clearly defined delegated authority framework, which is fully embedded across the Group. The delegated authority framework ensures that there is an appropriate level of Board oversight of, and contribution to, key decisions, and that the day-to-day business is managed effectively. The delegated authority framework includes a clearly defined schedule of Matters Reserved for the Board.

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

The Matters Reserved for the Board and the Terms of Reference of all Board Committees are available on our website at [sage.com](https://www.sage.com).

Board composition

The Board recognises that an optimal board of directors should reflect a diverse range of views, insights, perspectives and opinions, which facilitates constructive discussion and enables enhanced decision making and effectiveness. The composition of the Board is subject to ongoing review and all Board appointments follow a formal and rigorous search process, which complements the comprehensive succession planning activities. The Board delegates to the skill and expertise of the Nomination Committee the responsibility to maintain the appropriate composition of the Board. The Nomination Committee ensures diversity features strongly in its work on succession planning.

In the FY22 Annual Report, it was noted that Maggie Chan Jones would join the Board in December 2022 and that there was an ongoing search for a second Non-executive Director. We were pleased to announce the appointment of Roisin Donnelly to the Board with effect from February 2023. As was also reported in the FY22 Annual Report, Drummond Hall had agreed to serve as a Non-executive Director for one additional year to support Board continuity. This additional year expires on 31 December 2023 at which point Drummond Hall will retire and will be replaced by Annette Court as Senior Independent Director. Annette Court's appointment as Senior Independent Director takes effect from 1 January 2024. Her appointment was a result of an internal selection process, during which it became clear that she was the most suitable candidate to succeed Drummond Hall in his role as Senior Independent Director. Annette Court has strong knowledge of the Group, having served on the Board since 2019 and has a wealth of director experience, having held senior positions at a number of leading UK-listed companies.

The Board's DEI Policy sets out the approach to diversity, equity and inclusion for the Board and its Committees and helps make sure appointments are made on merit set against objective criteria. While the Board is mindful of the targets as set out by the FCA's Listing Rules, and aims to meet them as far as possible, the Board recognises that there may be temporary periods when this is not possible. As at 30 September 2023 and the date of this report, the Board meets the ethnic diversity target set by the Parker Review and the FCA's Listing Rules. As at 30 September 2023 and the date of this report, the Board does not meet either of the gender diversity targets specified in the FCA's Listing Rules (the Board is currently 36% women and the four senior Board positions referred to in the FCA's Listing Rules are all held by men). However, from 1 January 2024, following Drummond Hall's retirement from the Board and Annette Court's appointment to the role of Senior Independent Director, it is anticipated that Sage will meet all three of the FCA's Listing Rule targets, with 40% of Board members being women, Annette Court holding one of the specified senior Board positions and two members of the Board being from an ethnic minority background. Please see page 114 for further details of the skills and experience of the Board and pages 110 to 117 for more information on the Board DEI Policy and the succession planning activities of the Nomination Committee.

An interview with our new NEDs

Q&A with Maggie Chan Jones

Independent Non-executive Director

Q How effective have you found your induction programme in preparing you as a NED and for the Sage Board discussions?

I've thoroughly enjoyed my induction programme, which was broad and comprehensive. I've felt very welcomed by my fellow Board members, in particular the Chair's inclusive approach to Board discussion meant that I could settle into the role very quickly. The induction programme provided me with the platform to understand Sage's business in some depth, gather insight into our customer base and meet the senior management team. I've also visited a few locations and business areas and participated in employee talent lunches which enhanced my understanding of the cultural tone and sentiment across the business.

Q How important is a company's culture to you and what are your views on Sage's culture?

This is incredibly important. An inclusive culture where diversity in its broadest sense is embraced, is key to achieving success in the long-term. Through my personal ventures I've always focused on elevating the role of women and underrepresented people into leadership roles—that's something that's very important to me. At Sage, I'm impressed with the Group's drive for nurturing collaboration and innovation, while continuing to strengthen a human, inclusive, high-performance culture where the success of each colleague is celebrated.

Q Can you share your thoughts about Sage's brand transformation and what focus we should have in increasing our business opportunities?

When it comes to brand transformation, I'm really impressed with what Sage has achieved in terms of driving brand awareness. With all our different markets, how we drive awareness and how we speak to different audiences is critical. We are a customer-centric business, and our customers are absolutely at the heart of what we do but the key area for our focus next year would be to continue to focus on our customers' end to end journey with Sage and the experiences we are creating for them.

Q&A with Roisin Donnelly

Independent Non-executive Director

Q How effective have you found your induction programme in preparing you as a NED and for the Sage Board and committee discussions?

I was delighted with the opportunity to join the Sage Board in February. My induction process has been very useful for me to understand the Sage business. I was supported by tailored meetings with the senior management team which gave me valuable insight into their roles, the business and the functions. I have also enjoyed meeting Sage's leadership teams in Newcastle, Paris and Atlanta which gave me good insight into the business and exposure to local talent.

Q Can you share your thoughts about Sage's Sustainability and Society Strategy and how we continue to drive results?

Sage's drive and passion on matters pertaining to sustainability and society was a contributing factor in my decision to join the Board. Something that particularly stood out to me when I first read Sage's Sustainability and Society Strategy is how our purpose, values and the sector in which we operate is deeply aligned with the business and our strategy.

How we can drive our Sustainability and Society Strategy further is by keeping it customer centric. Working with our customers around the world, we can use platforms such as Sage Earth to bring them value and help reduce their carbon footprint. To build on that, sustainability is everybody's job and we can all make a positive difference. That's exciting and we need to have that mindset to really drive impact and achieve great results.

Q Do you have any other thoughts or ideas you would like to share with colleagues based on your first few months on the Board?

Sage is a great company with a very clear purpose, clear values and a purpose-led strategy. However, I have observed as I have met colleagues across the business in different countries, Sage is very humble. We are achieving great results, we are scaling and growing the business and our colleagues at Sage should be really proud of the work they are doing because as a Board, we are really proud of their work.

Corporate governance report continued

Annual election and re-election of Directors

In accordance with Sage's articles of association, and the Code, all Directors who wish to continue to serve are subject to shareholder election or re-election at the Annual General Meeting.

Time commitment

The Board takes the time commitment of the Non-executive Directors seriously and as such, they are advised, prior to their appointment, of the commitments expected as part of their role at Sage. Non-executive Directors must devote such time as necessary to discharge their responsibilities effectively and to seek prior approval of the Board for any additional external appointments.

The Company Secretary maintains a register of Directors' commitments, which is reviewed at each Board meeting. The Board assess potential new external appointments on a case-by-case basis, including whether the appointment in question could negatively affect the Company or the performance of the Director's duties to the Group. The Board carefully considered and approved the appointment of Annette Court as chair of WH Smith PLC, which took effect on 1 December 2022, having noted, in particular, that she would be stepping down as chair of Admiral Group Plc from April 2023. Maggie Chan Jones was appointed to BT Group plc on 1 March 2023, which the Board had approved after duly considering her external appointments as a whole and concluding she would continue to have sufficient time to devote to her role at Sage. In May 2023, Dr John Bates's proposed appointment as Director and President of SER Group Inc. was considered and thought appropriate considering his current appointments with SER Group and that this additional appointment would not impose on his time to discharge his duties effectively. Jonathan Bewes was appointed as non-executive director and chair of the audit and risk committee of the Court of the Bank of England, which was carefully considered due to the nature of the appointment and the expected time commitment. Having taken into account Jonathan Bewes's other external appointments, and having noted that he stepped down from his role at Standard Chartered Bank plc earlier in the year, the Board was assured that he would have sufficient time to discharge his obligations effectively and commit to his Sage responsibilities.

The Board has considered the nature of each of these appointments carefully to ensure that the effectiveness of the Board would not be compromised and agreed that the Directors will have sufficient time to discharge their obligations satisfactorily. No instances of overboarding were identified during the year. The Non-executive Directors devote considerable time to the Group beyond the schedule 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 affecting the Group. All Directors also attend site visits and participate in formal engagement plans to meet colleagues and other stakeholders. For further information on the Directors' activities during FY23 refer to pages 100 to 103.

Induction

Two new Directors were appointed to the Board in the year, Maggie Chan Jones and Roisin Donnelly. All new Directors are given a comprehensive, formalised induction programme tailored to their individual needs. These programmes consist of meetings and events, designed to ensure a smooth transition for the new Director to the Board. The programme is organised around three themes: business familiarisation, corporate governance including Directors' duties, and Director development. As part of the business familiarisation theme, the Directors spend time with members of the Executive Leadership Team and senior management to gain a deeper understanding and insight of the operation of relevant function lines and significant elements of the business.

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

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















During the induction period, the Director is regularly asked for feedback, and the programme is adapted as necessary. Please see interviews with our new Non-executive Directors, including their feedback on the induction process on page 95.

Independence of the Non-executive Directors

As part of the annual review, the Board monitors independence by reviewing their external commitments and interests, and tenure of each Non-executive Director. The Board considers all the Non-executive Directors to be independent in character and judgement in accordance with the Code. The Board concluded that the independence of the Non-executive Directors allows them to sufficiently and constructively challenge management.

While Drummond Hall has now served an additional year, further to his nine-year tenure on the Board, he will be stepping down at the end of December 2023. As we explained in the FY22 Annual Report, the Board and the Nomination

Board and Committee meeting attendance and cross-membership¹

Directors		Scheduled Board	Nomination Committee	Audit and Risk Committee	Remuneration Committee
Andrew Duff	 	5/5	3/3	–	–
Steve Hare		5/5	–	–	–
Jonathan Howell		5/5	–	–	–
Sangeeta Anand		5/5	–	4/4	–
Dr John Bates	 	5/5	3/3	–	6/6
Jonathan Bewes		5/5		4/4	–
Maggie Chan Jones ²		4/4	–	–	–
Annette Court ³	  	5/5	2/2	4/4	6/6
Roisin Donnelly ⁴		3/3	–	–	3/3
Drummond Hall	  	5/5	3/3	4/4	6/6
Derek Harding		5/5		4/4	
Vicki Bradin ⁵		5/5	3/3	4/4	6/6

Key

 Audit and Risk Committee  Nomination Committee  Remuneration Committee  Board Chair  Committee Chair

Notes:

- Attendance at meetings in accordance with the formal schedule of meetings during FY23. The table shows the Committees' current memberships. The composition of all Committees complied with the Code throughout the year. The maximum number of scheduled meetings held during the year that each Director could attend is shown next to the number attended. In FY23, there was 100% attendance at all scheduled Board meetings and Committee meetings by members. Committee attendance as set out above reflects attendance by Committee members only.
- Maggie Chan Jones was appointed on 1 December 2022 and has attended four scheduled Board meetings.
- Annette Court was appointed to the Nomination Committee on 1 March 2023.
- Roisin Donnelly was appointed on 3 February 2023 and has attended three scheduled Board meetings. She was appointed to the Remuneration Committee on 1 March 2023.
- The Company Secretary acts as a Secretary to the Board and all the Committees.

Committee agreed, following a rigorous review in the context of considering the extension of Drummond Hall's term in office by one year, that he remained independent in both character and judgement and would provide the Board with a key point of stability through a time of transition. The Committee and the Board have kept Drummond Hall's independence under review throughout FY23 and up to the date of this report and remain satisfied, based on his contributions, that his length of tenure does not impact his effectiveness or independence in any way. Drummond Hall remains, and until his retirement in December 2023 will remain, an independent Director of Sage for the purposes of the Code.

Conflicts of interest

At each Board meeting, the Board formally considers a register of interests, commitments and potential conflicts of the

Directors including potential new external appointments for Directors and, when appropriate, gives any necessary approvals. If any possible conflict exists, Directors recuse themselves from consideration of the relevant subject matter.

Schedule of Board meetings

The Board is committed to maintaining a comprehensive schedule of meetings and a forward agenda to ensure its time is used most effectively and efficiently and is supported by the Company Secretary to facilitate this. Members of the Board and Committees are expected to attend every scheduled meeting and any ad hoc meetings, where possible. If a Director cannot attend a meeting either for exceptional circumstances or prior commitments, they are encouraged to provide comments and observations to the Chair of the Board or Committee, so these can be provided at that meeting. The Board considers its meetings an important opportunity also

Corporate governance report continued

to meet colleagues at different operating locations each year and aims to hold at least two meetings in different locations. These meetings provide Directors with the opportunity to meet a diverse group of colleagues, including senior business leaders, allowing the Board to gain further understanding of the business, to listen to local colleagues in person on their views and to ask questions.

The Board is presented with standing papers from the prior meetings of the Audit and Risk Committee and Remuneration Committee, which provide information on the key strategic decisions taken. At Committee meetings, irrespective of whether a Director is a member or not, they may attend, subject to recusal if any matter concerns the individual(s) or raises a potential conflict of interest.

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 97.

Board Strategy Day

The Board holds a Strategy Day each year, typically in February. This year the Strategy Day was held at the Newcastle office and the Board discussed and reflected on the strategic proposals and considered the evolution and acceleration of Sage's strategy.

Senior management provided updates on the current strategy and the context of the evolving external environment. Presentations to the Board were provided on areas including product strategy, customers and the competitive landscape.

For further information on Board activities, refer to pages 100 to 103.

Informal Board interactions

The Board appreciates the importance of informal opportunities to meet. These include Board dinners, where the Board meets in an unofficial capacity to discuss business matters and can connect. The Board also recognises the importance of meeting colleagues outside of the formal schedule of meetings, these include "talent lunches" with senior management colleagues and casual in-person interactions where Non-executive Directors are individually paired with either one or two colleagues to meet independently.

Board meeting schedule

- 3 years

Dates and venues of Board meetings are set.

- 1 month

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

- 5 working days

Papers are circulated to the Board via a secure web portal, allowing Directors sufficient time to consider matters.

Board meeting

- 1 year

A rolling calendar of standing and periodic agenda items for the following 12 months is compiled and updated when appropriate, addressing key developments in the business.

- 7 working days

Papers are submitted to the Company Secretary for final review.

+ 10 working days

Minutes of the meeting and a schedule of actions are completed and sent to the Chair for review. Those responsible for matters arising are asked to provide an update prior to the following meeting. The rolling calendar is updated after each meeting (as required), in readiness for the next meeting.

These unstructured opportunities allow the Board to build relationships with each other and Sage colleagues, emphasising diversity of thought and encouraging a culture of openness.

This year, the Board travelled to Newcastle in January 2023 where Board members had a “talent lunch” with Newcastle-based colleagues from across different functions. The Board also held cyber security and ESG engagement sessions. The cyber security session involved understanding Sage’s cloud operations strategy and IT strategy as well as the product and IT cyber security objectives. The ESG session included how Sage intends to deliver an effective ESG strategy and a deep dive on Sage’s climate strategy.

The Board travelled to Paris in July 2023 where they held a dinner with the leadership team and a lunch with local colleagues and participated in engagement sessions on innovation and products, customers and partners and people and culture. The Board also travelled to Atlanta in September 2023, where Board members held a Q&A with Intacct partners & customers, attended a Sage Foundation mentoring session with local underserved entrepreneurs and attended a panel discussion with the BOSS Network.

Annual General Meeting

The 2023 AGM was held on 2 February 2023 at Sage’s Newcastle office, as a hybrid meeting offering shareholders the opportunity to participate either in person or electronically via a live web portal. Sage also provides shareholders with the opportunity to submit questions about the business or any matter pertaining to the business of the AGM ahead of the meeting, details of which will be provided to our shareholders in the Notice of Meeting of the 2024 AGM.

The AGM is a key date in the Board’s calendar allowing an important opportunity to engage with shareholders. All of the Directors, as well as the external auditor and senior management, were present in person at the 2023 AGM. All resolutions at the 2023 AGM were voted on a poll and were passed with over 95% of votes cast in favour. Details of our past AGMs can be found on our website, [sage.com](https://www.sage.com). The website is the principal means by which we communicate with shareholders.

Engagement with shareholders

Maintaining shareholder support by building meaningful relationships and creating ongoing dialogue is key to Sage’s strategy, as our shareholders influence the long-term direction of the Company. Ongoing dialogue keeps the Company informed as to the concerns and interests of our investors and allows the Company to respond, grow, and perform better. It ensures not only that investor views are heard but that Sage’s objectives and strategy are understood. Sage updates shareholders quarterly on trading performance. Following the announcement of interim and final results, analysts are invited to attend presentations and interact with the Executive Directors. The Investor Relations team hold a dedicated programme for Executive Directors to engage with shareholders through the post-results roadshow and on an ad hoc basis.

Further information regarding engagement activities with our shareholders can be found on pages 54 and 55.

Scheduled Board and Committee meetings timeline

November	January	February	May	July	September
Board meeting		Board meeting	Board meeting	Board meeting	Board meeting
Audit and Risk Committee meeting	Disclosure Committee meeting	Audit and Risk Committee meeting	Audit and Risk Committee meeting	Remuneration Committee meeting	Audit and Risk Committee meeting
Remuneration Committee meeting*		Nomination Committee meeting	Nomination Committee meeting	Disclosure Committee meeting	Nomination Committee meeting
Disclosure Committee meeting		Remuneration Committee meeting	Remuneration Committee meeting		Remuneration Committee meeting
* Two Remuneration Committee meetings are scheduled in November			Disclosure Committee meeting		

Board activities

The table below sets out the key areas of Board focus during the year and how these align with the Group's strategy and Principal Risks. It also highlights the key stakeholders considered in the Board's discussions and decision making. The principal decisions of the Board during FY23 are highlighted in the Strategic Report on pages 56 and 59.

Strategy and operations

Key stakeholders considered



- CEO report presented to each Board meeting with key stakeholder, technology and innovation updates
- CEO strategic execution dashboard discussed at each Board meeting
- Group structure considerations including M&A strategy, acquisitions and disposals
- Three-year strategic plan, with updates on Group strategic execution
- Board Strategy Day held to consider in depth strategic direction, priorities and investment
- Deep dives on each of Sage's strategic priorities held during the year

Link to Principal Risks



Link to strategic priorities



People and culture

Key stakeholders considered



- Annual Board talent review and succession planning
- Monitoring progress on the Group's global DEI strategy
- Monitoring of colleague sentiment through the Board Associate and colleague engagement activities
- Sage Foundation annual update
- Sage Belong annual update
- Sage Values update

Link to Principal Risks



Link to strategic priorities



Key stakeholder groups


Customers


Colleagues


Shareholders


Society

Principal Risks

1

Understanding Customer Needs

2

Execution of Product Strategy

3

Developing and Exploiting New Business Models

4

Route to Market

5

Customer Experience

6

Third-Party Reliance

7

People and Performance

8

Culture

9

Cyber Security and Data Privacy

10

Data Strategy


11


Readiness to Scale


12


Environment, Social, and Governance


Strategic priorities


Scale Sage Intacct


Expand medium beyond financials


Build the small business engine


Scale the network


Learn and disrupt

Customers and innovation

Key stakeholders considered




- CEO updates
- Marketing engagement sessions
- Sage Network strategy and measures discussed
- Consumer trends and technology developments discussed
- Competitor analysis and market share

Link to Principal Risks

1

2

3

4

5

6

9

10

11

Link to strategic priorities







Finance

Key stakeholders considered




- CFO report and financial performance update at each Board meeting, including KPI Dashboard
- Investor relations update at each Board meeting
- Interim and full-year results and trading updates
- Interim and full-year report and accounts
- Business planning review and FY24 budget approval
- Interim and final dividend
- Balance sheet, capital structure and liquidity

Link to Principal Risks

1

2

4

5

6

9

11

12

Link to strategic priorities







Corporate governance report continued

Board activities continued

Key stakeholder groups

 Customers

 Colleagues

 Shareholders

 Society

Principal Risks

1

Understanding Customer Needs

2

Execution of Product Strategy

3

Developing and Exploiting New Business Models

4

Route to Market

5

Customer Experience

6

Third-Party Reliance

7

People and Performance

8

Culture

9

Cyber Security and Data Privacy

10

Data Strategy


11


Readiness to Scale


12


Environment, Social and Governance


Strategic priorities

 Scale Sage Intacct

 Expand medium beyond financials

 Build the small business engine

 Scale the network

 Learn and disrupt

Risk management

Key stakeholders considered







- Reviews of Principal Risks including risk profile and appetite
- Review of internal controls framework
- Updates from management on whistleblowing hotline cases
- Emerging risk trends
- Macro environment trends

Link to Principal Risks

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

Link to strategic priorities











Governance

Key stakeholders considered







- Review of Sage's core corporate policies
- Review of Matters Reserved for the Board and the Board rolling agenda
- Annual effectiveness review and evaluation
- Review of Board Committee Terms of Reference
- Annual Report and Accounts review and approval
- Annual General Meeting
- Annual review of Sage stakeholders
- Litigation updates
- Modern Slavery Statement review and approval
- Review of insurance programme and directors' and officers' liability insurance

Link to Principal Risks

7 8 9 10 12

Link to strategic priorities











Breakdown of Board activities

The proportion of time spent on the Board's key areas of focus at its scheduled meetings is set out in the adjacent diagram with further details of its activities set out on pages 100 to 103.

Strategy

As well as at Board meetings, the Board also holds a Strategy Day every year; please refer to page 98.

Executive updates

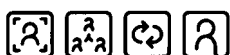
The CEO and CFO provide updates to the Board at each scheduled meeting.

Governance

The Board receives regular updates of legal and regulatory matters at each Board meeting, including ESG and cyber security.

ESG

Key stakeholders considered



- ESG deep dive
- Review of Sage's Sustainability and Society strategy including ESG frameworks, materiality assessment review and stakeholder insights
- Sustainability and Society Report overview provided
- Review of climate change risks for Sage and TCFD disclosures

Link to Principal Risks

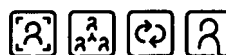


Link to strategic priorities



Cyber threat

Key stakeholders considered



- Deep dive on cyber security
- Chief Information Security Officer updates at each Board
- Engagement sessions with colleagues from Cyber, Risk, IT and Data

Link to Principal Risks



Link to strategic priorities



How the Board monitors culture

Setting the tone from the top

Colleagues want to work for a company that values them, and that provides them with the opportunity to be themselves and thrive. They expect Sage to address societal issues from diversity and inclusion to the future of work.

The Board recognises the importance of the culture at Sage and its role in achieving long-term success and value for all stakeholders. The Board and Executive Leadership Team focus on creating a positive culture at Sage, providing colleagues with the opportunity to grow, experiment and innovate in an inclusive environment in which all our colleagues feel well equipped and well supported to perform at their very best. To create the right culture, it is important that colleagues live and breathe Sage's Values.

Culture workshops have been rolled out across the business and continue to be available on demand to teams, so they better understand and live the Values in purposeful action.

The Board uses several tools to monitor culture, listen to colleagues and act on what they say. The table on the next page highlights some of the tools and key metrics it uses to monitor the culture at Sage. These tools are supplemented by a comprehensive listening strategy across the colleague lifecycle from onboarding, through critical key moments, to when a colleague decides to leave the business.

We do the right thing.

Human

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

Bold

We are curious, courageous, ambitious and creative

Trust

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

Simplify

We strip away complexity

How the Board monitors culture

Action	Link to culture
Board effectiveness review	The Board reviews its own effectiveness to ensure it is functioning optimally to set the correct culture at the top of the organisation and demonstrates and promotes the Sage Values and Behaviours which are in turn promoted by leaders throughout the Group. The Directors consider that there is an inclusive culture at Sage, in line with the Sage Values and Behaviours.
Updates on compliance, including the annual review of Sage's core compliance policies	Regular compliance-focused updates are presented at Board meetings which allow the Board to understand potential issues and target effort in the right places. The annual review of core compliance policies, including the Group's Modern Slavery Act Statement and updates on whistleblowing reports, give the Board visibility of the compliance culture at Sage.
Your Voice Pulse Surveys	Sage's Your Voice Pulse Survey is one of the best ways to gather candid feedback from all areas of the organisation, while helping foster a culture of transparency and accountability. The Pulse Surveys allow the Board greater insight into colleague sentiment across the Group and provide direct feedback on areas that can be improved. In March 2023, 87% of Sage colleagues completed the Pulse Survey, which was the highest-ever response rate. The highest number of comments was also received (21,400), which included thousands of ideas about how to improve both the colleague and customer experience at Sage. In September 2023, 85% of Sage colleagues completed the Pulse Survey, with 10,400 comments. Since the survey in March FY23, both the core metrics measured in the Pulse Survey, eSat and eNPS, have remained the same at 76 (eSat) and +23 (eNPS). There was an increase in scores across seven of the ten questions. AMEA, Central Europe, Iberia, North America, and Southern Europe all saw an increase in both eSat and eNPS.
Colleague engagement and representation via the Board Associate	The Board Associate continues to provide meaningful two-way input between the Board and Sage colleagues, allowing the Board to understand the culture more clearly. Hearing the colleague voice in the Boardroom strengthens decision making, in line with the expectations of the Code. You can read more about our current Board Associate's engagement activities during FY23 on pages 106 and 107.
Deep dives on People matters	The Board receives regular updates on the People strategy and matters including succession planning, recruitment, talent, retention, and the development framework for senior management. In FY23, Sage Talent Marketplace was established to provide career advancement opportunities within Sage by finding mentors, accessing career development opportunities and networking. You can read more about this on pages 26 and 48.
Updates on progress against Sage's DEI strategy	The Board receives regular updates on Sage's DEI strategy, which is critical to creating an inclusive culture. The management DEI Accountability Board is responsible for Sage's DEI strategy and is chaired by the CEO. It plays an important role in shaping an inclusive workforce at Sage and updating the Board on progress. In FY23 Sage was recognised on The Times Top 50 Employers for Gender Equality list, which profiles UK businesses making gender equality part of their business strategy and recognises Sage's attempts to target inequities in hiring, retention, and progression. You can read more about our DEI initiatives and progress on pages 116 to 117.
Board engagement sessions	Informal interactions allow the Board to speak with Sage colleagues directly and understand what matters most to them. The Board is available to answer questions from colleagues during engagement sessions and during site visits. To read more about Board engagement sessions please see pages 48 and 49.
Informal conversations with colleagues	Sage colleagues can interact with the CEO and other senior leaders directly to ask questions during Sage TV Live Q&A sessions. This allows access to senior leaders, transparency on a range of questions, and promotes an open culture. In FY23, Q&A topics included: the role of AI at Sage; H1 FY23 results explained; and, an early careers special. Localised opportunities for Q&A are afforded through functional "All Hands" with the Always Listening survey available to colleagues 365 days per year to provide feedback on any topic important to them. The CEO Open Circle enables a group of high-potential colleagues across all functions to meet with the CEO prior to a Board meeting. The CEO uses this session to get perspectives on matters that are discussed at Board meetings. The Open Circle provides insight, feedback, and ideas to the CEO as a diverse and inclusive sounding board. Membership includes the Board Associate.

Board Associate

Derek Taylor

Board Associate

The role of the Board Associate continues to be an effective tool to hear the colleague voice in the Boardroom, which contributes to Board discussions and effective decision making.

The Board Associate programme was first adopted in 2017 and works well as Sage's chosen alternative method of colleague engagement, as permitted by the Code. Our current Board Associate Derek Taylor, VP of Client Services, was appointed to the role in July 2022. He brings a valuable perspective to Boardroom discussions due to his strong business and customer experience. He attends Board meetings in order to represent Sage colleagues and highlight their views. He seeks feedback and input about what Sage colleagues would like to hear about from the Board and provides updates to colleagues about the Board's work.

“In FY23, Derek has continued to evolve the role and focused on finding new ways of providing the Board with colleague insights and raising topics that colleagues may want to share.”

During the year, Derek Taylor interviewed members of the Sage Board in his series of “Behind the Board” videos. The informal discussions presented a way for Sage colleagues to gain visibility and to become familiar with the Non-executive Directors. The interviews were recorded and made available on the Sage intranet for colleagues around the Group to watch when convenient. The session with Drummond Hall, Senior Independent Director, provided a fascinating perspective on Sage's transformation over the last nine years since Drummond Hall joined the Board and also covered the opportunities that Sage has moving forward. Derek Taylor also met with two of Sage's newest Non-executive Directors, Maggie Chan Jones and Roisin Donnelly, to share their perspectives on their first six months of being Board members at Sage.

Derek Taylor has developed a clear approach to the scheduling of Board Associate colleague engagement activities (e.g. roundtables and working groups) with colleagues from different regions and functions across the Group. Through written summaries included in the papers for Board meetings, he is able to provide feedback on what he hears first-hand and providing a two-way communication channel. This creates greater understanding of the role of the Board amongst colleagues and enables the Board to gain greater insight into the Sage culture. In FY24, the Board will continue to strengthen the role of the Board Associate to ensure that its remit remains appropriate and meaningful.

Outcome of engagement:

Throughout the year, Derek Taylor has been able to see how the Board operates on a personal level and has provided colleagues with his insights by sharing his experiences on the Sage internal website. The Board has also valued the opportunity to hear the colleague voice in the Boardroom, by Derek Taylor addressing their questions and comments.

Engagement activities throughout FY23: Derek Taylor has participated in Board discussions by bringing his voice into the Boardroom and provided colleagues with his insights by sharing his experience through various internal platforms. A summary of his engagement activities for FY23 is set out below:

November	<ul style="list-style-type: none"> • Board meeting in London
February	<ul style="list-style-type: none"> • Board meeting in Newcastle • AGM and colleague engagement sessions
May	<ul style="list-style-type: none"> • Board meeting in London • Interview with Drummond Hall • Visit to Sage Austin office to attend Management Offsite meeting • Meeting with Brightpearl team
June	<ul style="list-style-type: none"> • Colleague engagement session in Atlanta offices
July	<ul style="list-style-type: none"> • Board meeting and colleague engagement session in Paris • Interview with Maggie Chan Jones and Roisin Donnelly
September	<ul style="list-style-type: none"> • Board meeting and colleague engagement session in Atlanta

Board evaluation

Board evaluation process

Each year the Board undertakes a rigorous review of its own performance and effectiveness in accordance with the guidance set out in the Code. In FY23, the Board carried out an internal evaluation process using an online evaluation tool provided by Independent Audit Limited. The objective was to provide an assessment of the Board's effectiveness and governance, including the effectiveness of the Chair, its Committees and individual Directors. The evaluation gives the Board an opportunity to reflect and consider key areas of focus for the year ahead. The evaluation concluded that the Board, its Committees, the Chair, and the Non-executive Directors continue to operate effectively. The Chair, alongside the Company Secretary, will support the implementation of the key actions identified for FY24.

Evaluation of Chair's performance

The evaluation of the Chair was highly positive, with Board members reflecting that he excels in his role and displays all the desired skills and behaviours of a very strong, experienced, inclusive and competent Chair

Board evaluation cycle

FY21

Internally facilitated evaluation led by the Chair and supported by the Company Secretary

FY22

Externally facilitated evaluation carried out by Independent Board Evaluation (IBE) (which has no other connection with the Group or any individual Director)

FY23

Internally facilitated evaluation led by the Chair and supported by the Company Secretary

FY23 Board evaluation

Stage 1

The Board agreed that the FY23 internal evaluation would be led by the Chair and supported by the Company Secretary, using the online evaluation tool provided by Independent Audit Limited, as was the case in the FY20 and FY21 internal evaluations. (Independent Audit Limited does not have any additional connection with the Group or any individual Director). The Chair and the Company Secretary agreed the broad scope of the review and a tailored Board questionnaire was compiled on similar topics retained from previous years, in order to monitor progress against them since the last internal review.

Stage 2

The evaluation was conducted as follows:

- All Directors completed the tailored online questionnaire addressing key Board matters, including workings of the Board, Board strategy and internal controls, composition, diversity, and how effectively members worked together to achieve objectives. In addition, there were further questionnaires covering each of the Board Committees, the Chair's performance and other Directors' individual performance. The Company Secretary and a selection of regular meeting attendees were also invited to respond.
- The respondents rated questions on a sliding scale score and were encouraged to provide additional open feedback in comment boxes. The findings were analysed and compiled into detailed reports with key themes identified.

Stage 3

The Chair presented the output from the FY23 evaluation at the September Board meeting and feedback on each Committee was discussed at each Committee meeting. The Chair also met with each Director individually to discuss their performance. The performance review for the Chair was led by the Senior Independent Director without the Chair's participation and feedback was then shared with him.

The Board considered the key findings from the evaluation process and agreed the key areas of focus for FY24. The findings are outlined opposite. Progress against the key areas of focus will be reported in the FY24 Annual Report.

Key areas of focus identified in FY22 external Board evaluation

- Continue to focus the Board's time on overseeing execution of the Group's strategic priorities. Remaining focused on risk management and continuing to enhance understanding of external and emerging risks. Maintaining focus on Sage's competitive performance
- Strengthening aspects of the Non-executive Director induction programme and creating ongoing education opportunities for Board Directors on evolving technical areas (such as climate change regulation). Providing more opportunities to hear from non-Sage experts
- Facilitating increased contact between the Board and the business, and between the Non-executive Directors and senior management colleagues. Consider building unstructured time between Board and Committee sessions
- Review Board succession planning activities to ensure an appropriate balance of skills, knowledge, experience and diversity. Broaden focus on development of talent and succession mapping for Executive Leadership Team and senior management. Maintain focus on exposure of the Board to future leaders in the Group's talent pipeline

Progress made in FY23

- Deep dive sessions held on key business areas, including cyber security, ESG and marketing
- Non-executive Director induction programme strengthened with positive feedback received from the new Non-executive Directors
- Market sentiment updates from Sage's brokers were provided to the Board during the year
- Greater time scheduled for Board engagement activities while on trips and in between Board and Committee meetings
- White space time was also built into the agenda to allow for open discussion and to give Board colleagues time with each other
- The Board's mix of skills, experience, and knowledge was enhanced with the addition of two new Non-executive Directors
- Non-executive Directors held Senior Independent Director succession discussions
- Succession reviews were held for key Executive Leadership Team roles
- Non-executive Directors held one-on-one mentoring sessions with colleagues
- Time was dedicated at Board meetings to deep dive on the talent pipelines for Executive Leadership Team roles and to understand Sage's approach to talent development and progression, both at entry level and senior roles
- Colleague lunches and connect sessions were held with high-potential colleague

FY23 Board evaluation key observations

- The Board functions well and works effectively to achieve its objectives
- The Board has a good line of sight into the business, with information received at the right time to allow effective decision making
- The Board considers that there is an inclusive culture at Sage, in line with the Sage Values and Behaviours
- The ability to understand and mitigate key issues works well, with the Board objectives noted as a particular strength, consistent with the responses in previous years
- The Chair and individual Directors are performing well

FY24 areas of focus

- Succession planning will continue to be an area of priority for the Board, with focus on exposure to the talent pipeline for the Non-executive Directors
- Continue to focus on how a high performance, high productivity culture is being fostered within Sage
- Continue to focus on execution of the Sage Network strategy
- Keep focus on management of risks around data ethics and data usage within the AI space
- Keep visibility of emerging risks, opportunities, and trends specific to Sage and the industry, developments and potential disruptors to Sage's business
- Maintain focus on the competitor landscape and understanding of Sage's performance against its competitors
- Enhance understanding of customer experience, sentiment and insight
- Continue to monitor return on investment of acquisitions
- Maintain a commitment to ongoing learning and development opportunities as a Board

Nomination Committee

Allocation of time

Board and Board Committee
Composition **30%**
Corporate governance **20%**
Succession planning **33%**
Diversity, equity and
inclusion **17%**

Other Nomination Committee members

Andrew Duff

Chair of the Nomination Committee

Committee purpose and responsibilities

The Committee (the "Committee") is accountable for reviewing the structure, size, and composition of the Board, and ensuring that the Board and its Committees have the most suitable balance of skills, knowledge, and experience, taking account of each individual Director's time commitment.

The Committee ensures that formal, rigorous, and transparent procedures are in place for Board appointments and that plans are in place for orderly succession planning to Board positions. It oversees the recruitment process and advises the Board on the identification, assessment, and selection of candidates; drives the diversity, equity, and inclusion agenda; and confirms that all appointments are made on merit against objective criteria.

The Committee also provides oversight on succession planning activities of senior management. The Committee is responsible for ensuring that a comprehensive induction programme is delivered on the appointment of a new Non-executive Director and leads the annual evaluation process of the Board.

Dr John Bates

Annette Court

Drummond Hall

"During the year, we were pleased to announce the appointments of Maggie Chan Jones and Roisin Donnelly in December 2022 and February 2023, respectively. They have both been very strong additions to the Board."

Dear shareholder,

I am pleased to introduce the report of the Nomination Committee, which sets out the role of the Committee and its work during the year.

As I set out in my introduction to governance on page 86, the Nomination Committee supported the Board with monitoring the composition of the Board and its Committees, in ensuring that appropriate attention is given to succession planning activities of the Board and setting the tone from the top on all aspects of diversity, equity, and inclusion. During the year, we were pleased to announce the appointments of Maggie Chan Jones and Roisin Donnelly, who joined us, in December 2022 and February 2023, respectively. They have both been very strong additions to the Board, bringing in diverse thoughts, experience, alternative perspectives, and complimentary experience to the Board and its discussions.

Following their appointments, Maggie and Roisin each completed an extensive induction programme, designed to help them get to grips with the role and responsibilities of a Non-executive Director at Sage, enabling them to provide an effective and constructive challenge to the Board and develop a thorough understanding of the Sage business.

In February 2023, the Committee recommended the appointment of Roisin to the Remuneration Committee with effect from March 2023, given her wide experience on remuneration committees in other non-executive roles. The Committee was also pleased to recommend the appointment of Maggie as the ESG Non-executive Director, also with effect from March 2023. In making its recommendation, the Committee was mindful of her personal passion for inclusivity, advancing gender diversity, and wider ESG matters, which strongly resonates with Sage's purpose and a number of the objectives set out in our ESG strategy.

With Drummond's retirement from the Board scheduled at the end of December 2023, the Committee has also been focused on succession planning for the Senior Independent Director role. An internal search for a new Senior Independent Director was initiated by the Nomination Committee and as Chair, I consulted with all Board members to understand views on potential candidates. Following a thorough internal process, in September the Committee was delighted to recommend to the Board the appointment of Annette Court as Senior Independent Director with effect from 1 January 2024. Annette's other significant external commitments, independence, expertise, and personal attributes were all carefully considered by the Committee. As previously

announced, Annette had also been appointed to the Nomination Committee with effect from March 2023, noting her considerable understanding of the Sage business, culture, and workforce, but recused herself from Committee discussions in relation to recommending her appointment to the Senior Independent Director role.

I am pleased to confirm that with the appointment of Annette as Senior Independent Director, we are on track from 1 January 2024 to meet the target set by the FTSE Women Leaders Review and FCA's Listing Rules to have at least one of the senior board positions (Chair, CEO, CFO, or Senior Independent Director) held by a woman. We are also cognisant of the target that at least 40% of the Board should be women and we will also meet this target when Drummond steps down from the Board in December 2023. We have already met the target set by the Parker Review and the FCA's Listing Rules for there to be at least one Board member from a minority ethnic background.

I am incredibly grateful to Drummond for his significant contribution to the Board and Nomination Committee throughout the length of his tenure and for the great insights he has brought to the workings of the Board and the Committee.

This year, the Committee has also continued to spend time on succession planning activities for our Executive Leadership Team and senior management to ensure that we continue to invest and develop our diverse pool of high-potential talent to ensure continuity in our ability to effectively operate across these senior leadership levels.

Following an internally facilitated effectiveness review this year, I am pleased to report that the process demonstrated that the Committee continues to operate effectively.

Further information on the outcome of the evaluation can be found on pages 108 and 109.

Andrew Duff

Nomination Committee Chair

Corporate governance report continued

Board and Board Committee composition

The Committee is comprised of three independent Non-executive Directors, Annette Court, Drummond Hall, and Dr John Bates and our Non-executive Chair, Andrew Duff, who Chairs the Committee.

Details of the skills and experience of the Committee members can be found in their biographies on pages 88 and 89.

The Committee held three scheduled meetings during the year, in line with its Terms of Reference. Details of individual attendance at scheduled meetings are set out on page 97.

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 new Non-executive and Executive Directors, which are clearly set out in its Terms of Reference, which are reviewed annually to ensure they remain suitable.

When considering new appointments, all recommendations to the Board are made on merit against objective criteria which take into account experience, skills, and ensuring an appropriate diversity, in the broadest sense, in the resulting membership of the Board. Time commitment, independence, and potential conflicts of interest are also considered before any recommendation is made to the Board.

With contribution from the Board, the Committee in May 2022 prepared a role specification for a new Non-executive Director appointment based on skills, personal attributes and experience and with due regard to be given to the benefits of diversity on the Board. This led to the Committee's recommendation to the Board to appoint Roisin Donnelly as a Non-executive Director. Lygon Group, an external executive search firm (with no other connection to the Company or any individual Director), was instructed to assist with the search.

The Committee initiated a second search process in August 2022 providing Heidrick & Struggles (another external executive search firm with no other connection to the Company or any individual Director) with a detailed role profile including the skills, personal attributes, and experience being sought in this additional new Non-executive Director appointment. The Committee carefully considered the list of candidates provided by Heidrick & Struggles and concluded, on balance, that a further search should be carried out. The Committee initiated a further search process with Lygon Group and again shared the detailed profile prepared for the role. Lygon Group presented a diverse list of potential candidates and upon positive feedback received from the Committee and the Board and following consideration of Maggie Chan Jones' independence and time commitments, the Committee recommended her appointment to the Board as a Non-

executive Director. Further information on this process can be found on page 116.

Maggie Chan Jones and Roisin Donnelly were appointed to the Board in December 2022 and February 2023, respectively, and undertook a full Board induction programme following their appointments. Sage's Non-executive Director induction programme follows a six-to-nine months programme of tailored meetings and events, designed to help new Non-executive Directors to get to grips with their role and responsibilities as swiftly as possible and help them make a valuable contribution to the Board. The induction programme aims to give Non-executive Directors the tools and information they need in order to gain an in-depth understanding of Sage's business, so that they can provide effective challenge and bring their skills to the Boardroom.

Following the Non-executive Director appointments, in February 2023 the Committee led a review of the membership of the Board's Committees. Board Committee membership is reviewed periodically to maintain an optimum combination of skills, experience, knowledge, and diversity to enable effective governance and decision making. The Committee recommended to the Board the appointment of Roisin Donnelly to the Remuneration Committee with effect from March 2023, given the wide experience on remuneration committees that she brings to the Board from her other non-executive director roles.

Additionally, the Committee recommended that Maggie Chan Jones be appointed as Sage's ESG Non-executive Director with effect from March 2023, given her personal passion for inclusivity, advancing gender diversity, and removing barriers which strongly aligns with Sage's purpose and a number of objectives set out in our Society and Sustainability strategy. The role of the ESG Non-executive Director is not an official committee role; however, it was introduced in February 2022 to further enhance the Board's reporting structures around ESG, so that the appointee could attend the management Sustainability and Society Committee once or twice a year, with an agenda item reporting back to the Board at the next relevant Board meeting. Irana Wasti was previously appointed to the role before she stepped down from the Board (in July 2022).

As part of its review of Committee membership, the Committee also recommended to the Board the appointment of Annette Court to the Nomination Committee effective March 2023. Annette Court, through her role as Chair of the Remuneration Committee, has considerable understanding of the Sage business and its links to culture and workforce. This will further enhance and broaden the knowledge of the Committee and assist in its work of deepening Board capabilities and, in turn, Board education and succession planning activities.

As noted in the Chair's introduction to governance and the Chair's introduction to the Nomination Committee

Report, Annette Court was announced as Sage's new Senior Independent Director (SID) with effect from 1 January 2024, ahead of Drummond Hall stepping down from the Board in December 2023.

After a formal and thorough internal process to consider the candidates for the role, the Committee recommended Annette Court's appointment in September 2023. In making its recommendation, the Committee was mindful of what Annette Court would bring to the role including her understanding of the Sage business, experience as Chair of the Remuneration Committee, contribution as a member to the Audit and Risk and Nomination Committees, and her expertise and personal attributes. The Committee also noted that her appointment would support the Board's commitment to diversity and meeting the FCA's Listing Rules target to have at least one of the senior board positions (Chair, CEO, CFO, or SID) held by a woman.

Succession planning for the Executive Leadership Team and senior management

In order to ensure that there are suitable succession plans in place for the Executive Leadership Team and senior management, the Committee maintains visibility of a wide range of colleagues who have been identified as potential succession candidates in the short, medium, and long term.

Ensuring that Sage maintains a diverse internal pool of talent and continues to be able to attract and retain skilled people and develop high-potential talent is a key focus for the Board. The Board and Committee are committed to ensuring that high-potential colleagues do not only have the opportunity to present at meetings, but also have the opportunity to participate in initiatives outside the Boardroom (such as Board engagement events or Non-executive Director mentoring), which offer opportunities for further engagement and interaction with Board and Committee members.

In FY23, a number of Executive Leadership Team members and the senior management presented to members of the Board and its Committees on topics including Sage's strategic priorities, financials, investor relations, cyber security, and ESG. Opportunities for interactions outside of the Board meeting calendar were also pursued and developed. This will continue to be an area of focus in the future, helping the Board when considering the depth of Sage's succession plans and identifying development needs for high-potential individuals. Information on the gender balance of those in senior management and their direct reports can be found on page 29.

Committee effectiveness and evaluation

The Board is committed to maintaining the highest standards and conducts a formal and rigorous evaluation of its performance, including the performance of its Committees, individual Directors, and the Chair annually.

In accordance with the provisions of the Code, the Board also conducts an externally facilitated evaluation at least once every three years. This year the evaluation was internally facilitated. The outcomes of the evaluation of the Committee were presented and considered in September 2023.

The overall conclusion from this year's evaluation was that the Committee continues to work effectively and is operating appropriately in line with its Terms of Reference.

Further information on the evaluation of the Board, the Committees and individual Directors, as well as full details on the internal evaluation process, outcome, and next steps is available on pages 108 and 109.

Diversity, equity, and inclusion

In FY21, the Board adopted the Board DEI Policy, which is reviewed annually to ensure it remains fit for purpose. The Board DEI Policy applies to the Board and its Committees and is available on our website at www.sage.com. The policy acknowledges the importance of diversity in its broadest sense, as a key element of Board effectiveness, and that the Board is fully committed to meeting the targets as set out by the FTSE Women Leaders Review and the FCA's Listing Rules, and the recommendations of the Parker Review. Further information on this can be found on page 116.

The Board leads in fostering a healthy and supportive corporate culture by setting the tone from the top. The Board DEI Policy sits alongside Sage's Group-wide Policy, Code of Conduct, and associated global policies, which set out our broader commitment to DEI.

The purpose of the Board DEI Policy is to set out the approach to DEI for the Board itself and for its Committees with the intention of supporting the succession planning work of the Committee in creating and maintaining the appropriate Board and Committee composition. The Board and senior management believe diversity is key to providing the right blend of perspectives and insights required to meet our purpose and strategy.

In FY23, the Committee and Board conducted an annual review of the Board DEI Policy. The policy was evolved further to include the target to meet Sage's Global Gender Goal and to include factors such as race, ethnicity, sexual orientation, disability, and socio-economic background in its coverage to reflect the Board's diversity commitments.

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.

Corporate governance report continued

Nomination Committee

Directors' key skills and experience	Andrew Duff	Sangeeta Anand	Dr John Bates	Jonathan Bewes	Maggie Chan Jones	Annette Court	Roisin Donnelly	Drummond Hall	Derek Harding	Steve Hare	Jonathan Howell
Executive and strategic leadership	●	●	●	●	●	●	●	●	●	●	●
Financial acumen	●	●	●	●	●	●	●	●	●	●	●
Technology and innovation	●	●	●	●	●	●	●	●	●	●	●
Remuneration and people	●	●	●	●	●	●	●	●	●	●	●
Audit and risk		●		●		●		●	●	●	●
Sustainability and environment	●				●		●		●	●	●
Strategy and M&A	●		●	●	●	●	●	●	●	●	●
Customer-centricity	●	●	●	●	●	●	●	●	●	●	●
International experience	●	●	●	●	●	●	●	●	●	●	●

Board composition*

Gender	
Female	4
Male	7
Ethnicity	
White	9
Asian	2
Nationality	
British	9
American	2
Age	
40 to 50	2
50 to 60	2
60 to 70	6
Above 70	1
Length of tenure	
Less than a year	2
1 to 3 years	2
3 to 6 years	4
Over 6 years	3

* The Board composition data reflects the information as at 30 September 2023. Please refer to the notes on page 115 for information on Board gender balance after Drummond Hall steps down from the Board at the end of December 2023.

Board and executive management diversity

The data contained in the tables on this page was collected as part of the annual declaration process, whereby the Board and the Executive Leadership Team confirmed the details through the internal DEI dashboard, or through self-declaration. The data is used for statistical reporting purposes and is provided with consent. The data in the tables

below is as at 30 September 2023 and there have been no changes in the period between then and the date of this report. Footnotes 2 and 3 provide information on changes from the time Drummond Hall steps down from the Board at the end of December 2023.

Further information on gender balance of those in senior management and their direct reports can be found on page 29.

Board and executive management gender

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management ¹	Percentage of executive management ¹
Men	7	64%	4	6	60%
Women	4	36% ²	— ³	4	40%
Not specified/ prefer not to say	—	—	—	—	—

Board and executive management ethnicity

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (Chair, CEO, CFO, and SID)	Number in executive management ¹	Percentage of executive management ¹
White British or other White (including minority White groups)	9	82%	4	8	80%
Mixed/Multiple ethnic groups	—	—	—	1	10%
Asian/Asian British	2	18%	—	—	0%
Black/African/Caribbean/Black British	—	—	—	—	0%
Other ethnic group, including Arab	—	—	—	1	10%
Not specified/ prefer not to say	—	—	—	—	—

1. As per the FCA's Listing Rules, executive management within Sage includes the Executive Leadership Team, including the Company Secretary.

2. When Drummond Hall steps down from the Board at the end of December 2023, the Board will be 40% female.

3. With effect from 1 January 2024, Annette Court will be the Senior Independent Director.

Corporate governance report continued

Board policy	
Board DEI Policy objectives	Implementation and progress against objectives
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	The Board and the Committee are committed to ensuring the composition of the Board exhibits a diverse mix of skills, professional and industry backgrounds, expertise, gender, age, tenure, race, and ethnicity.
Consider candidates for appointment to the Board from as diverse a pool of applicants as possible, ensuring that the recruitment and selection process has been reviewed to mitigate bias	The Board and the Committee seek a wide and diverse list of candidates for Board appointments, including in terms of gender, social (background), race, sexual orientation, disability, socio-economic and ethnic background, experience (including those with no previous public listed company non-executive experience), geographical experience, knowledge, skills, and independence of thought, always with the aim of securing the very best candidate for the position. This objective has been put into practice in the Board and Committee's searches for two new Non-executive Directors, which resulted in the appointments of Maggie Chan Jones and Roisin Donnelly in December 2022 and February 2023, respectively. This approach was further implemented during the internal search process to appoint a new Senior Independent Director in FY23.
Meet the targets of the Parker Review and FTSE Women Leaders Review, the FCA's Listing Rules, and our internal Global Gender Goal as far as possible, recognising that there may be temporary periods when this is not possible; such periods should be minimised	<p>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 2024 and are satisfied that the Board continues to meet this recommendation. Details of Board composition can be found on page 114. In line with the latest Parker Review recommendations, Sage has set a target to meet by December 2027, for 20% of senior management (which in this context means the Executive Leadership Team plus their direct reports) to be people who self-identify as being from a historically underrepresented race or ethnic group (from a position of 11% at the end of FY23). This is further aligned with the ESG DEI target within the FY24 Performance Share Plan for Executive Leadership Team members.</p> <p>We have remained committed to minimising the period for which our gender diversity targets set out in our Board DEI Policy are not met. For the end of FY23 our gender diversity percentage is at 36%; however, when Drummond Hall steps down from the Board in December 2023, at least 40% of the Board will be female, meaning that Sage will meet the target for Board gender balance set by the FCA's Listing Rules.</p> <p>Following the announcement that Annette Court will become Senior Independent Director effective 1 January 2024, Sage is also on track to meet the target set by the FCA's Listing Rules and by the FTSE Women Leaders Review to have one of the senior Board positions (Chair, CEO, CFO, or SID) held by a woman.</p>
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	<p>During FY23, the Board completed the process of appointing two new Non-Executive Directors, Maggie Chan Jones and Roisin Donnelly. Further information on the appointment process is available on page 112. The Lygon Group and Heidrick & Struggles are executive search firms (with no other connection to the Company or any individual Director) who have signed up to the Voluntary Code of Conduct on both gender and ethnic diversity and best practice and are able to demonstrate a commitment to gender and ethnic diversity as part of their roles in identifying suitable candidates. The Board and the Committee utilise an open recruitment process for non-executive roles, as appropriate.</p> <p>Further information on our Board and Board Committee composition can be found on pages 88 and 89.</p>
Ensure advertisements, role descriptions and long lists, reflect the Board's diversity commitments in respect of gender, race, ethnicity, and the wider aspects of diversity, as set out in this policy	The role briefs provided to each firm reflected the Board's policy of considering a diverse pool of candidates with different backgrounds.

The Board receives updates from members of the Executive Leadership Team and senior management on Group-wide DEI initiatives and monitors progress against DEI objectives. In FY23 the Board was pleased to see progress against the following targets:

Group-wide Initiative	Progress in FY23	Target
All About Us colleague participation target. This is the process colleagues can use to voluntarily share insights about themselves. Sage is committed to a workforce that fully represents the many different cultures, backgrounds and viewpoints of its customers, partners and communities. When all the insights are joined together, colleagues' contributions will provide an accurate view of Sage's colleague population and help sharpen the Company's focus to remove inequities	During FY23, participation grew to 55% from 43% at the start of FY23.	Participation target of 65% globally by the end of FY24
Colleague Success Network participation. This target is about creating a sense of inclusion. All of Sage's Colleague Success Networks have the same overall goal, to help create and support the Company's inclusive culture. Colleague Success Networks play an important role in supporting the Company's DEI journey. They do this through amplifying the voices of underrepresented communities, providing a platform for sharing experiences and identifying shared challenges which they feed back to the DEI team to resolve	At the start of FY23 the Company had 14% participation and reached 18% by the end of FY23.	Three-year Colleague Success Network participation target of 20% globally by the end of FY24
Sage Group gender diversity target. This target is about driving diversity at all levels of the organisation	<p>The Company has made some improvement during FY23, however, recognises there is more to be done on this very important topic. Currently, 34% of leadership teams are meeting this target, from a starting point of 33% in FY22. Sage's FY24 approach is to work with individual teams to understand their representation data, skills challenges, hiring opportunities, progression opportunities, succession pipelines, engagement, onboarding and offboarding.</p> <p>The expected outcome over the next year is that the learnings from the activities will feed into best practice playbooks that can be utilised by teams all over the world to support the achievement of the goal.</p>	Target of no more than 60% of any one gender, in any leadership team, anywhere at Sage, by the end of FY26

Other Group-wide Initiatives

Allyship training	The Company's VP of DEI and Wellbeing ran allyship sessions in every quarter of FY23 to frame the business case for DEI, spotlight our goals, and clarify where the accountability sits. All members of the Executive Leadership Team received this training.	Executive Leadership Team and above
'Free to Focus' workplace adjustments process	<p>Recommendations from our external global partner Business Disability Forum and feedback from colleagues supported us to redesign and simplify our workplace adjustment process. We have provided a single online hub, published office accessibility information, implemented a new ergonomics tool for self-service, centralised budgets, and embedded all of this with learning and regular communications.</p> <p>Using a staged regional roll out, the new experience is now available in the US, Canada, Spain, and Portugal.</p>	The next phase will see this rolled out in the UK & Ireland during FY24

Nomination Committee

Allocation of time

Board and Board Committee
Composition **30%**
Corporate governance **20%**
Succession planning **33%**
Diversity, equity and
inclusion **17%**

Other Nomination Committee members

Andrew Duff

Chair of the Nomination Committee

Committee purpose and responsibilities

The Committee (the “Committee”) is accountable for reviewing the structure, size, and composition of the Board, and ensuring that the Board and its Committees have the most suitable balance of skills, knowledge, and experience, taking account of each individual Director’s time commitment.

The Committee ensures that formal, rigorous, and transparent procedures are in place for Board appointments and that plans are in place for orderly succession planning to Board positions. It oversees the recruitment process and advises the Board on the identification, assessment, and selection of candidates; drives the diversity, equity, and inclusion agenda; and confirms that all appointments are made on merit against objective criteria.

The Committee also provides oversight on succession planning activities of senior management. The Committee is responsible for ensuring that a comprehensive induction programme is delivered on the appointment of a new Non-executive Director and leads the annual evaluation process of the Board.

Dr John Bates

Annette Court

Drummond Hall

“During the year, we were pleased to announce the appointments of Maggie Chan Jones and Roisin Donnelly in December 2022 and February 2023, respectively. They have both been very strong additions to the Board.”

Activities and evaluation

During the year, the Committee oversaw the Group's financial and ESG reporting, risk management and internal control procedures and the work of Sage Assurance (internal audit) and the external auditors. The Committee has also led a comprehensive external audit tender process during the year. Fuller details of the Committee's activities are set out below.

During the year, the Committee's performance was subject to an internal evaluation with responses being received from the Committee's standing members as well as other regular attendees. The internal evaluation, shared with both the Chair of the Board and the Chair of the Committee, supported the performance and effectiveness of the Committee.

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, internal controls and risk management (including risk appetite, tolerance and strategy), whistleblowing, anti-bribery and fraud, as well as the work of Sage Assurance (internal audit) and the external auditor. With respect to ESG, the Committee is responsible for monitoring the integrity, accuracy and consistency of both ESG and sustainability-related non-financial disclosures.

These responsibilities are defined in the Committee's Terms of Reference, which were reviewed and approved by the Committee and the Board in May 2023.

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 these requirements are met, with Jonathan Bewes being a qualified chartered accountant and experienced Audit Committee Chair following 25 years in financial services as a corporate finance advisor in the investment banking sector. Derek Harding is also considered to meet these requirements as a chartered accountant who currently serves as Chief Financial Officer at Spectris plc.

Further, the Board considers that the Committee has the necessary competence and broad experience relevant to the sector in which Sage operates as required by the Code. Annette Court and Drummond Hall are both former

Chief Executive Officers with extensive experience of leading complex, customer-focused businesses and Sangeeta Anand is a senior software technology leader with an extensive understanding and knowledge of transforming product portfolios.

There have been no changes in the composition of the Committee during the year.

Activities during the year

The Committee held four scheduled meetings during the year in line with its Terms of Reference. Details of individual attendance at scheduled meetings are set out on page 97. Regular attendees by invitation include the Chair of the Board, the Chief Executive Officer, the Chief Financial Officer, the General Counsel and Company Secretary, the EVP Group Financial Controller, the EVP Chief Risk Officer and the VP Assurance. All Committee meetings are attended by the external auditor, EY. By invitation, other members of management are invited to present.

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 Committee's standing attendees, as well as the external auditor.

Key activities during the year included a comprehensive external audit tender process, as well as ongoing monitoring of the Group's risks, controls and operations. In addition, the Committee has overseen the preparation of the financial statements and the application of significant reporting and accounting matters, which are set out in further detail below.

During the year, the Committee received, considered and, where appropriate, challenged:

- Scheduled finance updates on business performance and significant reporting and accounting matters, including going concern, from the EVP Group Financial Controller;
- The Group's half-year results and Annual Report and Accounts, as well as the accompanying press release, ahead of their review by the Board;
- A detailed summary of the Group's tax strategy, which was presented by the EVP Group Financial Controller, and subsequently approved by the Committee;
- Scheduled risk updates, including risk dashboards outlining both principal and any escalated risks. The Committee also received summary reports and supplementary briefings from management on selected Principal Risks and other 'in-focus' reviews;
- The assessment of Group and principal risk appetites with consideration of emerging risks;

Corporate governance report continued

- 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 reports on internal control and the implementation of remedial management actions, to address issues identified and make internal control improvements;
- 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;
- A joint update from the EVP Group Financial Controller and the EVP Chief Risk Officer with respect to the Group's viability statement, including detail behind the risk scenarios identified and the quantification of their potential impact;
- Updates from the EVP Group Financial Controller on the Group's response and ongoing activities related to the UK's proposed audit and corporate governance reforms, with a focus on the Group's readiness for adoption, notwithstanding the UK government's October 2023 withdrawal of draft corporate reporting regulations;
- Updates from the EVP Sustainability and Foundation on Sage's Net Zero transition strategy and further progress with respect to the Task Force on Climate-Related Financial Disclosure (TCFD), as well as other ESG related reporting matters.

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
<p>Revenue recognition</p> <p>Revenue recognition continues to be an important area of focus for the Group.</p> <p>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.</p> <p>With over a third of the Group's revenue generated through sales to partners rather than end-users, the key judgement in revenue recognition is determining whether a business partner is a customer of the Group.</p> <p>Considering the nature of Sage's subscription products and support services, this judgment is usually based on whether the business partner has responsibility for payment, has discretion to set prices, and takes on the risks and rewards of the product from Sage. Inherently, this assessment can be judgemental.</p>	<ul style="list-style-type: none"> The Committee continues to oversee management's application of revenue recognition policies and during the year has continued to monitor compliance with financial reporting and accounting controls linked to revenue recognition. During the year there have been no changes to the Group's revenue recognition policies. In light of the Group's acceleration in growth of cloud-based solutions, the Committee continues to review the appropriateness of management's application of revenue recognition policies. As part of the preparation for the interim and annual financial statements, the Committee obtained reports from both management and EY which set out the application of accounting and reporting treatment against the revenue recognition policy. During the year, the Committee received an update on the Group's strategy for creating value from the Sage Network. More specifically, this update included a review of the current reporting practices for consumption (or usage) based billing arrangements, as well as the appropriateness of the related disclosures provided in the financial statements. EY provided an update to the Committee on the nature, extent and findings from its procedures over revenue recognition during the year. 	See note 3.1 in the financial statements on pages 198 to 200.
<p>Carrying value of goodwill</p> <p>Given the Group's goodwill balance of £2,245m 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.</p> <p>During the year, the Group acquired Spherics and Corecon, which have collectively increased goodwill by £11m. Other movements during the year include the finalisation of the purchase price accounting for the Lockstep acquisition and foreign exchange movements.</p>	<ul style="list-style-type: none"> The Committee reviewed and considered the methodology applied and challenged the key inputs into the impairment model including areas of estimation and judgement such as forecast cash flows and discount rates (including the application of inflation), with consideration to their appropriateness given the changes in the macro-economic environment. Where appropriate, the Committee acknowledged the use of external specialists to support and corroborate management's inputs. The Committee further enquired as to whether any other reasonable changes in assumptions would result in a material impairment and therefore require sensitivity disclosure in the financial statements. The Committee agreed with management's conclusion that given the performance of the Iberia business over recent years, including its future plans, the sensitivity disclosure would be removed given that no reasonably possible changes may result in an impairment being recognised. This decision is also supported by the extent of available headroom in the impairment valuation model. The Committee considered the level at which goodwill is tested and concluded a consistent approach to the prior year is appropriate. 	See note 6.1 in the financial statements on pages 212 to 214.

Corporate governance report continued

Significant reporting and accounting matters	Response and challenge	Cross reference
<p>Going concern and viability assessment</p> <p>Both the going concern and viability assessment are key areas of focus for the Committee due to the level of management judgement required.</p> <p>In preparing these assessments, consideration was given to the macro-economic environment. The Committee received a detailed update from management during the year which included both reverse and scenario-specific stress testing.</p>	<ul style="list-style-type: none"> • The Committee reviewed management's process for assessing the Group's longer-term viability, including the determination of the period over which viability should be assessed, the appropriateness of the viability scenarios identified in light of the Group's Principal Risks and uncertainties and the reasonableness of key assumptions used by management in calculating the financial impact of a viability scenario arising. • With consideration to the macro-economic environment, the Committee reviewed the key assumptions underpinning management's longer-term forecasting, and the sufficiency and adequacy of future funding requirements. As part of this review, the Committee considered the level of available liquidity over the forecast period. • In reviewing the Group's going concern and viability assessment, the Committee noted that following the refinancing activities undertaken during the year, the Group is no longer subject to financial covenants underpinning any of its financing arrangements. • 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 over the forecast period. The results of reverse stress testing highlighted that such a scenario would only arise following a highly significant 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. 	<p>The Group's going concern and viability statements can be found on pages 164 and 165, and 82 and 83, respectively.</p>

Significant reporting and accounting matters	Response and challenge	Cross reference
Alternative Performance Measures (APMs) The Committee closely monitors management's interpretation and definition of 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.	<ul style="list-style-type: none"> The Committee continues to review and challenge management's use of APMs and, as part of the preparation for the interim and annual financial statements, requests a clear reconciliation between key APMs and statutory reporting measures. There is a continued focus by the Committee on the ARR APM given its importance as a key measure of business performance. At each Committee meeting, an update on ARR performance is provided. The Committee has challenged the sufficiency, adequacy and clarity of disclosures related to APMs in the Annual Report and Accounts and considers them to be appropriately disclosed. This included the decision to evolve financial reporting in the year by giving greater emphasis to underlying revenue and profit measures. Previously, such emphasis was on an organic basis which adjusted for the impact of acquisitions and disposals. 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. 	<p>The definition of APMs can be located in the glossary on pages 270 and 271.</p> <p>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 60.</p>
Property restructuring The Committee received a detailed update on the Group's property restructuring programme which was implemented during the year. As a result, the Group has recognised a non-recurring charge of £32m in the financial statements.	<ul style="list-style-type: none"> The Committee understood management's rationale for reporting the charge as a non-recurring item. Management noted that the property restructuring programme followed a strategic review of the Group's property portfolio, which would be completed by the end of the financial year FY23. The Committee further understood that previous property restructuring exercises were undertaken prior to the pandemic and changes in ways of working had led to the strategic review being performed. The Committee challenged the decision to report the property restructuring plan as a non-recurring item, including obtaining the view of the external auditor. Based on the nature and size of the property plan the committee agreed with the decision to record the plan as a non-recurring item. At each meeting during the year, the Committee was provided with an update of progress against the restructuring plan, and received a detailed summary of the accounting treatment applied. 	<p>See note 3.6 in the financial statements on pages 205 and 206.</p>

Corporate governance report continued

Fair, balanced and understandable

Each year, the Committee advises the Board on whether the Annual Report and Accounts taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess Sage's position, performance, business model and strategy. In reaching its conclusion, the Committee considered the results of management's assessment of going concern and viability, reviewed the Annual Report and Accounts as a whole, and assessed the results of processes undertaken by management to provide assurance that the Group's financial statements were fairly presented.

These processes included an analysis of how the key events in the year had been described and presented in the Annual Report and Accounts, how APMs had been defined and presented, and the outcome of representations received from country management teams on the application of a range of financial controls. The Committee also considered the perspective of the external auditor.

Risk management and internal controls

The Committee assists the Board in its monitoring of the Company's internal control and risk management systems, and in its review of their effectiveness. This monitoring includes oversight of all material controls, including financial, operational, regulatory and compliance controls, and assessing whether the control systems are fit for purpose and whether any corrective action is necessary. The Risk function reports into the EVP Chief Risk Officer, with the Sage Assurance (internal audit) function reporting, via the VP Assurance, directly to the Committee to maintain independence, and administratively into the General Counsel and Company Secretary.

During the year, the Committee:

- Reviewed the principal risks, their evolution during the year, and the associated risk appetites and metrics, challenging and confirming their alignment to the continued achievement of Sage's strategic objectives. At each meeting, the Committee considered and challenged the ongoing overall assessment of each risk, their associated metrics and management actions and mitigations in place and planned;
- Reviewed and considered an assessment of the effectiveness of risk management more broadly, and reviewed summary reports from Sage Risk and Controls and Sage Legal on the Group's adherence to policies, including Conflicts of Interest, Anti-Money Laundering, Sanctions, Competition Law, Anti-Bribery and Corruption and Modern Slavery;
- At the request of the Committee, the EVP Chief Risk Officer provided an update in relation to the management of risks related to AI and ML.

An update was provided, acknowledging that this is a developing area, with respect to information from experts both inside and outside the business, as well as wider external monitoring. Both AI and ML related risks will be reviewed as part of the ongoing review of principal and operational risks;

- Received reports from Sage Assurance and management on internal control and monitored the implementation of management actions to remediate issues identified and make improvements. The Committee also satisfied itself that management's response to any financial reporting or internal financial control issues identified by the external auditor was appropriate;
- Received updates from the EVP Group Financial Controller on the progress made towards implementation of our internal financial controls enhancement programme, and broader preparedness for the UK's proposed audit and corporate governance reforms, notwithstanding the UK Government's subsequent decision in October 2023 to withdraw draft corporate reporting regulations;
- 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 68 to 81.

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:

- The Committee led a competitive and comprehensive external audit tender process, to which a significant amount of time was devoted. Further information on this process is provided below.
- The Committee received a briefing on data privacy, more specifically an update on General Data Protection Regulation (GDPR) compliance maturity, a summary of data privacy compliance maturity work in other key geographies and a wider data privacy work insight, aligned to Sage's strategic business initiatives, including scaling the Sage Network, and the development of AI and ML capabilities.

- The Committee was updated on Sage's progress towards its Net Zero transition plan, including the associated risks and mitigating actions. In addition, the Committee received an update on the process made with respect to Sage meeting the key recommendations and disclosures of the TCFD, including the plan to continue to address both physical and transitional climate related risks.

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 of the Group.

Additionally, in line with both the requirements of the UK Corporate Governance and the Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing (IPPF), the effectiveness of Sage Assurance is reviewed by the Committee on an annual basis. This is supplemented by an independent external quality assessment (EQA) at least once every five years, with the last EQA completed by PwC in August 2021. The next EQA is

currently planned for FY25. Feedback from the 2021 EQA was positive and noted conformance with the IPPF, together with the IIA Code of Ethics and Code of Practice, a position which was reaffirmed by this year's annual internal effectiveness assessment. This review was presented and discussed at the September 2023 Committee meeting, at which the Committee endorsed these conclusions.

The Committee reviews and approves 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 coverage of principal risks and the impact of business changes, with no significant or adverse impact on the business' internal control environment identified. Operationally, following emergence from the Covid-19 pandemic in the prior period, the Assurance function has now returned to a fully hybrid model, with an increased focus on on-site delivery encompassing visits to key locations in the UK, North America, South Africa, Southern and Central Europe, and Asia-Pacific.

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.

Corporate governance report continued

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 nine years since their initial appointment in 2015. Kathryn Barrow was appointed as lead audit partner in 2020 and will continue in her role for the next financial year.

Auditor effectiveness

The Committee is responsible for assessing the effectiveness of the external auditor. In doing so, the Committee considers the independence, objectivity and level of professional scepticism exercised by the external auditor, as well as the results of the annual auditor effectiveness review. To fulfil its responsibility for oversight of the external audit process, the Committee reviewed and agreed:

- The terms, areas of responsibility, associated duties and scope of the audit as set out in the external auditor's engagement letter;
- The overall work plan and fee proposal;
- The issues that arose during the course of the audit and their resolution;
- Key accounting and audit judgements;
- The level of errors identified during the audit; and
- Control recommendations made by the external auditor.

In addition to the above, specific considerations made by the Committee during the year included:

- The detail relating to EY's scoping and audit plan for FY23 which was presented to the Committee at its May meeting;
- 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, including professional scepticism, and perceptiveness of EY in its handling of key accounting and audit judgements; and
- The interaction between management and the auditor.

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 various stakeholders across 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 Group's 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 2023, the ratio of non-audit fees to audit fee was 10% (2022: 10%), principally reflecting the fee paid for the half-year interim review and permitted assurance services relating to a bond issuance during the year as well as a set of agreed upon procedures over the mathematical calculation of ARR. A breakdown of total audit and non-audit fees charged by the external auditor for the year under review is shown in note 3.2 to the financial statements.

The Committee has also considered the independence of the external auditor's partners and staff involved in the audit of Sage. EY has confirmed that all its partners and staff complied with their ethics and independence policies and procedures that are consistent with the FRC's ethical standards including that none of its employees working on the audit hold publicly listed securities issued by Sage. In addition, the Committee acknowledges management's internal assessment that no employee in a key financial reporting oversight role has a close relationship with any EY employee which may impact their independence.

Auditor 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 2024 AGM, for the year ending 30 September 2024, which the Board has accepted and endorsed.

External audit tender

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 following EY's initial appointment as external auditor in 2015, Sage conducted a comprehensive and competitive tender process during the year, for the external audit for the financial year ending 30 September 2025. This timing was chosen to provide sufficient time to allow for an orderly transition in the event of a change in auditor.

The audit tender process was led by the Chair of the Audit and Risk Committee, supported by a Steering Committee which comprised Jonathan Bewes (Chair of the Audit and Risk Committee), Derek Harding (a member of the Audit and Risk Committee), the Chief Financial Officer and the EVP Group Financial Controller. Following the Committee's May meeting, three firms were formally invited to participate in the audit tender process. This included two Big Four firms, including EY, and one challenger audit firm. Two other Big Four firms were not invited to participate due to conflicts of interest.

Audit Tender Timeline 2023

May	June	July	August	September
Timeline finalised by the Committee	Steering Committee decided to proceed with two audit firms	Both audit firms met with management (including key audit stakeholders) through a series of meetings, which were internally scored	Follow up meetings were held between the audit firms and the Steering Committee	Proposal documents were submitted
Invitations to tender issued to three audit firms, including one challenger firm	RFP was issued to the audit firms and an online data room was opened	Management were invited by both audit firms to attend an on-site technology presentation		Final presentations were delivered to the Steering Committee
Invited audit firms confirmed their independence and that they had no potential conflict of interest	Clear assessment criteria were established and communicated to the audit firms	Responses to a technical challenge were submitted		The Committee concluded the process, presenting both audit firms to the Board for consideration of awarding the tender, recommending the appointment of KPMG
Steering Committee met with the three audit firms				

Corporate governance report continued

All three firms accepted the invitation to participate in the audit tender, and confirmed their independence. Following this, the Steering Committee met with the proposed lead partners from each of the firms. At this stage, the decision was made to proceed with two audit firms. Subsequently, a Request for Proposal (RFP) was issued to both firms and the formal process commenced, which included:

- A formal meeting between members of both firms (including senior team members) and the steering committee;
- Several management meetings allowing both firms access to key audit stakeholders in the business;
- Access to key information through an online data room;
- A written technical challenge to ascertain the firm's experience in making judgemental decisions similar to Sage's key accounting and reporting judgments;
- A thorough review of the Financial Reporting Council's (FRC) Annual Audit Quality Inspection Results;
- Meetings to better understand the use of technology, data and analytics in the audit approach, which included on-site visits to both firms; and
- A submission of a written document and final presentation to the steering committee.

The non-discriminatory selection criteria against which both firms were assessed included the following:

- Understanding of Sage as a business and the industry within which it operates
- Quality of the audit team and personnel
- Appropriateness of the audit approach
- Audit service, including reporting and deliverables
- Audit quality
- Sustainability (own firm sustainability and the sustainability related audit approach)

Having considered the selection criteria, as well as input from other members of management and the firms' performance at the final presentation, the Committee presented both audit firms to the Board for consideration. The Committee recommended to the Board that KPMG be appointed as the Group's external auditor for the financial year ending 30 September 2025, on the basis of KPMG's strong performance against the selection criteria, input and observations from the Steering Committee and the presentations made. The Group's Auditor Independence Policy, noted above will be applied to KPMG for the year ending FY24 to ensure a robust cooling-in period.

Evaluation of the performance of the Committee

The evaluation of the Committee for the year was completed as part of the 2023 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 108 and 109. 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

“During a year of continued external volatility, we have delivered a robust set of results demonstrating consistent and sustainable growth. Our Remuneration Policy has operated as intended; driving high performance linked to clearly defined goals fundamental to our business strategy.”

Annette Court

Chair of the Remuneration Committee

Composition of the Committee

The Remuneration Committee is composed solely of independent Non-executive Directors, Drummond Hall, Dr John Bates, and Roisin Donnelly, 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 88 and 89.

Remuneration updates for Executive Directors in FY24	page 130
Our remuneration principles	page 132
Remuneration Committee governance	page 138
Remuneration Policy 2022	page 139
Directors' Annual Remuneration Report	page 144
Statement of implementation of Remuneration Policy in the following financial year	page 155

Other Remuneration Committee members

Drummond Hall

Dr John Bates

Roisin Donnelly

Directors' Remuneration Report continued

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 2023.

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 UK Corporate Governance Code 2018, the Companies (Miscellaneous Reporting) Regulations 2018, the Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, and the Listing Rules.

The Report is in sections:

- The Directors' Remuneration Policy (the "2022 Policy") (pages 139 to 143).
- The Directors' Annual Remuneration Report (pages 144 to 163). This section sets out details of how the 2022 Policy was implemented for the year ended 30 September 2023 and how we intend the Policy to apply for the year ending 30 September 2024.

Objectives and responsibilities

The Committee's main objective is to determine the framework, broad policy, and levels of remuneration for the Group's Chief Executive Officer, the Group's Chief Financial Officer, the Chair of the Company, and other executives as deemed appropriate, ensuring compliance with legal and regulatory requirements and striving to enhance Sage's long-term development.

This framework includes, but is not limited to, establishing stretching performance-related elements of reward and is intended to promote the long-term success of the Company. We achieve this through:

- Providing recommendations to the Board, within agreed Terms of Reference, on Sage's framework of executive remuneration.
- Determining the contract terms, remuneration and other benefits for each of the Executive Directors, including performance share awards, performance-related bonus schemes, pension rights, and compensation payments, and aligning such to the Company's purpose, values, and culture.
- Reviewing workforce remuneration, and related policies across the Group and the alignment of incentives and rewards with culture, taking these into account when setting the Policy for Executive Directors.
- Determining remuneration for senior executives below Board level.
- Approving share awards.

- 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.

Context for FY24 remuneration decisions

Sage has delivered *"a strong set of results despite continued uncertainty due to economic volatility and inflationary pressures"*.

The Company has continued to invest in innovation and growth whilst striving to build every customer experience with human insight and ingenuity.

Our colleagues have demonstrated resilience and dedication in delivering on our purpose of knocking down barriers so everyone can thrive. Colleague engagement has remained high, with eSat of +76, and support for colleagues during this time of continued economic uncertainties has been of paramount importance. To facilitate colleague wellbeing, a global Employee Assistance Programme has been rolled out and, for the second consecutive year, an increased pay review budget has been deployed with pay review matrices to ensure that budget is focused on our lowest-paid and highest-performing colleagues. Sage continues to be an accredited Living Wage Foundation employer. Additionally, Save and Share, our all-colleague share plan, enables colleagues to become shareholders at all levels across the business; participants of the plan maturing in 2023 realised significant gains due to share price appreciation over the savings period. In June 2023, our localised Colleague Share Purchase Plan (CSPP) launched its first enrolment in the US with a take-up rate of 21% of eligible colleagues. Total participation across all all-colleague plans in 2023 was 33% of eligible colleagues.

In view of the above, the Committee is striving to balance the need for remuneration to reward high performance and strategic delivery, remain market competitive and align to the external operating environment and UK corporate governance requirements.

Remuneration updates for Executive Directors in FY24

We are proposing several changes to FY24 remuneration arrangements, all of which are consistent with the current Remuneration Policy:

1) CEO remuneration in FY24

Sage has delivered the second successive year of increasing revenue growth and profitability with strong free cash flow, growth in the strategically important Sage Business Cloud penetration, and a progressive dividend. Strong financial performance has been matched by high share price growth. Since Steve Hare's appointment as CEO in 2018 Sage has

significantly outperformed the FTSE 100 with 98% return to shareholders compared to 30% return from the FTSE 100 Index, in absolute terms, over £6bn of shareholder value has been created over this 5-year period and Sage is now a constituent of the FTSE 50. The historical Group performance against the FTSE 100 chart on page 154 also highlights Sage's outperformance of the FTSE 100.

As a technology business, Sage must compete in a global talent market which provides retention and attraction challenges for talented leaders. We operate across 19 countries and 65% of colleagues are based outside of the UK and Ireland. In financial terms, 78% of our recurring revenues are generated outside the UK and Ireland, and 45% of our recurring revenues come directly from North America. Within the technology sector there has been intense competition for talent, and with digitisation we now also face pressure from outside our core competitor base. We recognise that whilst there are no direct UK peers for Sage that could inform benchmarking, the UK market continues to represent an important reference point from a governance perspective. Steve Hare's remuneration arrangements currently offer a target and maximum opportunity of around 80% of the FTSE 100 market median. We view this as uncompetitive for a high-performing CEO in a FTSE 50 technology business with significant presence in the US and operating in a US-dominated industry, where total remuneration levels are significantly higher than in the UK. In addition, there is a scarcity of UK-based CEOs qualified to lead a digital business of Sage's size and complexity and, at this pivotal stage of Sage's growth, retention and stability are of key importance.

In order more appropriately to reflect his performance, experience, and criticality to Sage, and to minimise retention risks, Steve Hare's base salary will increase to £925,000 (9.9%). This will be the first above inflationary increase in salary since his appointment as CEO in 2018.¹ His Performance Share Plan (PSP) award will increase from 250% to 300% of salary (within the existing Policy limit of 300% of salary) subject to the stretching performance conditions set out on pages 156 to 158. To further enhance alignment with shareholders, there will be an accompanying increase in the CEO's shareholding requirement from 300% to 350% of base salary. Whilst these changes do not significantly close the gap with our US competitors, they bring the CEO's remuneration opportunity closer to a UK mid-market position, which the Committee currently views as an acceptable position. The longer-term appropriateness of this market positioning will be considered as part of our standard triennial Remuneration Policy review in FY24.

2) Base salary increase of 5% for the CFO

We have undertaken our annual review of salaries and awarded a 5% salary increase for FY24 to the CFO. This is aligned to our budgeted UK workforce salary increase for FY24 of 5%.

3) Changes to FY24 performance measures for the Performance Share Plan

Performance metrics for FY22 and FY23 PSP awards were aligned with the strategy of creating sustainable value for our broad base of stakeholders by efficiently growing the business. As this strategy remains unchanged, we propose only the following evolutionary changes to the FY24 PSP:

- As indicated in last year's Remuneration Report, we have reviewed the financial metrics used in the PSP to ensure continued close alignment with the business strategy. The primary financial metric used in FY22 and FY23 PSP awards was growth in Sage Business Cloud (SBC) penetration. Due to the significant growth achieved in this metric over the past two years, SBC penetration is now at a level where any further growth is likely to be materially slower than in the past. Accordingly, underlying earnings per share (EPS) will be the main financial metric for FY24 PSP awards. Targets have been set at an ambitious level commensurate to the proposed increase in quantum for the CEO.
- In conjunction with the continued evolution of our Sustainability and Society strategy, the ESG measures will include a new metric linked to race and ethnicity (with targets for this metric aligned with the Parker Review) and an evolved Tech for Good measure linked to enabling access to carbon accounting functionality via Sage suites. This will complement existing ESG metrics linked to (i) reduction in carbon emissions against a SBTi-approved Net Zero Plan and (ii) gender diversity.

Full details can be found in our statement of implementation of the Remuneration Policy in the following financial year on pages 156 to 158 of this Report and further details in regard to our Sustainability and Society strategy can be found on pages 30 to 37 and in the 2023 Sustainability Report.

The full set of annual bonus and PSP measures and related targets for FY24 are set out on pages 156 to 158.

Looking forward, we will be engaging with shareholders during 2024 in a review of our Directors' Remuneration Policy in order to ensure remuneration arrangements continue to support the business over the medium term. The revised Policy will be submitted to a binding shareholder vote at the 2025 AGM, when our current Policy expires.

1. Steve Hare salary since appointment as CEO Nov 2018: £770,000; Jan 2020 £785,000 (+1.9%); Jan 2021 £785,000 (-); Jan 2022 £809,000 (+3%); Jan 2023 £841,500 (+4%).

Our remuneration principles

Our remuneration principles align with the requirements of the 2018 UK Corporate Governance Code. The principles apply across our entire workforce and are designed to drive the behaviours and results required to support our short- and longer-term business strategy as outlined in the Strategic Report.

1

Drives focus on strategy, purpose, and culture

Allows the Committee to give appropriate reward for achievements that support delivery of strategic goals and wider social purpose through a remuneration approach that is consistent with that in place for colleagues across Sage.

2

Market competitive

Reward opportunity aligned to relevant competitive markets, recognising wider context of geographies in which we operate.

3

Simplicity

Clarity and simplicity of design enables transparency for all stakeholders.

4

Aligned with shareholder interests

Close alignment of reward outcomes and value created for shareholders through material share participation for executives; mitigates against excessive risk-taking that can arise from target-based incentive plans and ensures no reward for failure.

Principles are underpinned by compliance with corporate governance guidelines and specifically with Provision 40 of the 2018 UK Corporate Governance Code:

Clarity—

should be transparent and promote effective engagement with shareholders and the workforce.

Simplicity—

should avoid complexity and their rationale and operation should be easy to understand.

Risk—

should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.

Predictability—

the range of possible values of rewards and any limits or discretion should be identified and explained at the time of approving the policy.

Proportionality—

the link between individual awards, the delivery of strategy, and the long-term performance of the company should be clear.

Alignment to culture—

incentive schemes should drive behaviours consistent with company purpose, values, and strategy.

Delivering our remuneration principles in FY24

We aim to align the total remuneration for our Executive Directors to our business strategy through a combination of salary, bonus, and long-term incentive schemes underpinned by stretching performance targets.

The table below summarises the remuneration arrangements for our current Executive Directors in FY24 in accordance with the 2022 Policy. Alignment to our remuneration principles is also denoted.

Remuneration principles

- 1 Drives focus on strategy, purpose, and culture
 2 Market competitive
 3 Simplicity
 4 Aligned with shareholder interests

Element of Policy	Purpose	Implementation in FY24
Base salary 1 2	Enables Sage to attract and retain Executive Directors of the calibre required to deliver the Group's strategy.	CEO: £925,000 (9.9% increase) CFO: £606,000 (5% increase) The equivalent average increase for colleagues eligible for an annual pay award is 5% (in respect of colleagues based in the UK).
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 in line with the pension benefit for the UK wider workforce.
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 (UOP) underpin), 10% on customer-related measure inclusive of Net Promoter Score, and 20% based on strategic goals.
Performance Share Plan 1 2 3 4	Supports achievement of our strategy by targeting performance under our key financial performance indicators. Vesting is after three years, and awards are subject on vesting to a holding period of two years before being released.	Face value of 300% of base salary for the CEO Face value of 225% of base salary for the CFO 50% based on underlying EPS with Return on Capital Employed (ROCE) underpin, 30% based on relative shareholder return performance, and 20% based on ESG basket of measures.
All-employee share plans 1	Provides an opportunity for Executive Directors to voluntarily invest in the Company.	Eligible to participate up to the tax-efficient limit of £500 per month.
Chair and Non-executive Director fees 2	Provide an appropriate reward to attract and retain high-calibre individuals.	See page 158 of this Report for a list of Non-executive Director fees.
Shareholding guideline 4	The shareholding guideline for the CEO is 350% of base salary and for the CFO is 275% of base salary. 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 2023 (inclusive of deferred shares held, net of tax at the current estimated marginal tax withholding rate and Sage shares held by an Executive Director's connected person): CEO 708% of base salary CFO 468% of base salary See page 159 for more information on the shareholding guideline.

Directors' Remuneration Report continued

Remuneration at a glance

Our at a glance summary sets out clearly and transparently the total remuneration paid to our Executive Directors in 2022/2023.

Fixed pay for FY23

- Base salary
- Benefits
- Pension

See page 144

Annual bonus for FY23

- 11.4% ARR growth achieved
- Customer experience scorecard
- Personal strategic goals

See page 145

PSP awards vesting in FY23

- 69th Total Shareholder Return (TSR) percentile rank
- 10.2% Compound Annual Growth Rate (CAGR) ARR growth achieved
- £681.5m Cloud native (CN) ARR achieved
- ROCE underpin met

See page 149

FY23 single figure for total remuneration summary

Director	2023 Total £'000	2022 (restated) Total ³ £'000
Executive Directors		
S Hare	4,000	2,524
J Howell	2,722	1,716
Non-executive Directors		
A Duff	400	400
S Anand	82	67
J Bates	70	63
J Bewes	90	81
M Chan Jones ¹	70	–
A Court	90	81
R Donnelly ²	46	–
D Hall	87	80
D Harding	70	63

Notes:

1. Maggie Chan Jones was appointed as Non-executive Director on 1 December 2022.
2. Roisin Donnelly was appointed as Non-executive Director on 3 February 2023.
3. 2022 values are restated to reflect the change in share price reported in 2022 in line with the methodology set out in the 2013 Reporting Regulations (£7.063) and the share price actually achieved at vesting (£8.018).

Key remuneration outcomes for FY23

	Measure	Weighting	% of the overall maximum award
Annual bonus	ARR growth*	70%	44.5%
	Customer experience scorecard	10%	6.6%
	CEO performance against personal strategic goals	20%	17.0%
	CFO performance against personal strategic goals	20%	18.0%
	CEO total bonus opportunity achieved	100%	68.1%
	CFO total bonus opportunity achieved	100%	69.1%
Performance Share Plan	ARR growth**	35%	35.0%
	CN ARR**	35%	18.4%
	Relative Total Shareholder Return (TSR)	30%	19.7%
	Total Performance Share Plan opportunity achieved	100%	73.1%

Notes:

* Payment of a bonus for ARR growth is subject to the achievement of an underpin condition of Group underlying operating profit (UOP) margin of 17.5%. Group UOP was 20.7% and the underpin met.

** For any of this portion of the PSP award to vest, a ROCE underpin of 12.0% must be met. ROCE of 18.6% was achieved and the underpin met.

Key remuneration outcomes for FY23

2023 bonus: 68.1% to 69.1% of potential payable

The 2023 bonus was aligned to our strategy of efficiently growing the business, such that 70% of bonus potential was based on ARR growth with a UOP margin underpin. 10% of bonus potential was based on the customer experience framework to reflect the criticality of maintaining and improving the experience for Sage customers. ARR growth of 11.4% (between target and stretch level) was achieved; the UOP margin of 20.7% met the underpin level. The outcome for the customer experience framework of 6.6% reflects the significant strides made in improving our customer journey during FY23. The remaining 20% is determined by assessments of individual Executive Directors' performance against their goals. In summary:

- For the CEO, 17% would be payable
- For the CFO, 18% would be payable

The Committee determined that 68.1% and 69.1% of maximum bonus will be payable for the CEO and CFO respectively. Further detail is set out on page 145.

2021 PSP: 73.1% of the total shares under award vesting

PSP awards granted in December 2020 were based on ARR growth, CN ARR (with a ROCE underpin applicable to these financial measures) and relative TSR performance measured over the three-year performance period from 1 October 2020 to 30 September 2023.

Reflecting on general business performance, and the experience of shareholders, customers, and colleagues over the period, the Committee determined that the calculated outcome is appropriate, so 73.1% of the total number of shares under award will vest in December 2023, subject to a two-year holding period for both Executive Directors. Further detail is set out on page 149.

Engagement with stakeholders

The Committee values input from shareholders and is committed to ensuring open and transparent dialogue between parties in regard to executive remuneration. Where appropriate, the Committee seeks the views of the largest shareholders individually and others through shareholder representative bodies when considering any significant changes to the Policy. Any feedback received is thoughtfully reviewed and, where appropriate, changes are implemented. Ahead of the 2024 AGM, the Committee consulted individually with Sage's top 20 shareholders and proxy agencies on the proposed changes to Executive Director remuneration and the PSP metrics for 2024. This was initially in written format and included virtual meetings to discuss the proposals in detail. Shareholders that responded indicated support for the proposals, and regarded them as appropriate in the context of business performance, strong support for the CEO, and pressure from the US talent market.

Colleague Success is critical for Sage and engaging with the workforce in meaningful, two-way dialogue underpins this. The CEO hosts frequent "All-Hands" calls for the whole workforce, during which he provides Company performance updates explaining how this translates to the bonus plan.

Colleagues are encouraged to ask questions and the CEO provides open and transparent answers. Additionally, Company performance at a Group and regional/functional level and bonus updates are periodically provided on our intranet site and by email; this ensures that colleagues are able to understand how the business is performing during the financial year and the impact that can have on their reward package. This is supplemented by personalised bonus update letters for colleagues three times a year.

Colleagues receive a detailed personal annual reward statement annually in December outlining their basic salary and annual bonus plan structure (where applicable) for the year.

Colleagues have the opportunity to share their thoughts and feedback on all topics, including our remuneration policies and practices, through our "Always Listening" survey. Originally launched during 2020 in response to the pandemic, this is a continuous feedback survey which colleagues can access at any time. Our bi-annual colleague Pulse Surveys have a high response rate, demonstrating that colleagues welcome the opportunity to share their thoughts, and CEO roundtables also provide opportunities for colleagues to provide feedback.

A global Reward and Recognition policy is available to all colleagues and applies across the entire workforce. Furthermore, colleagues are able to access a more detailed explanation of executive pay through this Report and of our equity awards through our colleague intranet.

Directors' Remuneration Report continued

Corporate Governance Code considerations

From 1 October 2021, we have been fully compliant with the UK Corporate Governance Code 2018 (the "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 pages 47 to 55. The purpose, strategic alignment, and structure of each element of pay is provided in the Policy and easily accessible on our Company website.
Simplicity	Code provision: remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	Simplicity is one of our remuneration principles and guides the design of our remuneration structures. Remuneration arrangements in place for Executive Directors are not complex: executives are eligible for an annual bonus and a long-term incentive award under our PSP, the metrics of which are aligned to the Company's strategy. Salaries are reviewed annually across the whole workforce and benefits are provided in line with local market norms. The pension provision for Executive Directors is 10% of salary. This policy was applied for the first time to the appointment of Jonathan Howell as CFO in December 2018. This Report provides open and transparent disclosure of executive remuneration for our workforce and our shareholders.
Risk	Code provision: remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	There is an appropriate mix of fixed and variable pay and financial and non-financial measures and goals in our remuneration plans. There are mechanisms in place to ensure alignment with long-term shareholder interests and the ongoing performance of the business; one third of annual bonus is deferred into Sage shares, a holding period of two years is applicable to the PSP, and Executive Directors are required to build up and maintain a significant holding of Sage shares both whilst an Executive Director (350% of salary for the CEO and 275% of salary for the CFO) and for a two-year period after stepping down from that position (100% of their "in-employment" guideline for two years after stepping down as a Director). The Committee is able to exercise discretion over the formulaic outcomes of the bonus and PSP to ensure outturns reflect the performance of the Executive Directors and the business. Malus and clawback provisions are applicable to these plans in the event of a trigger event.
Predictability	Code provision: the range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the Policy.	Incentive opportunities are capped with clearly defined payout schedules, deferral requirements, and holding periods.

Proportionality	Code provision: the link between individual awards, the delivery of strategy, and the long-term performance of the company should be clear. Outcomes should not reward poor performance.	Executive Directors' total remuneration package is designed to ensure that remuneration increases or decreases in line with business performance and aligns the interests of Executive Directors and shareholders, specifically with the annual bonus and PSP rewarding over the short and long term. Stretching targets over an annual (applicable to annual bonus) and (applicable to the PSP) three-year performance period are approved by the Committee and assessed at the end of the respective performance period, taking into account the wider business performance and the internal and external context. The Committee has overriding discretion over the formulaic outcomes of the bonus and PSP to ensure outturns reflect performance of Executive Directors, the business, and the shareholder experience, ensuring that poor performance is not rewarded.
Alignment to culture	Code provision: incentive schemes should drive behaviours consistent with the company purpose, values, and strategy.	Incentive schemes are aligned to Sage's culture. The bonus plan is split between Company performance and achievement of personal strategic goals, which incorporate non-financial metrics such as employee engagement, leadership development, inclusion, diversity, talent development, and the community. The Company performance measures are central to the strategic progression of Sage and the personal goal assessments are completed taking into account outputs and how they have been delivered in respect of the Company's Values and Behaviours. The PSP measures align to the Company's strategic priorities in addition to the wider shareholder experience through Total Shareholder Return (TSR). The ESG measures first introduced into the PSP in 2022 and updated for 2024 will drive achievement of the Sustainability and Society strategy. Full details of the proposed measures can be found on pages 156 and 158.

In 2023, the Committee undertook a review of remuneration and related policies for the wider workforce and deemed that remuneration for Executive Directors is aligned to the wider workforce. This is achieved by consistent performance measures in the annual bonus plan, pay principles that are applicable across the entire workforce, and application of the annual pay review process consistently across all colleagues.

The Committee reviewed the implementation of the Policy over 2023 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 for remuneration; a consideration of wider business performance including customer metrics; the experience of shareholders and our TSR; and the experience of our colleagues.

I hope you find this Report to be clear in understanding our remuneration practices and that you will be supportive of the resolutions relating to remuneration at the 2024 AGM. As ever, the Committee welcomes any questions or comments from shareholders.

Annette Court
Chair of the Remuneration Committee
21 November 2023

Directors' Remuneration Report continued

Remuneration Committee governance Committee meetings

The Committee held six scheduled meetings during FY23. Details of individual attendance at scheduled meetings are provided in the table below.

Activities of the Committee at a glance Allocation of time

65% 10% 10% 15%

Note:
Allocation of time has been rounded to the nearest 5%.

Committee members	3 November 2022	10 November 2022	9 February 2023	15 May 2023	11 July 2023	26 September 2023
Annette Court (Chair)	●	●	●	●	●	●
Drummond Hall	●	●	●	●	●	●
Dr John Bates	●	●	●	●	●	●
Roisin Donnelly ¹				●	●	●

1. Roisin Donnelly joined the Remuneration Committee on 1 March 2023.

Activities and evaluation

Details of the Committee's activities are set out below.

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	<ul style="list-style-type: none"> Determined bonus targets and outcomes for 2022 and PSP outcomes for the 2020 award. Reviewed content of 2022 Directors' Remuneration Report. 	<ul style="list-style-type: none"> 2022 bonus determined at 88.0% to 88.7% of potential, as disclosed in last year's Report. 2020 PSP determined at 20% of the overall award for vesting, as disclosed in last year's Report. Approved the 2022 Directors' Remuneration Report.
Considering the views on remuneration of our stakeholders and reviewing trends in executive remuneration	<ul style="list-style-type: none"> At least quarterly, the Committee's advisors presented on market trends, legislative change, and corporate governance requirements in executive remuneration. 	<ul style="list-style-type: none"> Views of shareholders, proxy voting agencies, and market insight provided invaluable context for the Committee's deliberations on the implementation of the Policy and its effectiveness.
Reviewing the effectiveness of the Policy	<ul style="list-style-type: none"> Reviewed performance against in-flight incentive plans and the forecast single figure for remuneration for Executive Directors. Reviewed remuneration-related risks. Reviewed the structure of remuneration. Discussed the base salaries, the bonus and PSP structure for 2024. 	<ul style="list-style-type: none"> Determined that the Policy was operating as intended for FY23.
Other	<ul style="list-style-type: none"> Reviewed the Committee's Terms of Reference. Reviewed workforce remuneration and related policies. 	<ul style="list-style-type: none"> Determined no change to the Committee's Terms of Reference. Considered the implementation of the 2022 Policy in FY24 in light of workforce remuneration.

Remuneration Policy 2022

The current Remuneration Policy (the “2022 Policy”) was approved by our shareholders at the 2022 AGM and can be found in full in the 2021 Annual Report, or can be downloaded from www.sage.com/investors.

The table below sets out a summary of key elements of the Policy that shareholders approved at the 2022 AGM on 3 February 2022.

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
Base salary Supports the recruitment and retention of Executive Directors of the calibre required to deliver the Group’s strategy. Rewards executives for the performance of their role. Set at a level that allows fully flexible operation of our variable pay plans.	Normally reviewed annually, with any increases applied from January. When determining base salary levels, consideration is given to the following: <ul style="list-style-type: none"> • 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. • 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: <ul style="list-style-type: none"> • 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). • 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.

Directors' Remuneration Report continued

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: <ul style="list-style-type: none"> • 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.	<ul style="list-style-type: none"> • 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 FY24 are described in the Directors' Annual Remuneration Report.

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
<p>Performance Share Plan (PSP)</p> <p>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.</p>	<p>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.</p> <p>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.</p>	<p>Awards vest on the following basis:</p> <ul style="list-style-type: none"> • 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. <p>Implementation for FY24 is outlined on pages 156 to 158.</p> <p>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.</p>	<p>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 measures and targets that will apply for awards granted in 2024 are set out in the Directors' Annual Remuneration Report.</p>

Directors' Remuneration Report continued

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
All-employees share plans Provide an opportunity for Directors (as well as the general workforce) to voluntarily invest in the Company.	UK-based Executive Directors are entitled to participate in an HMRC-approved all-employee plan, the Sage Save and Share Plan, under which they can make monthly savings over a period of three years linked to the grant of an option over Sage shares with an option price which can be at a discount of up to 20% of the market value of shares on grant. Options may be adjusted to reflect the impact of any variation of share capital. Overseas-based Executive Directors are entitled to participate in any similar all-employee scheme operated by Sage in their jurisdiction.	UK participation limits are those set by HMRC from time to time. Currently this is £500 per month (or foreign currency equivalent). Limits for participants in overseas schemes are determined in line with any local legislation.	None.
Chair and Non-executive Director fees Provide an appropriate reward to attract and retain high-calibre individuals. Non-executive Directors do not participate in any incentive scheme.	Fees are reviewed periodically. The fee structure is as follows: <ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> 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. Overall fees paid to Directors will remain within the limit stated in our articles of association, currently £1.25m. Actual fee levels are disclosed in the Directors' Annual Remuneration Report for the relevant financial year.	None.

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
Shareholding guideline Aligns the interests of Executive Directors and shareholders and encourages a focus on long-term performance.	Whilst in employment, Executive Directors are expected to build up a shareholding worth 300% ¹ of salary in respect of the CEO and 250% ² 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:
 - Be made in the form of conditional awards or nil-cost options and may be settled in cash on vesting.
 - 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.
 - 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.
- The shareholding guideline for the CEO has been increased to 350% effective from 1 October 2023 as outlined on page 131.
- The shareholding guideline for the CFO has been increased to 275% effective from 1 October 2022 as outlined on page 150 of the 2022 Annual Report and Accounts.

Provisions to withhold (malus) or recover (clawback) sums paid under the annual bonus and PSP in the event of material negative circumstances, such as a material misstatement in the Company's audited results, serious reputational damage, or significant financial loss to the Company (as a result of the participant's conduct), an error in assessing the performance metrics relating to the award, or the participant's gross misconduct, are incorporated into the PSP, the annual bonus and the deferred bonus plan. These provisions may apply up to three years from the release date of a PSP award or three years from the date a cash bonus is paid or a deferred share award is granted. Details of the proposed implementation of those provisions in the forthcoming year are set out in the Directors' Annual Remuneration Report.

All Directors submit themselves for re-election annually.

The Remuneration Committee intends to honour any commitments entered into with current or former Directors on their original terms, including outstanding incentive awards, which have been disclosed in previous remuneration reports and, where relevant, are consistent with a previous policy approved by shareholders. Any such payments to former Directors will be set out in the Remuneration Report as and when they occur.

The Remuneration Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above, where the terms of the payment were agreed (i) before the Policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved Remuneration Policy in force at the time they were agreed; or (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Remuneration Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes "payments" includes the Remuneration Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

The Remuneration Committee may make minor amendments to the Policy (for regulatory, exchange control, tax, or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

Directors' Remuneration Report continued

Directors' Annual Remuneration Report

Purpose of this section:

- Provides remuneration disclosures for Executive and Non-executive Directors.
- Details financial measures for the annual bonus plan and PSP.
- Illustrates Company performance and how this compares to the pay of Executive Directors.
- Outlines implementation of the 2022 Policy for Executive and Non-executive Directors for 2024.

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 2023 and 2022.

Director	(a) Salary/ fees ³ £'000		(b) Benefits ⁴ £'000		(c) Bonus ⁵ £'000		(d) PSP awards ⁶ £'000		(e) Pension ⁷ £'000		(f) Other ⁸ £'000		Total fixed remuneration ⁹ £'000		Total variable remuneration ¹⁰ £'000		Total ¹¹ £'000	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
							(restated)								(restated)		(restated)	
Executive Directors																		
S Hare	833	803	65	44	993	1,237	2,021	360	83	80	5	–	981	927	3,019	1,597	4,000	2,524
J Howell	571	553	8	7	691	858	1,403	250	49	48	–	–	628	608	2,094	1,108	2,722	1,716
Non-executive Directors																		
A Duff	400	400	–	–	–	–	–	–	–	–	–	–	400	400	–	–	400	400
S Anand	70	63	12	4	–	–	–	–	–	–	–	–	82	67	–	–	82	67
J Bates	70	63	–	–	–	–	–	–	–	–	–	–	70	63	–	–	70	63
J Bewes	90	81	–	–	–	–	–	–	–	–	–	–	90	81	–	–	90	81
M Chan Jones ¹	58	–	12	–	–	–	–	–	–	–	–	–	70	–	–	–	70	–
A Court	90	81	–	–	–	–	–	–	–	–	–	–	90	81	–	–	90	81
R Donnelly ²	46	–	–	–	–	–	–	–	–	–	–	–	46	–	–	–	46	–
D Hall	87	80	–	–	–	–	–	–	–	–	–	–	87	80	–	–	87	80
D Harding	70	63	–	–	–	–	–	–	–	–	–	–	70	63	–	–	70	63

Notes:

- Maggie Chan Jones was appointed as a Non-executive Director on 1 December 2022.
- Róisín Donnelly was appointed as a Non-executive Director on 3 February 2023.
- Details of salary progression since 2020 for the current Executive Directors are summarised in the "Statement of implementation of Remuneration Policy in the following financial year" on page 155 of this Report. Following a review of Non-executive Director fees, the basic Non-executive Director fee, the Audit and Risk Chair additional fee, and the Remuneration Committee Chair additional fee were increased with effect from 1 June 2022; further details are provided on page 176 of the 2022 Annual Report and Accounts.
- 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. In addition, £20,734 of Steve Hare's benefits value related to the grossed-up cost of travel, accommodation, and subsistence for his hosting Platinum Elite, an internal event for high-performing colleagues, which is deemed by HMRC to be a taxable benefit. Benefits exclude items subject to tax where they are in the nature of business expenses. Sangeeta Anand and Maggie Chan Jones, who are based on the US West Coast, each received a £4,000 travel allowance fee for their attendance at each Board meeting which required travel with a flight time of more than nine hours (total of three meetings), commensurate to the travel time required for attendance in person.
- Further information about how the level of FY23 bonus award was determined is provided in the additional disclosures below.
- The 2023 PSP value for Steve Hare and Jonathan Howell is based on the PSP award granted in financial year 2021 which is due to vest in December 2023. The performance conditions applicable to the awards are outlined on page 149 of this Report. The value is based on the number of shares vesting under the 2021 PSP award multiplied by the average price of a Sage share between 1 July and 30 September 2023, which was £9.596, plus dividend equivalents accrued. For Steve Hare, £782,482 of the value is attributable to movement in the share price between grant and vesting, and for Jonathan Howell, £543,242 of the value is attributable to movement in the share price between grant and vesting. No discretion has been exercised by the Committee. Further detail is set out below in the notes to the table. The values of Steve Hare's and Jonathan Howell's 2020 PSPs for 2022 have been restated. The change in value is as a result of changes in the share price reported in 2022 in line with the methodology set out in the 2013 Reporting Regulations (£7.063) and the share price actually achieved at vesting (£8.018).
- Pension emoluments for Steve Hare were equal to 10% of base salary and for Jonathan Howell were equal to 10% of base salary (less a deduction for Employer National Insurance Contributions). Both elected to receive them as a cash allowance. Maximum pension contribution levels for the wider workforce in the UK are 10% of salary, subject to contributions from the colleagues themselves.
- Steve Hare's award under the Save and Share plan has been valued as the number of options multiplied by the difference on the grant date (16 June 2023) between the share price (at close on the day prior to grant) of £8.74 and the option price of £6.90. Further details are set out on page 160.
- Total fixed remuneration is inclusive of salary/fees, benefits, and pension.
- Total variable remuneration is inclusive of bonus and PSP awards.
- Total remuneration for Directors in 2023 was £7,727,000 compared with £5,075,000 in 2022 (updated from the 2022 Directors' Remuneration Report).

Additional disclosures for single figure for total remuneration table (audited information)

Annual bonus 2023

The bonus targets for FY23 were set with reference to the strategy for FY23, in particular the achievement of ARR growth and improving the customer experience, taking into account the Company's annual budget and historical performance in determining the payout curve.

Bonus measure	% weighting	Threshold performance	Target performance	Stretch performance	Actual performance (at budget foreign currency exchange rates)	% of maximum bonus payable
ARR growth	70%	9.0% (21% of bonus payable)	10.8% (35% of bonus payable)	13.0% (70% of bonus payable)	11.4%	44.5%
Customer experience scorecard	10%	The assessment of the customer experience scorecard is set out below this table (between 0% and 10% of bonus payable)				6.6%
Strategic measures	20%	The assessment of strategic measures is set out below this table (between 0% and 20% of bonus payable)				Steve Hare (CEO): 17.0% of maximum Jonathan Howell (CFO): 18.0% of maximum
Total						Steve Hare: 68.1% of maximum bonus (119.2% of salary) Jonathan Howell: 69.1% of maximum bonus (120.9% of salary)

Notes:

- Payment of a bonus for ARR growth was subject to the achievement of an underpin condition of Group UOP margin. Group UOP margin was 20.7%, which exceeded the underpin target of 17.5%.
- ARR growth and UOP margin are defined on pages 271 and 270 respectively. Actuals have been retranslated at budgeted foreign currency exchange rates consistent with the basis on which the targets were set. The Committee considered the movement of foreign currency exchange rates over the year and determined that the effect was immaterial and that the use of like-for-like exchange rates was appropriate.
- One third of bonus is deferred into Sage shares for three years.

Customer experience scorecard (10% weighting)

A customer experience scorecard measuring 'micromoments' (touchpoints in the customer journey which reflect the moments that matter the most to customers), customer experience improvements, and transactional Net Promoter Score (tNPS) was set by the Committee at the beginning of the financial year to align to our evolved approach to measuring customer experience as outlined in the Strategic Report, page 22. Whilst tNPS remains a key measure of customer experience, in order to deliver on our stakeholder promise to customers that "we build every experience with human insight and ingenuity", the scorecard focuses on multiple touchpoints in the customer journey, and improvements to these moments in addition to tNPS. tNPS is a lead measure of our customers' sentiments providing rich customer insight, rather than relationship Net Promoter Score (rNPS) which has previously been assessed and is a lag measure of customer sentiment.

The experiences we deliver for customers will continually evolve as we strive to deliver on our brand promise that puts customers at the heart of everything we do, helping businesses thrive and flow. During FY23, a number of improvements have been delivered enabling customers to focus on what matters the most to them. Customer experience targets were set at an individual business unit level and are regarded as commercially sensitive by the Board. Details of the achievements that were considered by the Committee in coming to its assessment of this measure are set out below. The Committee gave consideration to both the number of micromoments and customer experience improvements that were delivered and the impact that these had in driving successful outcomes for the business. The overall outcome therefore reflects an element of judgement by the Remuneration Committee, rather than a purely mechanistic target-driven approach.

Directors' Remuneration Report continued

Measure	Performance commentary
<p>1 Identification and implementation of micromoments across the Company's main business units, to focus on the occasions or touchpoints in the customer journey that are meaningful to the customer.</p>	<p>Identifying and setting up critical micromoments is foundational to the success of our evolved approach to measuring customer experience, as this identifies the touchpoints that matter the most to customers. Significant work has been undertaken in FY23 to implement micromoments across the Company's main business units at many stages of the customer journey. An "Onboarding" micromoment has been established in Sage Accounting, Client Management, Sage Payroll, and Sage People, which uncovers the customers' experience when onboarding themselves or through supported implementation. The "Initial adoption and usage" micromoment set up in Sage Business Cloud Accounting and Sage Active highlights the customers' experience when initially using the product and the "Support" micromoment seeks to understand how well customers are supported when using the product. The micromoments quickly identify customer pain points, which can then be reviewed and remediated through a customer experience improvement. Overall this target was exceeded.</p>
<p>2 Implementation of customer experience improvements to drive strategic and impactful change that is "value-added" for customers.</p>	<p>Micromoments have provided new insight into priority areas for customer experience improvements. A number of improvements have been implemented across the Company in FY23—for example, within Sage Accounting, we have addressed the ability to self-serve email address changes, which had previously generated c.600 queries a month; within Sage for Accountants, we added the ability to import a client record, providing efficiencies for Accountants which enables import as opposed to manually inputting client records; within Sage People, we have made enhancements to the people management workflow to improve the team member search saving time for users; and within X3, we have adjusted the release cadence from four releases to two releases per year in response to feedback that the release cadence was too frequent, thus not allowing sufficient time to implement and leverage new features ahead of the next release. Progress varied across all of the Company's main business units, therefore this target was partially met.</p>
<p>3 tNPS is a lead indicator of customer experience and gives immediate insight to a customer's experience following a specific customer touchpoint. Measurement of tNPS within the Company's main business units to understand customers' feedback and generate improvement opportunities.</p>	<p>tNPS has been a focus across all business units in FY23 and scores have varied. Key themes have emerged, such as "Customer Service" and "Delivery", both of which have high sentiment scores. Other areas such as "Channel", "Resolution", and "Usability" show a slight increase in negative sentiment providing further opportunity for future improvement. Accordingly, this target was partially met.</p>

In consideration of these factors and the overall experience for our customers, the Committee determined that a bonus of 6.6% of the maximum 10% for this element was an appropriate award.

Executive Directors' personal strategic objectives (20% weighting)

Executive Directors' personal strategic objectives were set by the Committee at the beginning of the financial year, consistent with the key deliverables within the annual budget. Targets for strategic objectives are considered to be commercially sensitive and are not disclosed. However, details of performance achievements that were taken into account by the Committee in coming to its assessment of this measure are set out below.

Steve Hare, CEO

Steve Hare was set a range of goals linked to the execution of the 2023 budget and long-term strategy plan. These were:

- Grow and scale Sage (25% weighting).
- Enable the Sage Network through Service Fabric (15% weighting).
- Activate and scale the Sage Network (25% weighting).
- Inspire a winning mindset (25% weighting).
- Deliver Sage's Cyber Security Strategy (10% weighting).

Personal strategic objectives

The Committee took into account the following performance against those goals:

Grow and scale Sage 25% weighting	Strategic progress has been made; the UKI Small segment has grown and cloud native share has increased year-on-year. Sage Intacct in North America showed recurring revenue growth of 30%. Overall, the targets were met.
Enable the Sage Network through Service Fabric 15% weighting	Access to the Sage Network, via Service Fabric, our microservices architecture, has improved by 8% during the year, enabling greater network participation. On balance, this target was partially met.
Activate and scale the Sage Network 25% weighting	Significant progress has been made with 12.2 million unique network individuals and increased Sage Network transactional volume by 67% for the year, resulting in this target being met.
Inspire a winning mindset 25% weighting	Steve Hare has established a strong leadership team and has grown Sage's diverse talent pipeline. A number of senior appointments this year have further strengthened the leadership capability. His Executive Leadership Team have demonstrated high performance delivering strong growth. Externally he has undertaken a number of engagements to raise Sage's external profile including attendance at the Prime Minister's Business Council. Internally, eSat at 76 and Glassdoor at 4.1 with 70% positive sentiment points to an engaged colleague base. Importantly, scores have increased in our colleague Pulse survey question, 'I understand how Sage plans to achieve its goals', demonstrating the strong alignment between strategy and execution. Steve Hare and his leadership team continue to drive higher performance expectations across the organisation with work launched on a high performance culture programme throughout all levels of leadership. Targets were met.
Deliver Sage's Cyber Security Strategy 10% weighting	The Trust and Security hub launched on time to include Data Principles. The Risk Appetite and Accelerate Programme for 40 products has been implemented and all critical IT assets are micro-segmented. Overall, the targets were exceeded.

In consideration of these factors and the 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.

Directors' Remuneration Report continued

Jonathan Howell, CFO

Jonathan Howell was set a range of goals linked to the execution of the 2023 budget and long-term strategy plan. These were:

- Deliver insights to empower growth and scale (25% weighting).
- Enhance shareholder value (25% weighting).
- Robust financial fundamentals (25% weighting).
- A diverse team of empowered finance professionals (25% weighting).

Personal strategic objectives

The Committee took into account the following performance against those goals:

Deliver insights to empower growth and scale 25% weighting	A high-quality and effective three-year plan and FY24 budget process was successfully undertaken. Enhanced M&A integration processes have been implemented to provide rigorous monthly performance measurement against plan. Salesforce Einstein 2.0 (improved analytics tool to measure and track SaaS KPIs) has been successfully rolled out. Additionally, a refined Customer Lifetime Value (LTV)/Customer Acquisition Cost (CAC) methodology has been implemented to align with econometrics modelling. Overall, the targets set were met.
Enhance shareholder value 25% weighting	Consistent, high-quality communication with shareholders has been delivered with effective quarterly reporting. Significantly increased US representation on the shareholder register during the year. Strong engagement with US targets—multiple in person roadshows in the US conducted in FY23, meaning this target was met.
Robust financial fundamentals 25% weighting	Achieved record level of overdue Days Sales Outstanding (DSO) days, ahead of internal target. Rating maintained at BBB+. Balance sheet funding, liquidity, and leverage well managed. Overall, the targets were exceeded.
A diverse team of empowered finance professionals 25% weighting	Strong accountability, execution, and leadership across Sage and the finance team. High-quality internal succession and development opportunities with increased global mobility. eSat improved, at +80, which is ahead of the company average, meaning the targets set have been exceeded.

In consideration of these factors and the overall performance of the business, the Committee determined that a bonus of 18.0% 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 December 2020 vest depending on performance against three measures, measured over three years, from 1 October 2020 to 30 September 2023:

- 35% annualised recurring revenue growth
- 35% cloud native recurring revenue
 - An underpin for ROCE applies to both measures outlined above.
- 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 threshold (20% vests) and stretch (80% vests)	Between stretch (80% vests) and exceptional (100% vests)
Annualised recurring revenue growth (CAGR)	Between 6% and 8.5% (with ROCE of 12%)	Between 8.5% and 10% (or above) (with ROCE of 12%)
Cloud native recurring revenue	Between £600m and £750m (with ROCE of 12%)	Between £750m and £900m (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)	10.2%	35.0%
Cloud native recurring revenue	£681.5m	18.4%
Relative TSR	69th percentile	19.7%
Total		73.1%

The ROCE was 18.6% (compared with 12%), meaning that the underpin condition was achieved.

The Committee determined, after careful consideration of business performance and the interests of Sage's stakeholders such as shareholders, customers, and colleagues, that the calculated outcome was appropriate. Consequently, 73.1% of the total award will vest.

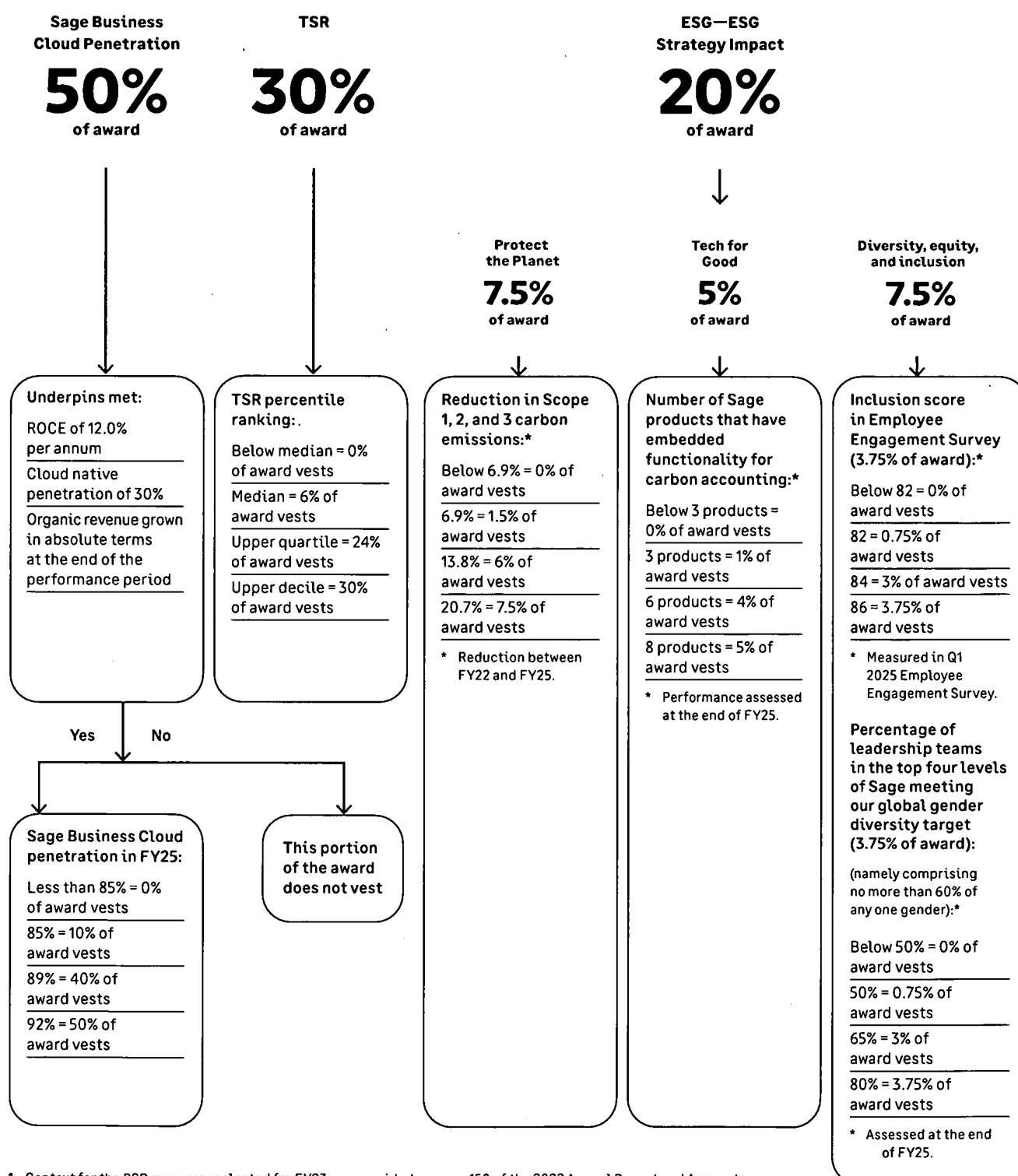
The Committee noted that it had satisfied itself at the time of grant that there was no issue of windfall gains in respect of this award. This conclusion had been reached following analysis of the number of share granted in previous awards to the CEO. Consequently, the Committee was satisfied that no further adjustment was required in this respect at the time of vesting.

Awards are scheduled to vest on 2 December 2023, and for both Executive Directors will be subject to a two-year holding period and released on 2 December 2025.

Directors' Remuneration Report continued

PSP awards granted in FY23 (audited information)

Awards were granted under the PSP on 2 December 2022 at a market value of £8.116 to Executive Directors in the form of conditional share awards. In alignment with our business strategy for FY23, performance conditions for awards granted in FY23 are:¹



1. Context for the PSP measures selected for FY23 was provided on page 150 of the 2022 Annual Report and Accounts.

Vesting is on a straight-line basis between the points. The following key areas are highlighted in relation to the performance measures:

- 50% of the awards being determined by Sage Business Cloud penetration aligns with our medium-term strategy of growth of Sage Business Cloud in both cloud native and cloud connected solutions. This measure ensures Executive Directors are rewarded for creating value through Sage Network opportunity.
- Continued focus on overall Group growth and delivery of shareholder value is achieved by:
 - Requiring the achievement of a ROCE underpin of 12.0% p.a., a cloud native underpin of 30%, and organic revenue growth in absolute terms at the end of the performance period. The Committee will exclude from the ROCE calculation, where appropriate, any write down that arises from an asset that was acquired prior to the appointment of the current Executive Directors.
- 20% of the awards being determined by an ESG basket of measures aligns to our Sustainability and Society strategy.
- 30% of the awards being determined by relative TSR performance provides shareholder alignment.

Awards will vest, subject to satisfaction of those performance conditions, in December 2025. 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	259,210	2,103,750	250%	20%	30 September 2025
Jonathan Howell	shares	159,961	1,298,250	225%	20%	30 September 2025

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 2022 (the trading day prior to the grant for all eligible colleagues) of £8.116.

Directors' Remuneration Report continued

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 2022/2023			% change 2021/2022			% change 2020/2021			% change 2019/2020		
	Salary/ fees ¹	Taxable benefits ²	Annual incentive ³	Salary/ fees ¹	Taxable benefits ²	Annual incentive ³	Salary/ fees ¹	Taxable benefits ²	Annual incentive ³	Salary/ fees ¹	Taxable benefits ²	Annual incentive ³
Executive Directors												
S Hare	3.8%	48.3%	(19.7%)	2.3%	3.8%	49.5%	0.5%	(65%)	229%	2%	14%	(80%)
J Howell	3.3%	7.7%	(19.4%)	1.4%	36.3%	47.4%	0.5%	(6%)	223%	25%	37%	(75%)
Non-executive Directors												
A Duff ⁴	—%	—%	—%	1,500%	—	—	—	—	—	—	—	—
S Anand ⁵	10.5%	200.0%	—%	5.6%	—	—	140%	—	—	—	—	—
J Bates	10.5%	—%	—%	5.6%	—	—	0%	—	—	197%	—	—
J Bewes	10.7%	—%	—%	5.6%	—	—	0%	—	—	100%	—	—
M Chan Jones ⁶	—%	—%	—%	—	—	—	—	—	—	—	—	—
A Court	10.7%	—%	—%	5.6%	—	—	0%	—	—	100%	—	—
R Donnelly ⁷	—%	—%	—%	—	—	—	—	—	—	—	—	—
D Hall	8.3%	—%	—%	4.3%	—	—	0%	—	—	(6%)	—	—
D Harding ⁸	10.5%	—%	—%	82.1%	—	—	—	—	—	—	—	—
Colleagues of the Company	4.1%	2.4%	24.4%	4.2%	13.8%	(8.7%)	5%	29%	6%	9%	37%	(10%)

Notes:

- This information was published for the first time in 2020. Over subsequent years, this will build up to a rolling five-year period.
 - The change in fees for the Non-executive Directors is reflective of their start dates.
 - The change in the Non-executive Directors' fees for 2021/2022 are due to the increase in the basic Non-executive Director fee, the Audit and Risk Committee Chair additional fee, and the Remuneration Committee Chair additional fee that took effect from 1 June 2022. Further information can be found on page 176 of the 2022 Annual Report and Accounts.
1. Average colleague pay is based on the dataset used for the CEO pay ratio as set out immediately following this section. It excludes colleagues that joined within the reporting period, as the dataset for the Company is so small that to leave them in provides a skewed result, making meaningful judgements difficult. The salary, taxable benefits, and annual incentive are the respective median values in the dataset and may relate to different incumbents. Salaries and fees for Directors for 2023 are as set out on page 144 of this Report.
 2. Steve Hare's and Jonathan Howell's taxable benefits for 2023 are as set out on page 144 of this Report. The increase in Steve Hare's taxable benefits is due to his hosting the Platinum Elite event for high-performing colleagues as described on page 144 of this Report. Taxable benefits for colleagues employed by The Sage Group plc. are based on the dataset used for the CEO pay ratio as set out immediately following this section.
 3. The annual incentive values for Steve Hare and Jonathan Howell for 2023 are as set out on page 144 of this Report. Annual incentives for colleagues employed by The Sage Group plc. are inclusive of bonus and commission and are based on the dataset used for the CEO pay ratio as set out immediately following this section. Non-executive Directors are not eligible for annual incentives.
 4. Andrew Duff was appointed as a Non-executive Director on 1 May 2021 and accordingly no comparison prior to 2021/2022 can be drawn. The significant change in his fee for 2021/2022 is due to his fee being pro-rated in 2021 to his start date of 1 May 2021 and his change in role from Non-executive Director to Chair of the Sage Board with effect from 1 October 2021.
 5. The significant change in Sangeeta Anand's taxable benefits reflects the travel allowance she received for attending three Board meetings during FY23 as set out on page 144 of this Report.
 6. Maggie Chan Jones was appointed as a Non-executive Director on 1 December 2022 and accordingly no comparison to prior years can be drawn.
 7. Roisin Donnelly was appointed as a Non-executive Director on 3 February 2023 and accordingly no comparison to prior years can be drawn.
 8. Derek Harding was appointed as a Non-executive Director on 2 March 2021 and accordingly no comparison prior to 2021/2022 can be drawn. The significant change in his fee for 2021/2022 is due to his fee being pro-rated in 2021 to his start date of 2 March 2021.

Ratio of the pay of the CEO to that of the UK lower quartile, median, and upper quartile colleagues

The table below shows the ratio of the pay of the CEO to that of the UK lower quartile, median, and upper quartile colleagues in 2023, 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 2023 and the Committee is consequently satisfied that the median pay ratio for 2023 is consistent with the pay and progression policies for Sage's UK employees as a whole.

Year	Method	Pay ratio				Remuneration values		
		25th percentile (lower quartile)	50th percentile (median)	75th percentile (upper quartile)		Y25 (25th percentile)	Y50 (50th percentile)	Y75 (75th percentile)
2023	A	101 : 1	68 : 1	46 : 1	Total remuneration	£39,536	£58,417	£87,553
					Salary only	£32,073	£47,669	£57,887
2022	A	65 : 1	43 : 1	29 : 1	Total remuneration	£38,056	£57,421	£85,380
					Salary only	£32,122	£41,945	£48,854
2021	A	70 : 1	46 : 1	31 : 1	Total remuneration	£34,807	£53,304	£79,739
					Salary only	£29,700	£42,103	£79,091
2020	A	55 : 1	36 : 1	23 : 1	Total remuneration	£29,865	£45,942	£71,524
					Salary only	£27,955	£36,116	£56,983
2019	A	95 : 1	62 : 1	38 : 1	Total remuneration	£26,463	£40,385	£66,095
					Salary only	£20,281	£34,184	£51,087

The year-on-year change in the pay ratio is largely driven by variation in business performance-related pay outcomes, such as the PSP and annual bonus. As the CEO has a larger proportion of his total remuneration linked to business performance than other colleagues based in the UK, the ratio has increased compared with last year due to a significantly higher performance outcome for the FY21 PSP vesting on 2 December 2023 as set out on page 149 of this Report, compared with the FY20 PSP which vest on 2 December 2022 and is included in the 2022 ratio. There has also been significant share price appreciation since the grant of the FY21 PSP award as detailed on page 144 of this Report. Combined, these two factors diminish the impact of a lower bonus outcome this year and result in a higher value used for the CEO's remuneration.

Notes:

- Under method A, colleague data is based on full-time equivalent pay for UK colleagues as at 30 September 2023. Pay for each colleague is calculated in accordance with the single figure for 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 for remuneration set out on page 144 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 FY23 is set out on pages 145 to 149 of this Report.

Directors' Remuneration Report continued

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.

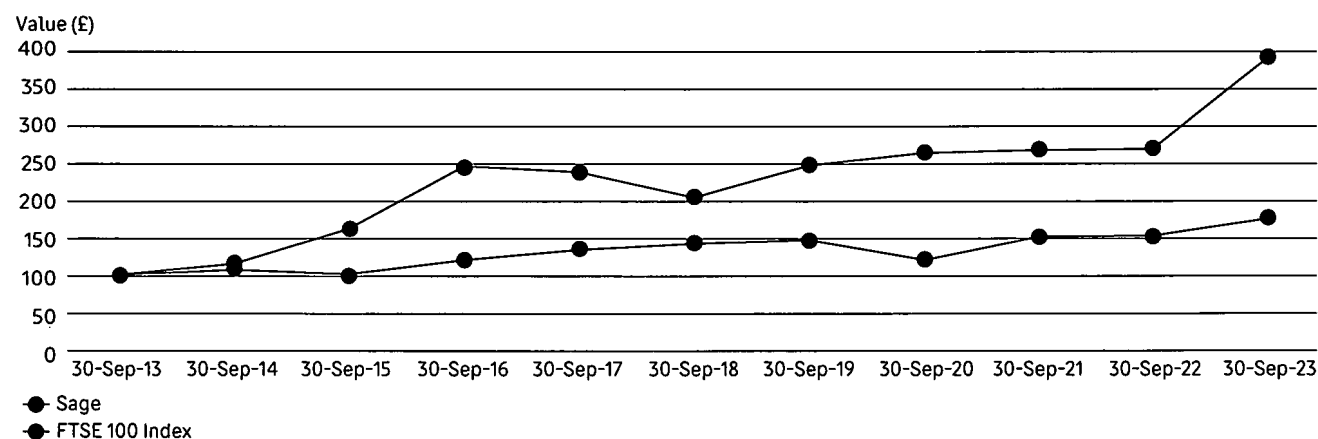
	CEO	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
CEO single figure for remuneration (in £'000)	Steve Hare ¹	–	–	–	–	98	2,495	1,557	2,507	2,524	4,000
	Stephen Kelly ²	–	1,521	1,723	3,547	1,690	–	–	–	–	–
	Guy Berruyer ³	1,616	108	–	–	–	–	–	–	–	–
Annual bonus payout (as % maximum opportunity)	Steve Hare	–	–	–	–	0% ⁴	94%	18%	60%	88%	68%
	Stephen Kelly	–	67%	69%	19%	0%	–	–	–	–	–
	Guy Berruyer	55%	0%	–	–	–	–	–	–	–	–
PSP vesting (as % of maximum opportunity)	Steve Hare	–	–	–	–	29%	15%	27%	34%	20%	73%
	Stephen Kelly	–	–	–	66%	29%	–	–	–	–	–
	Guy Berruyer	0%	64%	–	–	–	–	–	–	–	–

Notes:

1. Steve Hare was appointed Interim COO & CFO on 31 August 2018. Whilst Steve Hare's job title at 30 September 2018 was Interim COO & CFO, not CEO, he is regarded as being the equivalent of CEO for the purposes of the disclosure.
2. Stephen Kelly stepped down from the position of CEO on 31 August 2018.
3. Guy Berruyer stepped down from the position of CEO on 5 November 2014.
4. Steve Hare waived his entitlement to a bonus in respect of 2018.

Historical Group performance against FTSE 100

The graph below shows the TSR of the Group and the FTSE 100 over the last 10 years. The FTSE 100 Index is the index against which the TSR of the Group should be measured because of the comparable size of the companies which comprise that index.



Note:

- This graph shows the value, by 30 September 2023, of £100 invested in The Sage Group plc. on 30 September 2013 compared with the value of £100 invested in the FTSE 100 Index. The other points plotted are the values at intervening financial year ends.

Payments to past Directors (audited information)

As reported in the 2020 Annual Report, Blair Crump retains interests in the Company's PSP and Deferred Shares Bonus Plan (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 FY23, his DSBP award granted on 2 December 2019 vested on 2 December 2022.

Payments for loss of office (audited information)

No payments were made for loss of office during FY23.

Relative importance of spend on pay

The charts below show the all-employee pay cost (as stated in the notes to the Group financial statements), profit before tax (PBT), and returns to shareholders by way of dividends and share buybacks for 2022 and 2023.

The information shown in this chart is based on the following:

- Underlying PBT (underlying as reported)—Underlying profit before income tax taken from the consolidated income statement on page 182. Underlying PBT has been chosen as a measure of our operational profitability.
- Returns to shareholders—Total dividends taken from note 15.5 on page 252; value of shares purchased during the year taken from consolidated statement of changes in equity on pages 184 and 185.
- Total colleague pay—Total staff costs from note 3.3 on page 201, including wages and salaries, social security costs, pension, and share-based payments.

Underlying PBT (Underlying as reported in £m)	Dividends paid to shareholders (£m) Total dividends	Value of shares purchased during the year	Total colleague pay (£m)
+£78m	+£7m	-£31m	+£156m

Statement of implementation of Remuneration Policy in the following financial year

This section provides an overview of how the Committee is proposing to implement the Policy in FY24.

Base salary

An annual salary review was carried out by the Committee in November 2023. Following that review, the Committee approved the following:

	Salary 1 January 2024	Salary 1 January 2023	Salary 1 January 2022	Salary 1 January 2021	Salary 1 January 2020
Steve Hare ¹	£925,000 (9.9% increase)	£841,500 (4% increase)	£809,000 (3% increase)	£785,000 (no increase)	£785,000 (1.9% increase)
Jonathan Howell ²	£606,000 (5% increase)	£577,000 (4% increase)	£555,000 (1.8% increase)	£545,000 (no increase)	£545,000 (1.9% increase)

Notes:

1. Steve Hare was appointed CEO on 2 November 2018. His 2018 salary reflected his prior role as CFO.
2. Jonathan Howell was appointed CFO on 10 December 2018.

The equivalent average increase for colleagues eligible for an annual pay award is 5% (in respect of colleagues based in the UK).

Directors' Remuneration Report continued

Pension and benefits

The CEO and the CFO will continue to receive a pension provision worth 10% of salary, as a contribution to a defined contribution plan and/or as a cash allowance. The pension for the wider workforce is 10% of salary. Executive Directors will also receive a standard package of other benefits and, where deemed necessary, the costs of travel, accommodation, and subsistence for the Directors and their partners on Sage-related business, consistent with that in FY23.

Annual bonus

There are no changes to the annual bonus structure; key features of the Executive Directors' annual bonus plan for FY24 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.
- Annual bonuses awarded in respect of performance in FY24 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 FY24 for Executive Directors will be determined as detailed below:

As a percentage of maximum bonus opportunity:

Measure¹

ARR growth ²	70%
Customer-related measure inclusive of Net Promoter Score	10%
Strategic goals	20%

Notes:

1. Executives' incentives for FY24 will be measured on an underlying basis. This will apply to the ARR growth and the UOP margin underpin in the annual bonus. The Remuneration Committee will review on a case-by-case basis the impact on underlying measures of significant acquisitions and disposals and judge whether to adjust incentive targets or outcomes.
2. Payout is dependent upon the satisfaction of the underpin condition of UOP 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 270. Strategic goals will include diversity, equity, and inclusion metrics. Targets are not disclosed because they are considered by the Board to be commercially sensitive. Many of the Company's competitors are unlisted companies and not required to disclose their targets; the Company's disclosure could provide its competitors with a considerable advantage. It is intended for retrospective disclosure to be made in next year's Report.

Performance Share Plan

The Committee reviews award sizes annually, taking into account factors such as underlying business performance, individual performance, and share price movement.

FY24 PSP awards will be granted over shares worth 300% of salary for the CEO and 225% of salary for the CFO (based on salaries effective 1 January 2024 as set out on page 155).

Vesting of these awards will be subject to satisfaction of the following performance conditions measured over the three financial years to 30 September 2026.

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.

Underlying earnings per share (EPS) (50% of award)¹

	EPS in FY26	% of award vesting ²
Below threshold	Below 37.0p	0%
Threshold	37.0p	10%
Stretch	43.0p	40%
Exceptional	46.0p	50%

Notes:

1. EPS is measured as the amount of post-tax profit attributable to each ordinary share on an underlying basis.
2. Vesting of this portion of the PSP award is subject to the achievement of 12.0% p.a. ROCE underpin to be met. ROCE is defined on page 270. ROCE will be measured on an underlying basis. The Committee will review on a case-by-case basis the impact on underlying measures of significant acquisitions and disposals and judge whether to adjust incentive targets or outcomes. The impact of share buybacks will be included.

Relative TSR performance condition (30% of award)

	TSR ranking	% of award vesting
Below threshold	Below median	0%
Threshold	Median	6%
Stretch	Upper quartile	24%
Exceptional	Upper decile	30%

Notes:

- TSR performance comprises share price growth and dividends paid. Vesting is on a straight-line basis between the points.
- Sage's TSR performance will be measured relative to the TSR of the constituents of the FTSE 100, excluding financial services and extracting companies.

ESG—Protect the Planet (7.5% of award)

Delivering on our climate change commitment, this metric addresses reduction in Scope 1, 2, and 3 carbon emissions:

	% reduction in carbon emissions ¹	% of award vesting
Below threshold	Below 8.1%	0%
Threshold	8.1%	1.5%
Stretch	16.2%	6%
Exceptional	24.3%	7.5%

Notes:

1. Targets are for emissions reduction between FY23 and FY26, aligning to our commitment to achieve 50% reduction in emissions by 2030 (from a 2019 baseline) and our Net Zero goal by 2040. Outturns will be independently verified. Vesting is on a straight-line basis between the points.

ESG—Tech for Good (5% of award)

Supporting customers on their sustainability journey through enabling access to carbon accounting functionality via Sage suites (Sage solutions combined into suites targeting small businesses, mid-sized (medium) businesses and accountants):

	Access to carbon accounting functionality through Sage suites in FY26 ¹	% of award vesting
Below threshold	No suites	0%
Threshold	Sage for Small Business suite	1%
Stretch	Sage for Small Business suite and Sage for Accountants suite	4%
Exceptional	Sage for Small Business suite, Sage for Accountants suite, and Sage for Medium Business suite	5%

Note:

1. At the beginning of FY24, Sage had no suites enabling access to carbon accounting functionality. Performance will be assessed at the end of FY26 when the Committee will determine how many suites enable access to carbon accounting functionality.

Directors' Remuneration Report continued

ESG—Diversity, equity, and inclusion (7.5% of award)

Percentage of ethnically diverse colleagues in senior leadership teams (Executive Leadership Team (ELT) and one level below the ELT):

	% ethnically diverse colleagues ¹	% of award vesting
Below threshold	Below 13.0%	0%
Threshold	13.0%	0.75%
Stretch	16.5%	3%
Exceptional	20.0%	3.75%

Note:

1. The percentage of ethnically diverse colleagues will be assessed at the end of FY26. Current baseline is that 11% of the ELT and ELT -1 are ethnically diverse. This aligns with our Parker Review commitment of 20% ethnically diverse senior leaders in FY27.

Vesting is on a straight-line basis between the points.

Percentage of leadership teams in the top four levels of Sage meeting our global gender diversity target (namely comprising no more than 60% of any one gender):

	% of teams ¹	% of award vesting
Below threshold	Below 50%	0%
Threshold	50%	0.75%
Stretch	65%	3%
Exceptional	80%	3.75%

Note:

1. The percentage of teams meeting our global gender diversity target will be assessed at the end of FY26; the gender composition of each team in the top four levels of Sage will be assessed and then the overall % of teams calculated. Currently the baseline is that 34% of our most senior leadership teams meet this target.

Vesting is on a straight-line basis between the points.

PSP awards granted in FY24 will be subject to potential withholding (malus) or recovery (clawback) if specified trigger events occur prior to the third anniversary of the release date of an award. Trigger events in respect of PSP awards will comprise a material misstatement of the audited results, an error in calculation of the extent of the PSP vesting, serious reputational damage, or significant financial loss as a result of an individual's conduct or gross misconduct which could have warranted an individual's summary dismissal, or a material failure of risk management.

Non-executive Director remuneration

The table below shows the fee structure for Non-executive Directors for FY24. Non-executive fees, except for the fee for the Chair, are determined by the executive members of the Board plus the Chair. Following a review of the time commitment and associated responsibilities of the Non-executive Directors, the basic Non-executive Director fee, the Audit and Risk Committee Chair additional fee, and the Remuneration Committee Chair additional fee will increase with effect from 1 January 2024. The additional fee for the Senior Independent Director will not change. The fee for the Chair of the Board is determined by the Committee and will increase with effect from 1 January 2024.

	Fees effective from 1 January 2024	Fees effective prior to 1 January 2024
Chair of the Board all-inclusive fee	£420,000	£400,000
Basic Non-executive Director fee	£73,500	£70,000
Senior Independent Director additional fee	£17,000	£17,000
Audit and Risk Committee Chair additional fee	£25,000	£20,000
Remuneration Committee Chair additional fee	£25,000	£20,000

Directors' shareholdings and share interests (audited information)

The shareholding guideline for the CEO is 350% of salary and 275% of salary for the CFO. 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 2023, Steve Hare held shares worth 708% of salary and Jonathan Howell held shares worth 468% of salary. Values include unvested deferred shares net of tax at the estimated marginal withholding rates and any shares held by the Executive Directors' connected persons. The values for Executive Directors are derived from interests in shares valued using the average market price of a share in the three months to 30 September 2023 (the last trading day of the financial year), which was £9.596, and the Executive Director's basic salary over the same period.

Additionally, from 11 September 2019 the Committee introduced a requirement for Executive Directors to hold Sage shares for a two-year period after stepping down from that position. This post-employment shareholding guideline is aligned to the Investment Association guidance, such that Executive Directors are required to remain compliant with 100% of their "in-employment" shareholding guideline for two years after stepping down as a Director. The Executive Director's actual shareholding will include any shares acquired through the vesting or release of shares from share incentive plans (net of tax, where applicable) after the date the policy was adopted and unvested shares granted under the Deferred Bonus Plan (net of tax), but excludes shares acquired through purchase and the release of shares under share incentive plans where the release occurred prior to the Committee's adoption of the policy. Additionally, PSP shares vesting after cessation are subject to a two-year holding period at vesting.

On cessation as an Executive Director, the Committee may subject any relevant portion of an unvested share award preserved for "good leaver" reasons to the fulfilment of the post-cessation shareholding requirement as a condition of vesting. Furthermore, for awards granted to an Executive Director on or after 1 October 2019, the Committee may as a condition of grant require an Executive Director to have a relevant portion of a released share award be released into a nominee account to be held on their behalf until such time as the post-cessation shareholding requirement expires.

Interests in shares

The interests as at 30 September 2023 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 2023	Ordinary shares at 30 September 2022
S Anand	–	–
J Bates	16,735	16,735
J Bewes	10,000	10,000
M Chan Jones ¹	10,000	–
A Court	6,350	6,350
R Donnelly ²	10,000	–
D Hall	10,000	10,000
S Hare ³	488,580	408,625
J Howell	189,416	146,660
D Harding	10,000	10,000
A Duff	13,150	13,150
Total	764,231	621,520

Notes:

1. Maggie Chan Jones was appointed as a Non-executive Director on 1 December 2022.

2. Roisin Donnelly was appointed as a Non-executive Director on 3 February 2023.

3. Lucinda Cowley is a person closely associated with Mr Hare. The total for 30 September 2023 includes 30,000 shares also held by Lucinda Cowley.

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 2023 and the date of this Report.

Details of the Executive Directors' interests in outstanding share awards under the PSP, Deferred Bonus Plan, and all-employee share option plans are set out below.

Directors' Remuneration Report continued

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 to the Group Financial statements on pages 244 to 249 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 2022 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	Shares under option at 30 September 2023 number	Date exercisable
S Hare	690p	—	2,608	—	—	2,608	1 August 2026—
Total		—	2,608	—	—	2,608	31 January 2027

Notes:

- Steve Hare participated in the 2023 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 2023 UK Save and Share grant, the exercise price was set at £6.90, a 20% discount on the average share price on 18 May 2023, 19 May 2023, and 22 May 2023 of £8.614.
- Jonathan Howell did not participate in the 2023 Save and Share Plan.
- The market price of a share of the Company at 29 September 2023 (the last trading day of the financial year) was £9.89 (mid-market average) and the lowest and highest market prices during the year were £6.798 and £10.390 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 2022 number	Awarded during the year number	Vested during the year number	Lapsed during the year number	Under award 30 September 2023 number	Vesting date
S Hare	2 December 2022	—	259,210	—	—	259,210	2 December 2025
	4 February 2022	258,169	—	—	—	258,169	2 December 2024
	2 December 2020	267,006	—	—	—	267,006	2 December 2023
	2 December 2019	208,278	—	(41,655)	(166,623)	—	2 December 2022
		733,453	259,210	(41,655)	(166,623)	784,385	
J Howell	2 December 2022	—	159,961	—	—	159,961	2 December 2025
	4 February 2022	141,690	—	—	—	141,690	2 December 2024
	2 December 2020	185,374	—	—	—	185,374	2 December 2023
	2 December 2019	144,600	—	(28,920)	(115,680)	—	2 December 2022
		471,664	159,961	(28,920)	(115,680)	487,025	
Total		1,205,117	419,171	(70,575)	(282,303)	1,271,410	

Notes:

- No variations were made in the terms of the awards in the year.
- PSP awards for 2023 were granted to Executive Directors on 2 December 2022. The market price of the award was £8.116.
- The performance conditions for awards granted in December 2019, December 2020, and February 2022 are set out in the respective Reports for the year of grant and for awards granted in December 2022 on page 150.
- The performance conditions for Steve Hare's and Jonathan Howell's awards that vested during 2023 are set out on page 167 of the 2022 Report.
- Awards for Steve Hare granted in December 2017 and after are subject to a holding period of two years on vesting. Awards for Jonathan Howell vesting in 2020 and after are subject to a holding period of two years on vesting.
- All PSP awards were granted as conditional awards.

Deferred shares (audited information)

The outstanding awards granted to each Executive Director of the Company under The Sage Group Deferred Bonus Plan are as follows:

Director	Grant date	Under award at 1 October 2022 number	Awarded during the year number	Vested during the year number	Lapsed during the year number	Under award 30 September 2023 number	Vesting date
S Hare	2 December 2022	–	50,785	–	–	50,785	2 December 2025
	2 December 2021	35,188	–	–	–	35,188	2 December 2024
	2 December 2020	14,260	–	–	–	14,260	2 December 2023
	2 December 2019	55,620	–	(55,620)	–	–	2 December 2022
		105,068	50,785	(55,620)	–	100,233	
J Howell	2 December 2022	–	35,221	–	–	35,221	2 December 2025
	2 December 2021	24,754	–	–	–	24,754	2 December 2024
	2 December 2020	10,225	–	–	–	10,225	2 December 2023
	2 December 2019	32,102	–	(32,102)	–	–	2 December 2022
		67,081	35,221	(32,102)	–	70,200	
Total		172,149	86,006	(87,722)	–	170,433	

Notes:

- Awards are not subject to further performance conditions once granted. The market price of a share on 1 December 2022, the trading day prior to the date of the awards made in the year ended 30 September 2023, was £8.116.
- No variations were made in the terms of the awards in the year.

There are limits on the number of newly issued and treasury shares that can be used to satisfy awards under the Group's share schemes in any 10-year period. The limits and the Group's current position against those limits as at 30 September 2023 (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	4.19%
10% of Group's share capital can be used for all share schemes	5.18%

The current position consists of shares released during the period plus committed shares inclusive of dividend equivalents accrued, with the total adjusted for forfeitures and, where applicable, performance expectations. The Company has previously satisfied all awards through the market purchase of shares or transfer of treasury shares and will continue to consider the most appropriate approach, based on the relevant factors at the time.

External appointments

Executive Directors are permitted, where appropriate and with Board approval, to take non-executive directorships with other organisations in order to broaden their knowledge and experience in other markets and countries. Fees received by the Directors in their capacity as directors of these companies are retained, reflecting the personal responsibility they undertake in these roles. The Board recognises the significant demands that are made on Executive and Non-executive Directors and has therefore adopted a policy that no Executive Director should hold more than one directorship of other listed companies. Except in exceptional circumstances, where approved in advance by the Chair of the Committee, if an Executive Director holds non-executive positions at more than one listed company then only the fees from one such company will be retained by the Director. Jonathan Howell was appointed as independent non-executive director to the board of Experian plc with effect from 1 May 2021 and as such receives an annual fee of €170,500. He was subsequently appointed as Audit Committee Chair with effect from 1 July 2022 and receives an annual fee of €51,500 accordingly. For the year ended 31 March 2023, he received €220,000, as reported on page 138 of the Experian Annual Report 2023. 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.

Directors' Remuneration Report continued

Unexpired term of contract table

Director	Date of contract	Unexpired term of contract on 30 September 2023, 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 2023	2 years 7 months	1 month from the Company and/or individual
J Bates	31 May 2022	1 year 8 months	1 month from the Company and/or individual
J Bewes	1 April 2022	1 year 6 months	1 month from the Company and/or individual
M Chan Jones	1 December 2022	2 years 2 months	1 month from the Company and/or individual
A Court	1 April 2022	1 year 6 months	1 month from the Company and/or individual
R Donnelly	3 February 2023	2 years 4 months	1 month from the Company and/or individual
D Hall	1 January 2023	3 months	1 month from the Company and/or individual
D Harding	2 March 2021	5 months	1 month from the Company and/or individual
A Duff	1 May 2021	7 months	1 month from the Company and/or individual

Consideration by the Directors of matters relating to Directors' remuneration

The following Directors were members of the Committee when matters relating to the Directors' remuneration for the year were being considered:

- Annette Court (Chair).
- Drummond Hall.
- Dr John Bates.
- Roisin Donnelly.

The Committee received assistance from Amanda Cusdin (Chief People Officer), Tara Gonzalez (Executive Vice President, Reward & Recognition), Vicki Bradin (General Counsel and Company Secretary), and other members of management (including the CEO and CFO), who may attend meetings by invitation, except when matters relating to their own remuneration are being discussed.

External advisors

The Committee continues to receive advice from Deloitte LLP, an independent firm of remuneration consultants appointed by the Committee after consultation with the Board. During the year, Deloitte's executive compensation advisory practice advised the Committee on developments in market practice, corporate governance, institutional investor views, the development of the Company's incentive arrangements, and the review of the Policy. Total fees for advice provided to the Committee during the year were £99,075 (charged on a time spent basis).

The Committee is satisfied that the advice it has received has been objective and independent.

Deloitte is a founding member of the Remuneration Consultants Group and adheres to its code in relation to executive remuneration consulting in the UK. Other parts of Deloitte have provided tax advice, specific corporate finance support in the context of merger and acquisition activity, and unrelated corporate advisory services.

Stitch, a Deloitte business, provided the Sage reward team with communication support on colleague reward and share plan communications during 2023.

Statement of shareholding voting

The table below sets out the results of the vote on the 2022 Policy at the 2022 AGM and the Directors' Remuneration Report at the 2023 AGM:

	Votes for		Votes against		Votes cast	Votes withheld
	number	%	number	%		
Remuneration Policy	825,904,476	99.12	7,332,300	0.88	833,236,776	189,118
Remuneration Report	820,692,437	98.77	10,256,316	1.23	830,948,753	722,356

Annette Court

Chair of the Remuneration Committee
21 November 2023

Directors' Report

The Directors present their report together with the audited consolidated financial statements for the financial year ended 30 September 2023 (the "Annual Report and Accounts"). The Annual Report and Accounts contain statements that are not based on current or historical fact and are forward-looking in nature. Please refer to the Disclaimer on page 169.

Information included in the Strategic Report

The Directors' Report, together with the Strategic Report on pages 1 to 83, represents the management report for the purpose of compliance with the Disclosure Guidance and Transparency Rules ("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	8 to 11—Chief Executive Officer's review (relevant information is also in the Strategic Report on pages 18 to 19)
Greenhouse gas emissions, energy consumption and energy-efficiency action	30 to 31, 32 to 33, and 38 to 45—Sustainability section (relevant information is also available in our Sustainability and Society Report on our website, sage.com)
Employment of disabled persons Engagement with colleagues Engagement with suppliers, customers and others	24 to 29—People section 56 to 59—section 172(1) statement, 47 to 55 (relevant information is also in the Strategic Report on pages 48 and 49, in the Corporate Governance Report on pages 104 to 107, and in this Directors' Report on page 165)
Important events affecting the Group after year end	7 and 15 of the Strategic Report and Note 18 of the financial statements on page 257

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 84 to 163, 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	244, 245
12, 13	Shareholder waiver of dividend	168

Results and dividends

The results for the financial year are set out on page 171 to 268. Full details of the proposed final dividend payment for the year ended 30 September 2023 are set out on page 252. The Board is proposing a final dividend of 12.75 pence per share following the payment of an interim dividend of 6.55 pence per share on 23 June 2023. The proposed total dividend for the year is therefore 19.3 pence per share.

Going concern

After making enquiries, the Directors have a reasonable expectation that Sage has adequate resources to continue in operational existence over the 18 months to 31 March 2025 (the going concern assessment period). Accordingly, they continue to adopt the going concern basis in preparing the financial statements. In reaching this conclusion, the Directors have had due regard to the following:

- The Group has a robust balance sheet with £1.3bn of cash and available liquidity as at 30 September 2023 and strong underlying cash conversion of 116%, reflecting the strength of the subscription business model. Further information on the available cash resources including the undrawn committed revolving credit facility is provided in note 13 of the financial statements on pages 230 to 233.

- 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 affect its future growth and operating performance, which are set out in the Strategic Report on pages 60 to 67.
- The Directors have reviewed liquidity forecasts for the Group for the period to 31 March 2025, (the going concern assessment period), which reflect the expected impact of economic conditions on trading. In doing so, the Directors have also reviewed the extent to which the macro-economic environment has been considered in building assumptions to support the forecasts. 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 82 and 83.

Research and development

During the year, the Group incurred a cost of £342m (2022: £302m) in respect of research and development. Please see page 200 (note 3.2 of the financial statements) for further details.

Political donations

No political donations were made in the year.

Directors and their interests

A list of Directors, their interests in the ordinary share capital of Sage, their interests in its long-term Performance Share Plan and Deferred Share Bonus Plan and details of their options over the ordinary share capital of Sage are given in the Directors' Remuneration Report on pages 129 to 163. 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 88 to 89.

Sage maintains directors' and officers' liability insurance which provides appropriate cover for legal action brought against our Directors. Sage has also granted indemnities (which are qualifying third-party indemnity provisions under the Companies Act 2006) to each member of the Board, under which it has agreed to indemnify the Directors to the extent

permitted by law and by Sage's articles of association, in respect of all liabilities incurred in connection with the performance of their duties as a Director of Sage or any of its subsidiaries. These indemnities are currently in force. Neither these indemnities nor the insurance provides cover in the event that an indemnified individual is proven to have acted fraudulently or dishonestly.

Employment policy

The Group continues to be committed to pursuing diversity, equity, and inclusion in all its employment activities and welcomes the unique culture, identity, and experience that each person can bring. This applies to recruitment, training, career development, and promotion, as well as ensuring that there is no bias or discrimination in the treatment of persons with disabilities.

Applications for employment are welcomed from persons with disabilities and adjustments are made in consultation with the applicant to ensure they can demonstrate their suitability for the role. Wherever possible, Sage will undertake any adjustments or retraining that is required to retain any colleague who becomes disabled during their employment within the Group.

Further details of the Board's DEI policy can be found on pages 115 to 117, and information regarding the diversity of the workforce is provided on pages 28 and 29.

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 choose to participate in the Company's voluntary all employee share plans and/or may be awarded free shares under the Company's discretionary share plans including 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 24 to 29, 48 to 49, and 102 to 107.

Engagement with other stakeholders

Details of stakeholder engagement, including with customers, partners and others in a business relationship with Sage and information on how the Directors have considered their interests and the effect of that consideration on principal decisions taken by the Board during the year are provided on pages 47 to 59.

Directors' Report continued

Major shareholdings

As at 30 September 2023, Sage had been notified, in accordance with the DTRs, of the following interests in its ordinary share capital:¹

Name	Ordinary shares	% of capital	Nature of holding
FMR LLC	51,544,929	5.02%	Indirect
FIL Limited	50,373,561	4.92%	Direct and Indirect
Aviva plc	40,661,335	3.97%	Direct

Notes:

1. In the period from 30 September 2023 to the date of this report, no further notifications were received.
2. % as at date of notification. The DTRs require notification when the % of voting rights (through shares and financial instruments) held by a person reaches, exceeds or falls below an applicable threshold specified in the DTRs.

Information provided to Sage under the DTRs is publicly available via the regulatory information service and on Sage's website at sage.com.

Share capital

Sage's share capital is set out on page 244. Sage has a single class of share capital which is divided into ordinary shares of 1¹/₇₇ 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 1 February 2024 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 and may fix the time for payment of such dividend, 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 but no member shall be compelled to accept any assets upon which there is any liability.

Transfer of shares

Subject to the articles of association, any member may transfer all or any of his or her certificated shares by an instrument of transfer in any usual form or in any other form which the Board may approve. The Board may, in its absolute discretion, decline to register any instrument of transfer of a certificated share which is not a fully paid share (although not so as to prevent dealings in shares taking place on an open and proper basis) or on which Sage has a lien.

The Board may also decline to register a transfer of a certificated share unless the instrument of transfer is: (i) left at Sage's Registered Office, or at such other place as the Board may decide, for registration; and (ii) accompanied by the certificate for the shares to be transferred and such other evidence (if any) as the Board may reasonably require to prove the title of the intending transferor or his or her right to transfer the shares.

The Board may permit any class of shares in Sage to be held in uncertificated form and, subject to the articles of association, title to uncertificated shares to be transferred by means of a relevant system and may revoke any such permission. Registration of a transfer of an uncertificated share may be refused where permitted by the statutes (as provided in the articles of association).

Repurchase of shares

In line with common practice for listed companies, Sage requests shareholder authority at its Annual General Meeting ("AGM") each year for the Company to buy back its ordinary shares in the market (the "Buyback Authorities"). Sage obtained shareholder authority at the AGM held on 2 February 2023 to buy back in the market up to 102,351,092 ordinary shares (the "2023 Buyback Authority"), replacing similar authority granted at the AGM held in 2022. No shares were purchased during the year under review, and the 2023 Buyback Authority has not been used as at the date of signing this report. However, alongside our FY23 results we have announced a share buyback programme of up to £350 million, running from 22 November 2023 and expected to end no later than 23 April 2024 (the "2023/2024 Buyback Programme"). The 2023 Buyback Authority will expire at the AGM to be held in 2024, but will, subject to shareholder approval at the AGM, be replaced by another similar authority. Under the terms of the Buyback Authorities, the minimum price which must be paid for each ordinary share is its nominal value and the maximum price is the higher of an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately before the purchase is made and an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for ordinary shares on the trading venue where the purchase is carried out (in each case exclusive of expenses). The 2023/2024 Buyback Programme is consistent with the Group's disciplined capital allocation policy, and reflects the Board's confidence in Sage's future prospects, together with Sage's strong cash generation and robust financial position. Sage continues to have considerable financial flexibility to drive the execution of its growth strategy. Shares repurchased under the 2023/2024 Buyback Programme will be cancelled. Information on transactions in own shares will be made publicly available via the regulatory information service and on Sage's website at [sage.com](https://www.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 by special resolution at the AGM 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 AGM 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 AGM of Sage, every Director who held office as at 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 AGM 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.

Directors' Report continued

Shares held in the Employee Benefit Trust

The trustee of The Sage Group plc. Employee Benefit Trust (EBT) has agreed not to vote any shares held in the EBT at any general meeting. If any offer is made to shareholders to acquire their shares the trustee will not be obliged to accept or reject the offer in respect of any shares which are at that time subject to subsisting awards, but will have regard to the interests of the award holders and will have power to consult them to obtain their views on the offer. Subject to the above the trustee may take action with respect to any offer it thinks fair. The trustee has waived its right to dividends on the shares held in the EBT.

Significant agreements

The following significant agreements contain provisions entitling the counterparties to exercise termination or other rights in the event of a change of control of Sage:

- Under the terms of (i) the €500m 3.820 per cent guaranteed Notes due 15 February 2028 (issued under Sage's EMTN Programme); (ii) the £350m 1.625 per cent guaranteed Notes due 25 February 2031; and (iii) the £400m 2.875 per cent guaranteed Notes due 8 February 2034, which are all 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 £630m five-year multi-currency revolving credit facility agreement dated 13 December 2022 and made 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 Sections 450 and 451 of the Corporation Taxes Act 2010.
- The platform reseller agreement dated 31 January 2015 relating to the Company's strategic arrangements with Salesforce.com EMEA Limited contains a change of control right enabling Salesforce to terminate the agreement in the event there is a change of control in favour of a direct competitor of Salesforce.com EMEA Limited. The agreement contains post-termination requirements upon Salesforce to support a transition for up to a specified period. In respect of the platform reseller agreement with Salesforce.com EMEA Limited, "change of control" occurs where a corporate transaction results in the owners of the subject entity owning less than 50% of the voting interests in that entity as a result of the corporate transaction.
- All of Sage's employee share plans contain provisions relating to a change of control of The Sage Group plc. Outstanding awards and options may vest and become exercisable on a change of control, subject, where applicable, to the satisfaction of any applicable performance conditions and time pro-rating.

Branch

The Group, through various subsidiaries, has a branch in France. Further details are included in note 19 on pages 257 to 260.

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 of the financial statements.

Our approach to risk management generally and our Principal Risks can be found in note 14.6 and on pages 68 to 81.

Disclaimer

The purpose of this Annual Report and Accounts is to provide information to the members of Sage. The Annual Report and Accounts has been prepared for, and only for, the members of Sage, as a body, and no other persons. Sage, its Directors and employees, agents or advisors do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. The Annual Report and Accounts contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and Accounts and Sage undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report and Accounts should be construed as a profit forecast.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Accounts, including the Directors' Remuneration Report and the financial statements of the Group and the Company, in accordance with applicable laws and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with UK-adopted International Accounting Standards (UK-IFRS) and the Company financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period.

In preparing these financial statements the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether, for the Group, applicable UK-IFRS have been followed, subject to any material departures disclosed and explained in the financial statements;
- State whether, for the Company, applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for the maintenance and integrity of Sage's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Report continued

The Directors as at the date of this report, whose names and functions are listed in the Board of Directors' section on pages 88 to 89, confirm that:

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

Each Director as at the date of this report further confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Group's and the Company's auditors are unaware; and
- The Director has taken all the steps that they ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Group's and the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

In addition, the Directors as at the date of this report consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's and the Group's position, performance, business model and strategy.

By Order of the Board

Vicki Bradin

Company Secretary

21 November 2023

The Sage Group plc. Company number 02231246

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Independent Auditor's Report to the members of The Sage Group plc.

Opinion

In our opinion:

- The Sage Group plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 30 September 2023 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of The Sage Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 September 2023 which comprise:

Group	Parent company
Consolidated balance sheet as at 30 September 2023	Company Balance sheet as at 30 September 2023
Consolidated income statement for the year then ended	Company Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Related notes 1 to 8 to the financial statements, including a summary of significant accounting policies
Consolidated statement of changes in equity for the year then ended	
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 19 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the group and parent in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- We understood the process undertaken by management to perform the going concern assessment;

- We obtained management's going concern assessment, including the cash flow forecast for the going concern period to 31 March 2025. We assessed whether the period applied is appropriate, through considering the existence of any significant events or conditions beyond this period based on management's forecasting and knowledge arising from the audit that should be taken into account in the going concern assessment;
- We confirmed the Group's access to available sources of liquidity and the relevant maturity dates;
- We assessed the reasonableness of all key assumptions, with a particular focus on New Customer Acquisition ('NCA'), churn, margin and working capital. This has been performed by:
 - assessing the historical forecasting accuracy of the Group by comparing actual revenue and underlying profit to forecast for the previous five years;
 - checking for consistency of the forecasts with other areas of the audit including the goodwill and other intangibles impairment assessment; and
 - assessing whether the assumptions made were reasonable, through our own independent assessment of the impact of the current macro-economic environment and considering whether this contradicted any of the assumed growth.
- We also considered the impact of Sage's climate commitments on the cash flow forecasts;
- We reperformed management's reverse stress test to establish the level of change in revenue necessary to cause a liquidity breach and considered whether the reduction in revenue required has no more than a remote possibility of occurring; and
- We reviewed the appropriateness of management's going concern disclosure in describing the risks associated with its ability to continue to operate as a going concern from the date of the approval of the financial statements to 31 March 2025.

We observed that in both management's base case and in the downside sensitivities, with churn assumptions increasing by up to 75% and a significant reduction in the level of new customer acquisitions and sales to existing customers, management has determined that there is liquidity headroom without taking the benefit of any identified controllable mitigations.

Furthermore, management's reverse stress test identifies the revenue reduction compared to forecasts required to breach minimum liquidity thresholds during the going concern assessment period. The occurrence of a revenue reduction of this magnitude is considered by the Directors to be remote due to the resilient nature of the subscription business model, available liquidity and strong cash conversion.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for a period to 31 March 2025.

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	<ul style="list-style-type: none"> • We performed an audit of the complete financial information of 7 components and audit procedures on specific balances for a further 3 components. • The components where we performed full or specific audit procedures accounted for 94% of Adjusted Profit before tax*, 93% of Revenue and 99% of Total assets.
Key audit matters	<ul style="list-style-type: none"> • Inappropriate timing of revenue recognition, due to cut-off errors or incorrect deferral • Recoverability of goodwill
Materiality	<ul style="list-style-type: none"> • Overall group materiality of £16.0m which represents 5% of Profit before tax adjusted for non-recurring items.

* Adjusted profit before tax is presented on an absolute basis

Independent Auditor's Report to the members of The Sage Group plc. continued

An overview of the scope of the parent company and group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment, the potential impact of climate change 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 24 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 7 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 3 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 94% (2022: 94%) of the Group's Adjusted Profit before tax*, 93% (2022: 94%) of the Group's Revenue and 99% (2022: 98%) of the Group's Total assets. For the current year, the full scope components contributed 82% (2022: 80%) of the Group's Adjusted Profit before tax*, 75% (2022: 62%) of the Group's Revenue and 95% (2022: 90%) of the Group's Total assets. The specific scope component contributed 12% (2022: 14%) of the Group's Adjusted Profit before tax, 18% (2022: 32%) of the Group's Revenue and 4% (2022: 8%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

Of the remaining 14 components that together represent 6% of the Group's Adjusted Profit before tax*, none are individually greater than 3% of the Group's Adjusted Profit before tax*. For these components, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations, obtaining a sample of additional cash confirmations, and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

The table below illustrate the coverage obtained from the work performed by our audit teams.

Reporting components	2023					2022			
	Number	% Group Adjusted Profit before tax*	% Group Revenue	% Total assets	Note	Number	% Group Adjusted Profit before tax*	% Group Revenue	% Total assets
Full scope	7	82%	75%	95%	1,3	6	80%	62%	90%
Specific scope	3	12%	18%	4%	2,3	4	14%	32%	8%
Full and specific scope coverage	10	94%	93%	99%		10	94%	94%	98%
Remaining components	14	6%	7%	1%	4	13	6%	6%	2%
Total Reporting components	24	100%	100%	100%		23	100%	100%	100%

* Adjusted profit before tax is presented on an absolute basis

Notes

- There has been an increase in number of full scope components in the current period from 6 to 7 – Intacct is now included as a full scope component in the current year (FY22: specific scope) as the component contributes a more significant part of Group Adjusted Profit before tax. 3 of the 7 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 4 full scope components are – Intacct, UKI, France and North America (excluding Intacct).
- Specific scope components are Germany, 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.
- 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 four full scope components and three specific scope components). The Group audit risk in relation to the recoverability of goodwill was tested by the Primary audit team.
- In the current year, the remaining 14 components contributed 6% of Adjusted Profit before tax* and the individual contribution of these components ranged from nil to 3% of the Group's Adjusted Profit before tax*. For these components, the Primary audit team performed other procedures including overall analytical review procedures and testing of consolidation journals, intercompany eliminations, a sample of cash confirmations, and foreign currency translation recalculations to respond to potential risks of material misstatement to the Group financial statements.

Changes from the prior year

The change in the total number of reporting components from 23 to 24 is a result of the acquisition of Corecon Technologies, Inc. during the period. As discussed above, the number of full scope components has increased from 6 to 7 in the current period. Intacct is now included as a full scope component following continued growth within the component and its increasing significance to overall group revenue and profits. This has reduced the number of specific scope components from 4 to 3.

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 7 full scope components, audit procedures were performed on 2 of these directly by the primary audit team. For the 5 full scope components and 3 specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor, Kathryn Barrow, together with other group partners and senior members of the primary audit team, visits a series of component teams. During the current year's audit cycle, visits were undertaken by the primary audit team to the component teams in the United Kingdom, North America, France, and South Africa. These visits involved discussing the audit approach with the component team and any issues arising from their work, meeting with local management, attending closing meetings and reviewing relevant audit working papers on risk areas. The primary team interacted regularly with the component teams, where appropriate, during various stages of the audit, reviewed relevant working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact companies. The Group has determined that the most significant future impacts from climate change on their operations will be from extreme weather events which may have an impact on workforce productivity, increasing cost of energy and carbon, hosting resilience and changing customer behaviour. These are explained on pages 44–45 in the Task Force for Climate related Financial Disclosures and on pages 74 to 81 in the principal risks and uncertainties. They have also explained their climate commitments on pages 32 to 33 in "Sustainability and Society". All of these disclosures form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the Group's business and any consequential material impact on its financial statements.

The group has explained in Note 1 Basis of Preparation to the consolidated financial statements how they have reflected the impact of climate change in their financial statements. Governmental and societal responses to climate change risks are still developing and are interdependent upon each other, and consequently, financial statements cannot capture all possible future outcomes as these are not yet known. The degree of certainty of these changes means that they cannot be taken into account when determining asset and liability valuations under the requirements of UK adopted International Accounting Standards. As described in Note 1, there were no factors identified that would have a material impact on the Group's accounting estimates and judgements in the current year. The considerations in relation to goodwill impairment testing are set out in Note 6.1.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, their climate commitments, and ensuring that the effects of material climate risks disclosed on page 44 have been appropriately reflected by management in reaching their judgements in relation to modelling future cash flows used in the impairment assessments. We also challenged the Directors' considerations of climate change risks in their assessment of going concern and viability and associated disclosures.

Based on our work, we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation

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of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
<p>Inappropriate revenue recognition due to cut-off errors or incorrect deferral Refer to the Audit and Risk Committee Report (page 121); Accounting policies (page 190); and Note 3.1 of the Consolidated Financial Statements (page 198-200)</p> <p>The Group has reported revenues of £2,184 million (FY22: £1,947 million) with deferred income at 30 September 2023 of £752 million (FY22: £742 million).</p> <p>We assessed revenue recognition as a fraud risk as revenue forms the basis for certain of the Group's key performance indicators, both in external communications and for management incentives. The risk specifically relates to the inappropriate timing of revenue recognition, due to cut-off errors or incorrect deferral.</p> <p>Therefore, we assessed that overstatement of revenue presented a higher risk and a key audit matter.</p>	<p>Walkthroughs and controls</p> <ul style="list-style-type: none"> We performed walkthroughs of each significant class of revenue transactions and assessed the design effectiveness of key financial controls alongside related IT controls, however we did not test the operating effectiveness of these controls at all components. For two components, we tested the operating effectiveness of certain key controls within the revenue process. <p>Timing of revenue recognition, due to cut-off errors or incorrect deferral</p> <ul style="list-style-type: none"> We evaluated management's determination of whether the nature of the Group's products and services resulted in the provision of a good or service at a point in time or over a contractual term, by reviewing a sample of customer contracts against the requirements of IFRS 15. This included the assessment of new or one-off transactions, by comparing the accounting treatment to the Group accounting policy and IFRS 15. The customer contracts take different forms depending upon the products/services sold and local legal practice. Our procedures included consideration as to whether this fulfilled the IFRS 15 definition of a 'contract with a customer'. At all revenue generating full and specific scope components, we adopted a data analysis approach in relation to revenue and receivables. Our procedures involved testing full populations of transaction data for all significant revenue streams and included correlation analysis between invoiced revenue, receivables and cash, as well as analysis of credit notes. Where the postings did not follow our expectation, we investigated and assessed their validity by agreeing a sample of transactions back to source documentation. In respect of deferred income, for products and services where revenue is earned over a contractual term, we: <ul style="list-style-type: none"> Tested a sample of transactions to determine that the amount of revenue recognised in the year and the amount deferred at the balance sheet date were accurately calculated based on progress of the contract. At certain components, with support from EY IT team members, we utilised data analysis to facilitate independent reperformance of certain management calculations, including deferred income. This included testing a sample of the data inputs against 3rd party evidence, such as the contract with the customer (as defined above). We have performed cut-off testing for a sample of revenue items and credit notes booked either side of the year end date to determine that revenue was recognised in the period in which the performance obligation was fulfilled. <p>Management override</p> <ul style="list-style-type: none"> 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. <p>Disclosures</p> <ul style="list-style-type: none"> We also considered the adequacy of the Group's disclosures relating to revenue recognition in note 1 (accounting estimates and judgments) and note 3.1 (Revenue) in the consolidated financial statements. <p>We performed full and specific scope audit procedures over this risk area in 10 locations, which covered 93% of the risk amount, with the remaining 7% of revenue being covered by review scope procedures. These procedures included updating our understanding of the business alongside key processes, management enquiries and analytical review relative to budgets and prior periods.</p>	<p>Based on the procedures performed, we consider the timing of revenue recognition to be appropriate for the year ended 30 September 2023. We did not identify a material misstatement as a result of inappropriate revenue recognition due to cut-off errors or incorrect deferral.</p>

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Recoverability of goodwill Refer to the Audit and Risk Committee Report (page 121); Accounting policies (page 190); and Note 6.1 of the Consolidated Financial Statements (pages 212-214) Goodwill of £2,245m is recognised in the Group's consolidated balance sheet at 30 September 2023 (FY22: £2,391m). We continue to include the recoverability of goodwill as a Key Audit Matter due to: <ul style="list-style-type: none"> the estimation involved in determining the future performance of the Cash Generating Units (CGUs); the magnitude of the goodwill; and the audit effort and executive involvement. 	Valuation model Management performed its annual impairment assessment as at 30 June 2023. We obtained the impairment assessment and tested the methodology applied in the value in use calculations for each of the CGUs as compared to the requirements of IAS 36, Impairment of Assets, including the appropriateness of the forecast periods, which were consistent with management's strategic planning horizon, and the mathematical accuracy of management's model. We considered whether any significant changes occurred between Management's assessment date and the year end that would impact the impairment test conclusion. We did this by reviewing the ongoing performance of the business and reviewing the inputs to the discount rate in light of the current macro-economic environment. Key assumptions in the valuation We evaluated the key underlying assumptions used in the valuations including revenue growth rates, margin and the discount rates applied. <ul style="list-style-type: none"> We assessed the appropriateness of the key assumptions used in the FY24 forecasts including new customer acquisition, upsell/add-ons and level of churn by assessing these against the results achieved in FY23 and the prior track record of growth. For forecasts for FY24-FY26, we considered the latest market trends, through reviewing market data such as central bank macroeconomic projections, to evaluate whether there is evidence that the forecast growth rates assumed for this period should be lower than the FY23 current growth rate. We tested the reasonableness of long-term growth rates applied after the forecast period by comparing the rates used by management to published OECD rates. We tested the discount rates, with the involvement of our internal valuation specialists, by reference to comparable market data and the specific risk profile relevant to each respective CGU, compared to the rates used by management. We assessed the appropriateness of management's forecasts with respect to inclusion of the impact of climate change. We performed downside sensitivity analysis on key assumptions in the models, including combinations thereof, to understand the parameters that, should they arise, cause an impairment of goodwill. Disclosures We considered the appropriateness of the related disclosures provided in note 1 (accounting estimates and judgments) and note 6.1 (goodwill) in the consolidated financial statements. We considered whether any reasonably possible change disclosures were required based upon the headroom within the sensitivity analysis. This included the removal of the sensitivity disclosure for Iberia, compared to prior year.	We concluded that no impairment of goodwill or other intangible assets is required in the current year. We have concluded that the methodology applied is reasonable, the forecast period is appropriate, and the impairment models are mathematically accurate. Key inputs such as underlying assumptions, forecast growth rates, margin and discount rates have been determined using a reasonable basis.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

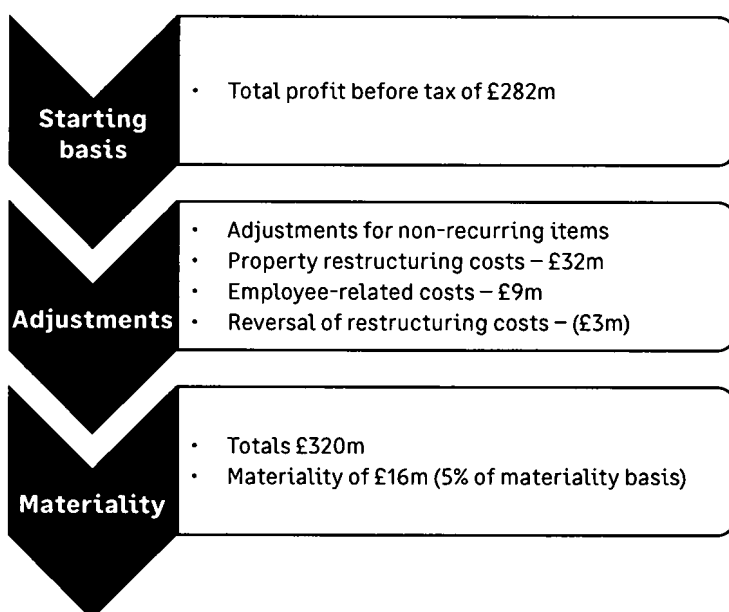
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £16.0 million (2022: £13.2 million), which is 5% (2022: 5%) of Adjusted Profit before tax*. We believe that Profit before tax adjusted for non-recurring items provides us with the most relevant performance

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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. Adjustments for non-recurring items in 2023 include property restructuring costs £32m, employee related costs £9m with a reversal of restructuring costs (£3m). In 2022 non-recurring items included a gain on disposal of subsidiaries (£53m) and the reversal of restructuring costs (£20m).

We determined materiality for the Parent Company to be £40.2 million (2022: £40.3 million), which is 1% (2022: 1%) of equity. We believe that equity is an appropriate basis to determine materiality given the nature of the Parent Company as the holding company of the Group. Any balances in the Parent Company financial statements that were relevant to our audit of the consolidated Group were audited using an allocation of Group performance materiality.



During the course of our audit, we reassessed initial materiality with the only change in the final materiality from our original assessment at planning being to reflect the actual reported performance of the Group in the year.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2022: 75%) of our planning materiality, namely £12.0m (2022: £9.9m). We have set performance materiality at this percentage due to our assessment of the control environment and lower likelihood of misstatements.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £2.4m to £8.6m (2022: £1.0m to £8.0m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit and Risk Committee that we would report to them all uncorrected audit differences in excess of £0.8m (2022: £0.7m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1- 170, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Corporate Governance Statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group and company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 164-165;
- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on pages 82-83;
- Director's statement on whether it has a reasonable expectation that the group will be able to continue in operation and meets its liabilities set out on pages 164-165;
- Directors' statement on fair, balanced and understandable set out on page 170;

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- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 74-81;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 68-81; and
- The section describing the work of the audit committee set out on pages 118-128.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on pages 169-170, 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 Sage Group plc is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the company secretary. We corroborated our enquiries through our review of board minutes and papers provided to the Audit and Risk Committee and attendance at all meetings of the Audit and Risk Committee, as well as consideration of the results of our audit procedures across the Group to either corroborate or provide contrary evidence which was then followed up.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud; and assessing whistleblowing incidences for those with a potential financial reporting impact. We also considered performance targets and their propensity to influence on efforts made by management to manage revenue and earnings. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter, and detect fraud; and how senior management monitors those programs and controls. Where the risk was considered to be higher, including areas impacting Group key performance indicators or management remuneration, we performed audit procedures to address each identified fraud risk or other risk of material misstatement. These procedures included those on revenue recognition detailed above, the assessment of items identified by management as non-recurring and testing manual journals and were designed to provide reasonable assurance that the financial statements were free from material fraud or error.

- Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations, including instructions to full and specific scope component audit teams. At a Group level, our procedures involved enquiries of Group management and those charged with governance, legal counsel, and internal audit; journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business. At a component level, our full and specific scope component audit team's procedures included enquiries of component management; journal entry testing; and focused testing, including as referred to in the key audit matters section above.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation from the audit committee, we were appointed by the company on 3 March 2015 to audit the financial statements for the year ending 30 September 2015 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is 9 years, covering the years ending 30 September 2015 to 30 September 2023.

- The audit opinion is consistent with the additional report to the Audit and Risk Committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Kathryn Barrow (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

21 November 2023

Notes:

- The maintenance and integrity of The Sage Group plc. web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have been presented on the web site.
- Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

For the year ended 30 September 2023

	Note	Underlying 2023 £m	Adjustments (note 3.6) 2023 £m	Statutory 2023 £m	Underlying as reported* 2022 £m	Adjustments (note 3.6) 2022 £m	Statutory 2022 £m
Revenue	2.1, 3.1	2,184	–	2,184	1,949	(2)	1,947
Cost of sales		(156)	–	(156)	(138)	–	(138)
Gross profit		2,028	–	2,028	1,811	(2)	1,809
Selling and administrative expenses		(1,572)	(141)	(1,713)	(1,434)	(8)	(1,442)
Operating profit	2.2, 3.2, 3.3, 3.6	456	(141)	315	377	(10)	367
Finance income	3.5	12	–	12	1	–	1
Finance costs	3.5	(44)	(1)	(45)	(32)	1	(31)
Profit before income tax		424	(142)	282	346	(9)	337
Income tax expense	4	(95)	24	(71)	(83)	6	(77)
Profit for the year		329	(118)	211	263	(3)	260
Profit attributable to:							
Owners of the parent		329	(118)	211	263	(3)	260

Earnings per share attributable to the owners of the parent (pence)

Basic	5	32.25p	20.75p	25.74p	25.47p
Diluted	5	31.75p	20.43p	25.44p	25.17p

All operations in the year relate to continuing operations.

Note:

* Underlying as reported is at 2022 reported exchange rates.

Consolidated statement of comprehensive income

For the year ended 30 September 2023

	Note	2023 £m	2022 £m
Profit for the year		211	260
Items of other comprehensive income that will not be reclassified to profit or loss:			
Fair value gain on reassessment of equity investment	8	–	30
Actuarial gain on post-employment benefit obligations	11, 15.4	–	3
		–	33
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations and net investment hedges	15.3	(82)	177
Cash flow hedges	15.3	4	–
Exchange differences recycled through income statement on sale of foreign operations	15.3, 16.2	–	(13)
		(78)	164
Other comprehensive (expense)/income for the year, net of tax		(78)	197
Total comprehensive income for the year		133	457
Total comprehensive income for the year attributable to:			
Owners of the parent		133	457

Consolidated balance sheet

As at 30 September 2023

	Note	2023 £m	2022 Restated* £m
Non-current assets			
Goodwill	6.1	2,245	2,391
Other intangible assets	6.2	274	320
Property, plant and equipment	7	104	152
Equity investments	8	4	4
Trade and other receivables	9.1	138	128
Deferred income tax assets	12	56	19
Derivative financial instruments	14.5	1	–
		2,822	3,014
Current assets			
Trade and other receivables	9.1	376	355
Current income tax asset		42	39
Cash and cash equivalents (excluding bank overdrafts)	13.3	696	489
		1,114	883
Total assets		3,936	3,897
Current liabilities			
Trade and other payables	9.2	(378)	(368)
Current income tax liabilities		(25)	(13)
Borrowings	13.4	(14)	(178)
Provisions	10	(23)	(33)
Deferred income	9.3	(745)	(734)
		(1,185)	(1,326)
Non-current liabilities			
Borrowings	13.4	(1,243)	(1,044)
Post-employment benefits	11	(19)	(19)
Deferred income tax liabilities	12	(18)	(17)
Provisions	10	(24)	(20)
Trade and other payables	9.2	(13)	(6)
Deferred income	9.3	(7)	(8)
Derivative financial instruments	14.5	(20)	(60)
		(1,344)	(1,174)
Total liabilities		(2,529)	(2,500)
Net assets		1,407	1,397
Equity attributable to owners of the parent			
Ordinary shares	15.1	12	12
Share premium		548	548
Other reserves	15.3	189	267
Retained earnings	15.4	658	570
Total equity		1,407	1,397

Notes:

* Restated for finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Lockstep (see notes 1 and 16).

The consolidated financial statements on pages 182 to 260 were approved by the Board of Directors on 21 November 2023 and are signed on their behalf by:



Jonathan Howell
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 30 September 2023

	Note	Attributable to owners of the parent				Total equity £m
		Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	
At 1 October 2022		12	548	267	570	1,397
Profit for the year		–	–	–	211	211
Other comprehensive (expense)/income:						
Exchange differences on translating foreign operations and net investment hedges	15.3	–	–	(82)	–	(82)
Cash flow hedges	14.5, 15.3	–	–	4	–	4
Total comprehensive (expense)/income for the year ended 30 September 2023		–	–	(78)	211	133
Transactions with owners:						
Employee share option scheme—value of employee services including deferred tax	15.4	–	–	–	57	57
Proceeds from issuance of treasury shares	15.4	–	–	–	11	11
Purchase of shares by Employee Benefit Trust	15.4	–	–	–	(1)	(1)
Dividends paid to owners of the parent	15.4, 15.5	–	–	–	(190)	(190)
Total transactions with owners for the year ended 30 September 2023		–	–	–	(123)	(123)
At 30 September 2023		12	548	189	658	1,407

Consolidated statement of changes in equity

For the year ended 30 September 2022

	Note	Attributable to owners of the parent				
		Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 October 2021		12	548	103	448	1,111
Profit for the year		–	–	–	260	260
Other comprehensive income/(expense):						
Exchange differences on translating foreign operations and net investment hedges	15.3	–	–	177	–	177
Exchange differences recycled through income statement on sale of foreign operations	15.3	–	–	(13)	–	(13)
Fair value gain on reassessment of equity investment	8	–	–	–	30	30
Actuarial gain on post-employment benefit obligations	15.4	–	–	–	3	3
Total comprehensive income for the year ended 30 September 2022		–	–	164	293	457
Transactions with owners:						
Employee share option scheme—value of employee services including deferred tax	15.4	–	–	–	37	37
Proceeds from issuance of treasury shares	15.4	–	–	–	7	7
Purchase of shares by Employee Benefit Trust	15.4	–	–	–	(32)	(32)
Dividends paid to owners of the parent	15.4, 15.5	–	–	–	(183)	(183)
Total transactions with owners for the year ended 30 September 2022		–	–	–	(171)	(171)
At 30 September 2022		12	548	267	570	1,397

Consolidated statement of cash flows

For the year ended 30 September 2023

	Note	2023 £m	2022 £m
Cash flows from operating activities			
Cash generated from continuing operations	13.1	505	368
Interest paid		(33)	(21)
Income tax paid		(85)	(62)
Net cash generated from operating activities		387	285
Cash flows from investing activities			
Disposal of subsidiaries, net of cash disposed		–	42
Acquisition of subsidiaries, net of cash acquired	16.1	(26)	(285)
Purchases of intangible assets	6.2	(17)	(40)
Purchases of property, plant and equipment	7	(5)	(12)
Proceeds from disposals of property, plant and equipment	16.2	–	10
Interest received	3.5	12	1
Net cash used in investing activities		(36)	(284)
Cash flows from financing activities			
Proceeds from borrowings	13.2	440	516
Repayments of borrowings	13.2	(353)	(166)
Capital element of lease payments	13.2	(18)	(19)
Borrowing costs		(3)	(1)
Proceeds from issuance of treasury shares		11	7
Share buyback programmes	15.4	–	(249)
Purchase of shares by Employee Benefit Trust	15.4	(1)	(32)
Dividends paid to owners of the parent	15.5	(190)	(183)
Net cash used in financing activities		(114)	(127)
Net increase/(decrease) in cash and cash equivalents (before exchange rate movement)			
		237	(126)
Effects of exchange rate movement	13.2	(30)	48
Net increase/(decrease) in cash and cash equivalents		207	(78)
Cash, cash equivalents and bank overdrafts at 1 October	13.2	489	567
Cash, cash equivalents and bank overdrafts at 30 September	13.2	696	489

Notes to the consolidated financial statements

1 Basis of preparation and 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 UK-IFRS in conformity with the requirements of the Companies Act 2006 and also prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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

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

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

New or amended accounting standards

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

In July 2023, the UK Endorsement Board adopted 'International Tax Reform—Pillar Two Model Rules (Amendments to IAS 12)' as issued by the IASB. The Amendments introduce a temporary mandatory exception from accounting for deferred taxes arising from the Pillar Two model rules, effective immediately and retrospectively, and the Group has applied this exception.

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 2023.

None are expected to have a material impact on the consolidated financial statements when first applied.

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 83.

In preparing these financial statements, the Directors have reviewed and approved a going concern assessment which considers the liquidity forecast of the Group for the period through to 31 March 2025 (the going concern assessment period). The liquidity forecast reflects the expected impact of the economic environment, including the current inflationary environment. More specifically, full consideration has been given to the potential risks and uncertainties linked to the changing macro-economic environment, and the possible impact on the Group's customer base.

In light of this, we note that the Group's operational and financially robust position is supported by:

- High-quality recurring and subscription-based revenue;
- Resilient cash generation and robust liquidity, supported by strong underlying cash conversion of 116%, reflecting the strength of the subscription business model; and
- A well-diversified small and medium-sized customer base which is geographically diverse.

In preparing the going concern assessment scenario-specific stress testing has been performed, with the level of churn assumptions increasing by 75%, and a significant reduction in the level of new customer acquisition and sales to existing customers. Under these scenarios, the Group continues to have sufficient resources to continue in operational existence without the need to drawdown on its revolving credit facility or seek additional financing. If more severe impacts occur there are further controllable mitigating actions which can be taken to protect liquidity, including the reduction of discretionary spend. Stress testing has also been performed as part of the severe but plausible scenarios (as described within the Viability Statement on pages 82 and 83).

The Directors have 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 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 highly significant deterioration in performance, well in excess of the assumptions considered in the stress testing scenarios above. The probability of these factors occurring is deemed to be remote given the resilient nature of the subscription business model, robust balance sheet, and continued strong cash conversion.

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

Further details for adopting the going concern basis are set out in the Directors' Report on pages 164 to 165.

Foreign currencies

The consolidated financial statements are presented in sterling, which is the functional currency of the parent Company and the presentation currency for the consolidated financial statements.

Foreign currency transactions are recorded at the rates of exchange prevailing on the dates of the transactions. Foreign currency monetary items are translated at the rates prevailing at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are included in profit or loss for the period, except for foreign currency movements on intercompany balances where settlement is not planned or likely in the foreseeable future, in which case they are recognised in other comprehensive income. Foreign exchange movements on external borrowings and derivative financial instruments which are designated as a hedge of the net investment in its related subsidiaries are recognised in the translation reserve.

The assets and liabilities of the Group's subsidiaries outside the UK are translated into sterling using period-end exchange rates. Income and expense items are translated at the average exchange rates for the period. Where differences arise between these rates, they are recognised in other comprehensive income and the translation reserve. Foreign exchange movements on derivative financial instruments which are designated in cash flow hedge relationships are included in the profit or loss for the period, to offset foreign currency movements in the hedged item.

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in other comprehensive income are recycled in the income statement as part of the gain or loss on sale, with the exception of exchange differences recorded in equity prior to the transition to IFRS on 1 October 2004, in accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards".

Climate change

In preparing the consolidated financial statements, management has considered the impact of climate change, specifically with reference to the disclosures provided in the Strategic Report (see pages 30 to 45).

As a business, we are committed to reducing our carbon emissions and target achieving net zero by 2040. We support our customers, small and mid-sized businesses, in achieving net zero by sharing the knowledge, technology and skills to be a driving force for change. We also support more broadly by advocating for enabling policies and standards that support a transition to a low-carbon economy.

We recognise the importance of identifying and effectively managing the physical and transitional risks that climate change poses to our operations and consider the impact of climate-related matters, including legislation, on our business. The climate change scenario analyses undertaken in line with Task Force on Climate-related Financial Disclosures (TCFD) recommendations did not identify any material impact on the Group's financial results, going concern or viability. More specifically:

- In preparing the viability assessment, consideration has been given to the potential impact of climate change over the next three years, as set out in the Strategic Report.
- Climate change related factors on matters including residual values, useful lives and depreciation and amortisation periods which relate to non-current assets have also been considered, with no impact identified at this stage.
- In our future forecasts used for goodwill impairment and the going concern assessment, we have considered the extent to which costs associated with our climate related commitments have been considered, as well as broader societal commitments. These commitments do not have a material impact.

Notes to the consolidated financial statements continued

1 Basis of preparation and accounting estimates and judgements continued

Climate change continued

- We have also considered the extent to which climate change could impact longer-term economic growth, which may impact long-term growth rates used in the goodwill impairment test. Sensitivity testing demonstrates that all cash-generating units (CGUs) retain sufficient headroom.

Accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates and judgements by management. It also requires management to exercise its judgement in the process of applying the accounting policies. We continually evaluate our estimates and judgements based on available information.

Management has determined that there are no areas of estimation uncertainty that could be significant under IAS 1, 'Presentation of Financial Statements', being areas of estimation uncertainty with a significant risk of a material change to the carrying value of assets and liabilities within the next financial year.

Other key estimates are made when preparing the financial statements, which, while not meeting the definition of a significant estimate under IAS 1, involve the measurement of certain material assets or a higher degree of complexity.

Significant judgements are those made by management in applying our accounting policies that have a material impact on the amounts presented in the financial statements.

Management's rationale in relation to these key accounting estimates and significant judgements are regularly assessed and, where material in value or in risk, are discussed with the Audit and Risk Committee. These areas are discussed in further detail below:

Revenue recognition (judgement)

Over a third of the Company's revenue is generated from sales to business partners rather than end users. The key judgement is determining whether the business partner is a customer of the Group. The key criterion 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 (see note 9.1).

Goodwill impairment (estimate)

The estimates applied in calculating the value in use of the CGUs being tested for impairment are a source of estimation uncertainty. The key estimates considered in the calculation relate to the future performance expectations of the business and include the average medium-term revenue growth rate, the long-term growth rate of net operating cash flows and the discount rate.

Further information on these key estimates, as well as the level at which goodwill is monitored and the results of sensitivity analysis are disclosed in note 6.1.

Business combinations (judgement and estimate)

During the year, the Group finalised the purchase price accounting for Lockstep Network Holdings Inc ("Lockstep"), for which the Group acquired 100% of the equity capital and voting rights in August 2022. At the end of the prior year, the amounts recognised relating to the acquisition were provisional. During the current year, the purchase price accounting has been finalised, therefore certain adjustments have been recognised in the year. These adjustments include the recognition of intangible assets and deferred tax liabilities, offset by a reduction in the amount of goodwill provisionally recognised in the prior year. Further explanation of the changes are set out in note 16.

Key areas of judgement and estimation include the identification and subsequent measurement of acquired intangible assets, for which an external expert was engaged to support the exercise. The recognised intangible assets included technology and customer relationships. The fair value of the acquired technology was determined using the relief from royalty method and the customer relationship was determined using a discounted cashflow approach. These valuation techniques incorporate several key estimates including revenue forecasts and the application of an appropriate discount rate to state future cash flows at their present value. In addition, the relief from royalty method requires the use of an appropriate royalty rate, which was corroborated against the Group's own royalty rates used for internal transfer pricing purposes as well as external benchmark data.

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 UK & Ireland, North America and Europe. 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 Africa & APAC. This is explained further below.

For each geographical region, revenue and operating profit are compared to prior year in order to understand the movements in the year. This comparison is provided for statutory, underlying, and organic revenue and statutory, underlying, and organic operating profit.

- Statutory results reflect the Group's results prepared in accordance with the requirements of IFRS.
- "Underlying" and "underlying as reported" are non-GAAP measures. Underlying measures are adjusted to exclude items which in management's judgement need to be disclosed separately by virtue of their size, nature or frequency. These measures are considered key measures within the business which aid understanding of the performance for the year and comparability between periods. The items excluded include both: a) Recurring items which include purchase price adjustments including amortisation of acquired intangible assets and adjustments made to reduce deferred income arising on acquisitions, acquisition-related items and unhedged FX on intercompany balances; and b) Non-recurring items that management judges to be one-off or non-operational such as gains and losses on the disposal of assets, impairment charges and reversals, and restructuring related costs. Management applies judgement in determining which items should be excluded from underlying performance. See note 3.6 for details of these adjustments.

In addition, underlying measures are presented on a constant currency basis with prior year amounts translated at current year exchange rates. Prior year underlying amounts at prior year exchange rates are "underlying as reported"; prior year and current year amounts at current year exchange rates are "underlying".

- Organic is a non-GAAP measure. In addition to the adjustments made to the underlying measures, the contributions from discontinued operations, disposals, and assets held for sale of standalone businesses in the current and prior period are removed so that results can be compared to the prior year on a like-for-like basis. Results from acquired businesses are excluded in the year of acquisition. Adjustments are made to the comparative period to present prior period acquired businesses as if these had been part of the Group throughout the prior period. Acquisitions and disposals which occurred close to the start of the opening comparative period where the contribution impact would be immaterial are not adjusted.

In addition, the following reconciliations are made in this note:

- Statutory revenue per segment reconciled to the statutory profit for the year as per the income statement.
- Statutory operating profit reconciled to underlying operating profit per segment (detailing the adjustments made).

Non-GAAP measures should not be viewed in isolation, nor are considered as a substitute for measures reported in accordance with IFRS.

Notes to the consolidated financial statements continued

2 Segment information continued

Accounting policy

In accordance with IFRS 8 “Operating Segments”, information for the Group’s operating segments has been derived using the information used by the chief operating decision maker. The Group’s Executive Leadership Team (ELT) has been identified as the chief operating decision maker, in accordance with its designated responsibility for the allocation of resources to operating segments and assessing their performance, through the Management Performance Reviews. The ELT uses organic and underlying data to monitor business performance. Operating segments are reported in a manner which is consistent with the operating segments produced for internal management reporting.

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

- North America
- UK & Ireland
- 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 Africa & APAC. They include the Group’s operations in South Africa, the Middle East, Australia, Singapore, and Malaysia.

In previous years, the UK & Ireland reportable segment was presented as Northern Europe, the Europe reportable segment was presented as International—Central and Southern Europe, and the Africa & APAC segment was presented as International—Africa & APAC.

The reportable segment 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 customers are in countries within the EU.

Segment reporting

The tables overleaf show a segmental analysis of the results for continuing operations.

The revenue analysis in the table overleaf is based on the location of the customer, which is not materially different from the location where the order is received and where the assets are located.

Revenue categories are defined in note 3.1.

2.1 Revenue by segment

	Year ended 30 September 2023					Change		
	Underlying		Organic		Organic	Statutory	Underlying	Organic
	Statutory	adjustments	Underlying	adjustments*				
	£m	£m	£m	£m	£m			
Recurring revenue by segment								
North America	944	–	944	(1)	943	20%	16%	15%
UK & Ireland	466	–	466	–	466	9%	9%	8%
Europe	541	–	541	–	541	10%	7%	8%
Africa & APAC	145	–	145	–	145	4%	13%	13%
Recurring revenue	2,096	–	2,096	(1)	2,095	14%	12%	11%
Other revenue by segment								
North America	29	–	29	–	29	(11%)	(14%)	(15%)
UK & Ireland	5	–	5	(1)	4	(20%)	(20%)	(39%)
Europe	43	–	43	–	43	(19%)	(21%)	(21%)
Africa & APAC	11	–	11	–	11	(17%)	(12%)	2%
Other revenue	88	–	88	(1)	87	(16%)	(18%)	(18%)
Total revenue by segment								
North America	973	–	973	(1)	972	19%	15%	14%
UK & Ireland	471	–	471	(1)	470	9%	8%	7%
Europe	584	–	584	–	584	7%	5%	5%
Africa & APAC	156	–	156	–	156	2%	11%	12%
Total revenue	2,184	–	2,184	(2)	2,182	12%	10%	10%

	Year ended 30 September 2023					Change		
	Underlying		Organic		Organic	Statutory	Underlying	Organic
	Statutory	adjustments	Underlying	adjustments*				
	£m	£m	£m	£m	£m			
Total recurring revenue by type								
Software Subscription Revenue	1,732	–	1,732	(1)	1,731	19%	17%	16%
Other Recurring Revenue	364	–	364	–	364	(4%)	(7%)	(7%)
Recurring revenue	2,096	–	2,096	(1)	2,095	14%	12%	11%
Other revenue	88	–	88	(1)	87	(16%)	(18%)	(18%)
Total revenue	2,184	–	2,184	(2)	2,182	12%	10%	10%

Notes:

* Adjustments relate to the acquisitions of Spherics and Corecon (see note 16).

Notes to the consolidated financial statements continued

2 Segment information continued

2.1 Revenue by segment continued

	Year ended 30 September 2022						
	Statutory £m	Underlying adjustments* £m	Underlying as reported £m	Impact of foreign exchange £m	Underlying £m	Organic Adjustments** £m	Organic £m
Recurring revenue by segment							
North America	786	1	787	28	815	6	821
UK & Ireland	427	1	428	1	429	5	434
Europe	490	–	490	13	503	(4)	499
Africa & APAC	140	–	140	(12)	128	–	128
Recurring revenue	1,843	2	1,845	30	1,875	7	1,882
Other revenue by segment							
North America	32	–	32	2	34	–	34
UK & Ireland	6	–	6	–	6	–	6
Europe	53	–	53	2	55	(1)	54
Africa & APAC	13	–	13	(1)	12	(2)	10
Other revenue	104	–	104	3	107	(3)	104
Total revenue by segment							
North America	818	1	819	30	849	6	855
UK & Ireland	433	1	434	1	435	5	440
Europe	543	–	543	15	558	(5)	553
Africa & APAC	153	–	153	(13)	140	(2)	138
Total revenue	1,947	2	1,949	33	1,982	4	1,986

	Year ended 30 September 2022						
	Statutory £m	Underlying adjustments* £m	Underlying as reported £m	Impact of foreign exchange £m	Underlying £m	Organic Adjustments** £m	Organic £m
Total recurring revenue by type							
Software Subscription Revenue	1,462	2	1,464	20	1,484	8	1,492
Other Recurring Revenue	381	–	381	10	391	(1)	390
Recurring revenue	1,843	2	1,845	30	1,875	7	1,882
Other revenue	104	–	104	3	107	(3)	104
Total revenue	1,947	2	1,949	33	1,982	4	1,986

Notes:

* Adjustments between statutory and underlying numbers are detailed in note 3.6.

** Adjustments relate to the acquisition of Brightpearl, Lockstep and Futrli, and disposal of the Group's Swiss business and its payroll outsourcing business in South Africa in the prior year.

2.2 Operating profit by segment

	Year ended 30 September 2023					Change		
	Statutory £m	Underlying adjustments £m	Underlying £m	Organic adjustments £m	Organic £m	Statutory	Underlying	Organic
Operating profit by segment								
North America	127	71	198	–	198	9%	30%	36%
UK & Ireland	59	55	114	1	115	2%	6%	14%
Europe	108	10	118	–	118	(29%)	25%	26%
Africa & APAC	21	5	26	–	26	(49%)	(21%)	(21%)
Total operating profit	315	141	456	1	457	(14%)	18%	22%

	Year ended 30 September 2022						
	Statutory £m	Underlying adjustments £m	Underlying as reported £m	Impact of foreign exchange £m	Underlying £m	Organic adjustments £m	Organic £m
Operating profit by segment							
North America	116	30	146	6	152	(6)	146
UK & Ireland	58	47	105	1	106	(5)	101
Europe	152	(61)	91	4	95	–	95
Africa & APAC	41	(6)	35	(2)	33	(1)	32
Total operating profit	367	10	377	9	386	(12)	374

The results by segment from continuing operations were as follows:

	Note	North America £m	UK & Ireland £m	Europe £m	Total reportable segments £m	Africa & APAC £m	Group £m
Year ended 30 September 2023							
Revenue		973	471	584	2,028	156	2,184
Segment statutory operating profit		127	59	108	294	21	315
Finance income	3.5						12
Finance costs	3.5						(45)
Profit before income tax							282
Income tax expense	4						(71)
Profit for the year							211

Notes to the consolidated financial statements continued

2 Segment information continued

2.2 Operating profit by segment continued

Reconciliation of underlying operating profit to statutory operating profit:

	North America	UK & Ireland	Europe	Total reportable segments	Africa & APAC	Group
Year ended 30 September 2023	£m	£m	£m	£m	£m	£m
Underlying operating profit	198	114	118	430	26	456
Amortisation of acquired intangible assets (note 3.6)	(26)	(23)	(3)	(52)	(2)	(54)
Other acquisition-related items (note 3.6)	(19)	(26)	(1)	(46)	(3)	(49)
Non-recurring items (note 3.6)	(26)	(6)	(6)	(38)	–	(38)
Statutory operating profit	127	59	108	294	21	315

The results by segment from continuing operations were as follows:

		North America	UK & Ireland	Europe	Total reportable segments	Africa & APAC	Group
Year ended 30 September 2022	Note	£m	£m	£m	£m	£m	£m
Revenue		818	433	543	1,794	153	1,947
Segment statutory operating profit		116	58	152	326	41	367
Finance income	3.5						1
Finance costs	3.5						(31)
Profit before income tax							337
Income tax expense	4						(77)
Profit for the year							260

Reconciliation of underlying operating profit to statutory operating profit:

	North America	UK & Ireland	Europe	Total reportable segments	Africa & APAC	Group
Year ended 30 September 2022	£m	£m	£m	£m	£m	£m
Underlying operating profit	146	105	91	342	35	377
Amortisation of acquired intangible assets (note 3.6)	(21)	(18)	(3)	(42)	–	(42)
Adjustment to acquired deferred income (note 3.6)	(1)	(1)	–	(2)	–	(2)
Other acquisition-related items (note 3.6)	(9)	(29)	(1)	(39)	–	(39)
Non-recurring items (note 3.6)	1	1	65	67	6	73
Statutory operating profit	116	58	152	326	41	367

Impairment losses of £22m (2022: £nil) reported by the Group, and included as a non-recurring item, relate to the impairment of assets arising from the property restructuring programme. See note 3.6.

2.3 Analysis by geographic location

Management considers countries which generate 10% or more of total Group revenue to be material. Additional disclosures have been provided below to show the proportion of revenue from these countries.

	2023	2022
	£m	£m
Revenue by individually significant countries		
USA	846	702
UK	443	409
France	295	273
Other individually immaterial countries	600	563
	2,184	1,947

Management considers countries which contribute 10% or more to total Group non-current assets to be material. Additional disclosures have been provided below to show the proportion of non-current assets from these countries.

Non-current assets presented below exclude deferred tax assets and financial instruments.

	2023	2022
	£m	Restated* £m
Non-current assets by geographical location		
USA	1,657	1,848
UK	566	588
France	264	265
Other individually immaterial countries	270	286
	2,757	2,987

Notes:

* Restated for finalisation of the fair value assets acquired and liabilities assumed in the acquisition of Lockstep (see notes 1 and 16.1).

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.

Notes to the consolidated financial statements continued

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	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	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. Included within subscription revenue are transaction and agent fees for transactions that customers of our software execute through our digital network, some of which is billed on a consumption basis.
Other recurring revenue	Other recurring revenue primarily comprises maintenance and support revenue provided over a contractual term. In the event that the customer stops paying, they lose access to technical product support as well as any non-specified updates, upgrades and enhancements.
	Subscription revenue and other recurring 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. Digital network transaction and agent fees, to the extent billed on a consumption basis, are recognised as the services are utilised.
Other revenue	Revenue relating to perpetual software licences with significant standalone functionality and upgrades to such licenses is recognised when the control relating to the licence has been transferred, which is typically when electronic delivery has taken place.
<i>Software and software-related services</i>	
• Perpetual software licences	Professional services and training revenue is usually 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.
• Upgrades to perpetual licences	
• Professional services	
• Training	

Identification of performance obligations

When the Group enters into an agreement with a customer, goods and services deliverable under the contract are identified as separate performance obligations ("obligations") to the extent that the customer can benefit from the goods or services on their own and that the separate goods and services are considered distinct from other goods and services in the agreement. Where individual goods and services do not meet the criteria to be identified as separate obligations they are aggregated with other goods and/or services in the agreement until a separate obligation is identified.

Typically, the products and services outlined in the categories of revenue section qualify as separate performance obligations and the portion of the contractual fee allocated (or allocated based on the standalone selling prices) to them is recognised separately. However, certain on-premise subscription contracts, which combine the delivery of on-premise software and maintenance and support services, require unbundling. Sage cloud native services do not require unbundling as the terms do not provide the customer with a right to terminate the hosting contract and take possession of the software.

Determination of transaction price and standalone selling prices

The Group determines the transaction price it is entitled to in return for providing the promised obligations to the customer based on the committed contractual amounts, net of sales taxes and discounts. Contract terms generally are monthly or annual, and customers either pay up-front or over the term of the related service agreement.

The transaction price is allocated between the identified obligations according to the relative standalone selling prices (SSPs) of the obligations. The SSP of each obligation deliverable in the contract is determined according to the prices that the Group would obtain by selling the same goods and/or services included in the obligation to a similar customer on a standalone basis. The Group has established a hierarchy to identify the SSPs that are used to allocate the transaction price of a customer contract to the performance obligations in the contract. Where SSPs for on-premise offerings are observable and consistent across the customer base, SSP estimates are derived from pricing history. Where there are no directly observable estimates available, comparable products are utilised as a basis of assessment or the residual approach is used. Under the residual approach, the SSP for the offering is estimated to be the total transaction price less the sum of the observable SSPs of other goods or services in the contract.

Timing of recognition

Revenue is recognised when the respective obligations in the contract are delivered to the customer and payment remains probable.

- Licences for standard on-premise software products are typically delivered by providing the customer with access to download the software. The licence period starts when such access is granted. Licence revenue is recognised at a point in time or over time depending on whether the Group delivers software with significant standalone functionality or software which is dependent on updates for ongoing functionality. The Group recognises revenue for these licences which have significant standalone functionality at the point in time when the customer has access to and control over the software. For licences which are dependent on updates for ongoing functionality, the Group recognises revenue based on time elapsed and thus rateably over the term of the contract. Typically, this includes our payroll and tax compliance software.
- Where the Group's performance obligation is the grant of a right to continuously access a cloud offering for a certain term, revenue is recognised based on time elapsed and thus rateably over the term.
- Maintenance and support revenue is typically recognised based on time elapsed and thus rateably over the term of the support arrangement. Under the standardised maintenance and support services, the Group's performance obligation is to stand ready to provide technical product support and unspecified updates, upgrades, and enhancements on a when-and-if-available basis. The customers simultaneously receive and consume the benefits of these services.
- Professional services and classroom training revenue are typically recognised as they are delivered. 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 (including digital network transaction and agent fees) are recognised as the services are provided.

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 criterion 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.

Notes to the consolidated financial statements continued

3 Profit before income tax continued

3.1 Revenue continued

Principal versus agent considerations

When the Group has control of third-party goods or services prior to delivery to a customer, then the Group is the principal in the sale to the customer. As a principal, receipts from customers and payments to suppliers are reported on a gross basis in revenue and cost of sales. If the Group does not have control of third-party goods or services prior to transfer to a customer, then the Group is acting as an agent for the other party and revenue in respect of the relevant obligations is recognised net of any related payments to the supplier and reported revenue represents the margin earned by the Group. Whether the Group is considered to be the principal or an agent in the transaction depends on analysis by management of both the legal form and substance of the agreement between the Group and its supplier. This takes into account whether Sage bears the price, inventory, and performance risks associated with the transaction.

Practical expedients

As the majority of contracts have a term of one year or less, the Group has applied the following practical expedients:

- The aggregate transaction price allocated to the unsatisfied or partially unsatisfied performance obligations at the end of the reporting period is not disclosed.
- Any financing component is not considered when determining the transaction price.

3.2 Operating profit

Accounting policy

Cost of sales includes items such as third-party royalties, hosting costs, transaction, and credit card fees related to the provision of payment processing services and the cost of hardware and inventories. These also include the third-party costs of providing training and professional services to customers. All other operating expenses incurred in the ordinary course of business are recorded in selling and administrative expenses.

The following items have been included in arriving at operating profit from continuing operations	Note	2023 £m	2022 £m
Staff costs		1,048	905
Depreciation of property, plant and equipment	7	39	41
Impairment of property, plant and equipment	3.6, 7	22	–
Amortisation of intangible assets	6.2	69	56
Customer acquisition amortisation expense	9.1	147	123
Gain on disposal of subsidiaries	3.6	–	(53)
Other M&A activity-related items	3.6	49	39

The Group incurred £342m (2022: £302m) of research and development expenditure in the year, of which £295m (2022: £257m) relates to total Group staff costs included above. See note 6.2 for the research and development accounting policy.

Services provided by the Group's auditor and network firms

During the year, the Group obtained the following services from the Group's auditor at costs as detailed below:

	2023 £m	2022 £m
Fees payable to the Group's auditor for the audit of the Company and the consolidated accounts	3	2
Fees payable to the Group's auditor for the audit of the Company's subsidiaries	3	3
Total fees	6	5

Fees payable to the Group's auditor for audit-related assurance services (including costs relating to the half year review) and other non-audit services were £nil (2022: £nil).

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 pages 126 and 127.

3.3 Employees and Directors

	2023 number	2022 number
Average monthly number of people employed (including Directors)		
By segment:		
North America	2,823	2,640
UK & Ireland	3,998	3,686
Europe	3,490	3,715
Africa & APAC	1,254	1,187
	11,565	11,228

	Note	2023 £m	2022 £m
Staff costs (including Directors on service contracts)			
Wages and salaries		922	802
Social security costs		119	102
Post-employment benefits	11	30	24
Share-based payments	15.2	49	36
		1,120	964

Staff costs include a total of £72m of capitalised commission costs which are amortised over the expected contract life including probable contract renewals (2022: £59m), see note 9.1.

	2023 £m	2022 £m
Key management compensation		
Salaries and short-term employee benefits	10	10
Share-based payments	7	5
	17	15

Key management personnel are deemed to be members of the Group's Executive Leadership Team and the Non-executive Directors as shown on pages 88 to 91.

Notes to the consolidated financial statements continued

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	2023 £m	2022 £m
At 1 October		95	100
• Additions		15	6
• Disposals		(1)	–
• Interest charge in the year		3	3
• Payment of lease liabilities		(21)	(22)
• Exchange movement		(5)	8
At 30 September		86	95
Presented as			
Borrowings—current	13.4	14	17
Borrowings—non-current	13.4	72	78

The maturity analysis of lease liabilities is included in note 13.2.

Amounts recognised in profit and loss for leases are as follows:

	Note	2023 £m	2022 £m
Depreciation of right-of-use assets		19	19
Impairment of right-of-use assets		19	–
Interest expense charge on lease liabilities	3.5	3	3
Lease expense from short-term leases and leases of low-value assets (included in selling and administrative expenses)		5	4
		46	26

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 (2022: £26m). Cash flows in relation to short-term leases and leases of low value assets are reported as part of cash flows from operating activities.

Impairment of right-of-use assets of £19m (2022: £nil) relates to the property restructuring costs incurred in the year, with an additional £3m (2022: £nil) of impairment costs incurred for other related fixed assets (see note 3.6).

The Group is exposed to potential future increases in variable lease payments that are based on an index or rate, which are initially measured as at the commencement date, with any future changes in the index or rate excluded from the lease liability until they take effect. If adjustments to lease payments based on an index or rate take effect, the lease liability will be reassessed and adjusted against the right-of-use asset.

Notes to the consolidated financial statements continued

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, within finance income and costs, unless they are designated as a hedging instrument.

Where derivative financial instruments have been designated as hedging instruments in a cash flow hedge, and the hedging relationship is effective, gains and losses on those instruments are accumulated in the cash flow hedge reserve. The amount accumulated in the hedging reserve is reclassified to finance income or costs in the same period or periods during which the expected future cash flows affect the profit or loss. Any ineffective portion of changes in the fair value of the derivative financial instrument is recognised immediately in finance income or costs.

Where derivative financial instruments have been designated as hedging instruments in a net investment hedge, gains or losses on those instruments are recognised in finance income and costs only to the extent the hedging relationship is ineffective. Where the hedging relationship is effective, gains or losses are accumulated in the foreign currency translation reserve.

Foreign currency movements on intercompany balances are recognised in the profit and loss account unless settlement is not planned or likely in the foreseeable future, in which case they are recognised in other comprehensive income.

	2023 £m	2022 £m
Finance income:		
Interest income on short-term deposits	12	1
Finance income	12	1
Finance costs:		
Finance costs on bond notes	(31)	(13)
Finance costs on US senior loan notes	(6)	(13)
Finance costs on bank borrowings	(4)	(1)
Interest charge on lease liabilities	(3)	(3)
Amortisation of issue costs	(1)	(1)
Finance costs	(45)	(31)
Finance costs—net	(33)	(30)

3.6 Adjustments between underlying and statutory results

Accounting policy

The business is managed and measured on a day-to-day basis using underlying results. To arrive at underlying results, certain adjustments are made for items that are individually important (due to their size, nature, or frequency).

Management applies judgement in determining which items should be excluded from underlying performance.

Recurring items

These are items which occur regularly, but the exclusion of which management considers necessary to aid understanding of the underlying results of the Group. These items mainly relate to merger and acquisition (M&A) related activity. By its nature, M&A activity is variable in its impact but is likely to include amortisation of acquired intangible assets, adjustments to acquired deferred income and acquisition and disposal-related costs, including integration costs relating to an acquired business and acquisition-related remuneration (which are typically incurred over a period of one year or more). Unhedged foreign currency movements on intercompany balances that are charged through the income statement are excluded from underlying results, so that exchange rate impacts do not affect comparisons. Recurring items are adjusted each year irrespective of materiality to ensure consistent treatment.

Non-recurring items

These are items which are non-recurring and are adjusted on the basis of either their size or their nature. These items can include, but are not restricted to, gains and losses on the disposal of assets, impairment charges and reversals, and restructuring-related costs. Whilst these items are described as non-recurring, similar costs, for example in relation to different restructuring programmes or impairments of other assets, may arise in future periods. As these items are one-off or non-operational in nature, management considers that their exclusion aids understanding of the Group's underlying business performance.

	Recurring 2023 £m	Non- recurring 2023 £m	Total 2023 £m	Recurring 2022 £m	Non- recurring 2022 £m	Total 2022 £m
M&A activity-related items						
Amortisation of acquired intangibles	54	–	54	42	–	42
Gain on disposal of subsidiaries	–	–	–	–	(53)	(53)
Adjustment to acquired deferred income	–	–	–	2	–	2
Other M&A activity-related items	49	–	49	39	–	39
Other items						
Property restructuring costs	–	32	32	–	–	–
Employee-related costs	–	9	9	–	–	–
Reversal of restructuring costs	–	(3)	(3)	–	(20)	(20)
Total adjustments made to operating profit	103	38	141	83	(73)	10
Foreign currency movements on intercompany balances	1	–	1	(1)	–	(1)
Total adjustments made to profit before income tax	104	38	142	82	(73)	9

Notes to the consolidated financial statements continued

3 Profit before income tax continued

3.6 Adjustments between underlying and statutory results continued

Recurring items

Acquired intangibles are assets which have previously been recognised as part of business combinations or similar transactions. These assets are predominantly customer relationships and technology rights. Further details including specific accounting policies in relation to these assets can be found in note 6.2.

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

Other M&A activity-related items relate to advisory, legal, accounting, valuation, and other professional or consulting services which are related to M&A activity as well as acquisition-related remuneration and directly attributable integration costs. £18m (2022: £14m) of these costs have been paid in the year, while the remainder is expected to be paid in subsequent financial years.

Foreign currency movements on intercompany balances occur due to retranslation of unhedged intercompany balances other than those where settlement is not planned or likely in the foreseeable future and resulted in a loss of £1m (2022: gain £1m).

Non-recurring items

Net charges in respect of non-recurring items amounted to £38m (2022: net credit £73m).

Property restructuring costs relate to the reorganisation of a number of leased properties following a strategic review of the Group's property portfolio, as a result of which certain of the Group's properties were either exited or downsized as part of a consolidated plan. Costs of £32m consist of impairment of £22m of right-of-use assets and other related fixed assets that are no longer in use and therefore fully impaired, as well as a provision of £10m for directly attributable future running costs associated with the properties. The programme was fully completed in the current year, with no further costs expected to be incurred in the following year.

Employee-related costs of £9m (2022: £nil) relate to a charge for French payroll taxes relating to previous years.

The gain on disposal of subsidiaries in the prior year of £53m relates to the disposal of the Group's Swiss business (£49m) and the Group's payroll outsourcing business in South Africa (£4m).

Reversal of restructuring costs of £3m (2022: £20m) largely relates to unutilised provisions recognised in the year ended 30 September 2021 following the implementation of a business transformation plan. In the prior year, this largely resulted from fewer colleagues leaving the business as they were redeployed into other roles.

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).

	Note	2023 £m	2022 £m
Analysis of expense in the year			
Current income tax			
Current tax on profit for the year		106	76
Adjustment in respect of prior years		(5)	(7)
Current income tax		101	69
Deferred tax			
Origination and reversal of temporary differences		(33)	3
Adjustment in respect of prior years		3	5
Deferred tax	12	(30)	8
The current year tax expense is split into the following:			
Underlying tax expense		95	83
Tax credit on adjustments between the underlying and statutory operating profit		(24)	(6)
Income tax expense reported in income statement		71	77

A deferred tax benefit of £6m relating to employee benefits has been recognised directly in other comprehensive income (2022: charge £2m). A current tax benefit of £6m relating to foreign currency derivatives and share options was recognised directly in other comprehensive income in 2022.

Notes to the consolidated financial statements continued

4 Income tax expense continued

The effective tax rate for the year is higher (2022: higher) than the rate of UK corporation tax applicable to the Group of 22% (2022: 19%). The differences are explained below:

	2023 £m	2022 £m
Profit before income tax	282	337
Statutory profit before income tax multiplied by the rate of UK corporation tax of 22% (2022: 19%)	62	64
Tax effects of:		
Adjustments in respect of prior years	(2)	(2)
Foreign tax rates in excess of UK rate of tax	10	19
US tax reform	(5)	1
Non-deductible expenses and permanent items	12	8
Other corporate taxes (withholding tax, business tax)	6	8
Tax incentive claims	(16)	(12)
Corporate restructuring	4	–
Non-taxable gain on disposal	–	(9)
At the effective income tax rate of 25% (2022: 23%)	71	77
Income tax expense reported in the income statement	71	77

The underlying effective tax rate for the year is higher (2022: higher) than the rate of UK corporation tax applicable to the Group of 22% (2022: 19%). The differences are explained below:

	2023 £m	2022 £m
Underlying profit before income tax	424	346
Underlying profit before income tax multiplied by the rate of UK corporation tax of 22% (2022: 19%)	93	66
Tax effects of:		
Adjustments in respect of prior years	(3)	(2)
Foreign tax rates in excess of UK rate of tax	13	19
US tax reform	(5)	1
Non-deductible expenses and permanent items	7	3
Other corporate taxes (withholding tax, business tax)	6	8
Tax incentive claims	(16)	(12)
At the effective income tax rate of 23% (2022: 24%)	95	83
Underlying tax expense	95	83

The effective tax rate on statutory profit before tax was 25% (2022: 23%), whilst the effective tax rate on underlying profit before tax on continuing operations was 23% (2022: 24%).

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 reduced in the year, principally due to the benefit of increased tax incentive claims in the US, UK, and France, which were partly offset by the impact of an increase in the UK corporate tax rate.

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 £31m at 30 September 2023 (2022: £24m). The provision increased in the year principally due to developments in the Group's tax audits.

The tax provision is sensitive to a number of issues which are not always within the control of the Group and are often dependent on the efficiency of the legal processes in the relevant taxing jurisdictions in which the Group operates. Issues can take many years to resolve and assumptions on the likely outcome have therefore been made by management.

Management has applied the principles set out in IFRIC 23 in determining the measurement of uncertain tax positions. In making these estimates, management's judgement was based on various factors including:

- The status of recent and current tax audits and enquiries;
- The results of previous claims; and
- Any changes to the relevant tax environment.

When making this assessment, the Group utilise our specialist in-house tax knowledge and experience of similar situations. These judgements also, where appropriate, take into consideration specialist tax advice provided by third-party advisors.

Management continually assesses the impact of legislative developments in the jurisdictions in which we operate. As the main UK corporation tax rate will increase from 22% to 25% for the year ended 30 September 2024, the Group expects its effective tax rate to increase by 1% in the medium term, depending on our future geographic profit mix. The OECD's two pillar global tax reform will apply to the Group from the financial year ended 30 September 2025. An initial assessment of this legislation has been completed and it is not expected to materially impact the Group's effective tax rate in future periods.

EU State Aid

The Group continues to monitor developments following the EU Commission's decision published on 25 April 2019 that the UK's Controlled Foreign Company regime does not comply with EU State Aid rules in certain circumstances.

On 8 June 2022, the EU General Court dismissed the UK Government's appeal and ruled in favour of the EU. As a result of this decision, management assessed that it was more likely than not that the EU Commission's decision will be upheld. Therefore the £10m advance payment that the Group had made to HMRC in 2021 was treated in the FY22 Annual Report and Accounts as an advance payment in respect of the Group's likely tax liability.

The Group continues to consider its options in relation to this matter, including a position that management consider would eliminate the State Aid exposure whilst ensuring the Group's total exposure remains at £10m.

Notes to the consolidated financial statements continued

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 and held by the Employee Benefit Trust, which are treated as cancelled, until reissued.

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 which 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, where the vesting criteria are achieved at year-end.

Reconciliations of the earnings and weighted average number of shares	Underlying 2023	Underlying as reported* 2022	Underlying 2022	Statutory 2023	Statutory 2022
Earnings attributable to owners of the parent** (£m)					
Profit for the year	329	263	269	211	260
Number of shares (millions)					
Weighted average number of shares	1,020	1,020	1,020	1,020	1,020
Dilutive effects of shares	16	12	12	16	12
	1,036	1,032	1,032	1,036	1,032
Earnings per share attributable to owners of the parent** (pence)					
Basic earnings per share	32.25	25.74	26.39	20.75	25.47
Diluted earnings per share	31.75	25.44	26.08	20.43	25.17

Note:

* Underlying as reported is at 2022 reported exchange rates.

** All operations in the years relate to continuing operations.

	2023	2022
	£m	£m
Reconciliation of earnings		
Statutory profit for the year attributable to owners of the parent	211	260
Adjustments:		
• Amortisation of acquired intangible assets	54	42
• Other M&A activity-related items	49	39
• Adjustment to acquired deferred income	–	2
• Property restructuring costs	32	–
• Employee-related costs	9	–
• Reversal of restructuring costs	(3)	(20)
• Gain on disposal of subsidiaries	–	(53)
• Foreign currency movements on intercompany balances	1	(1)
• Taxation on adjustments between underlying and statutory profit before tax	(24)	(6)
Net adjustments	118	3
Underlying profit for the year (before exchange movement)	329	263
Exchange movement	–	8
Taxation on exchange movement	–	(2)
Net exchange movement	–	6
Underlying profit for the year (after exchange movement) attributable to owners of the parent	329	269

Exchange movement relates to the retranslation of prior year results to current year exchange rates, as shown in the table on page 67 within the Financial Review.

Notes to the consolidated financial statements continued

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 cash generating unit ("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	2023 £m	2022 Restated* £m
Cost and net book amount at 1 October		2,391	1,877
Acquisition of subsidiaries	16.1	11	230
Exchange movement		(157)	284
Cost and net book amount at 30 September		2,245	2,391

Note:

* Restated for finalisation of the fair value assets acquired and liabilities assumed in the acquisition of Lockstep (see notes 1 and 16.1).

There were no accumulated impairment charges within goodwill for any of the years presented.

Cash-generating units

The following table shows the allocation of the carrying value of goodwill at the end of the reporting period by CGU or group of CGUs:

	2023 £m	2022 Restated* £m
North America	1,462	1,600
UK & Ireland	354	352
France	219	222
Iberia	131	133
Central Europe	55	56
Africa and the Middle East	24	28
	2,245	2,391

Note:

- * Restated for finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Lockstep (see notes 1 and 16.1) and allocation of previously unallocated goodwill to the North America CGU (£25m), with the remainder allocated to other intangible assets and deferred tax liabilities (see note 16.1).

Annual goodwill impairment tests

The recoverable amount of a CGU or group of CGUs is determined as the higher of its fair value less costs of disposal and its value in use. In determining value in use, estimated future cash flows over a three-year period are discounted to their present value, with a terminal value based on the cash flows in the third year and an assumed long-term growth rate. The Group performed its annual test for impairment as at 30 June 2023. In all cases, the financial forecasts contained in the Group's three-year financial plan form the basis for the cash flow projections for a CGU or a group of CGUs, which is aligned with the Group's three-year strategic planning horizon.

Net operating cash flows over the three-year plan period reflect the Group's current assessment of climate change for each CGU or group of CGUs. This includes the potential impact on both revenue and cost, including the cost of any associated commitments made by the Group, which at this stage are not material. Consideration has also been given to the potential longer-term impacts which are reflected in the long-term growth rates since they are based on independently sourced longer-term growth rates of gross domestic product (GDP). Reasonably possible changes in the long-term growth rates, considering the potential impact of climate change, do not materially impact the impairment test.

The key assumptions in the value in use calculations include the discount rate, 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 the Group's three-year plan and reflects 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 GDP of the country in which the CGU's operations are primarily undertaken, reflecting the specific rates for each territory.

Average medium-term operating margins are equal to the expected operating margin across the three-year plan period. The operating margins over the three-year plan period are based on historical margins specific to each CGUs with modest improvements from expected efficiencies in scaling the business.

Range of rates used across the different CGUs	2023	2022
Average medium-term revenue growth rates*	9%–18%	8%–17%
Long-term growth rates to net operating cash flows	1%–3%	1%–3%

Note:

- * Current year average medium-term revenue growth is based on three (2022: three) year compound annual revenue growth and excludes intercompany revenue.

Notes to the consolidated financial statements continued

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 10% or more 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:

	Local discount rate (post-tax)	Approximate local discount rate (pre-tax) equivalent	Long-term growth rate	Average medium-term revenue growth rate*
2023				
UK & Ireland	8.9%	11.9%	1.2%	12.4%
France	8.7%	11.6%	1.2%	9.0%
North America	9.4%	12.5%	1.4%	18.1%
	Local discount rate (post-tax)	Approximate local discount rate (pre-tax) equivalent	Long-term growth rate	Average medium-term revenue growth rate*
2022				
UK & Ireland	7.8%	10.4%	1.2%	11.4%
France	7.8%	10.4%	1.3%	7.8%
North America	8.7%	11.7%	1.4%	16.5%

Note:

* Current year average medium-term revenue growth is based on three (2022: three) year compound annual revenue growth and excludes intercompany revenue.

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 bond yields and specific tax rates to each CGU or group of CGUs. 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 2023 and the risks specific to the CGU or group of CGUs, through the inclusion of a country risk premium. As the net operating cash flows for each CGU or group of CGUs include the expected impact of inflation, a nominal post-tax discount rate is used.

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 8.2% (2022: 7.0%) to 17.9% (2022: 16.5%), reflecting the specific rates for each territory.

Sensitivity analysis

A sensitivity analysis was performed for each of the significant CGUs or groups of CGUs and 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 exceeding its recoverable amount. Sensitivity testing assumed a reasonably possible reduction in both average medium-term revenue growth rates and average medium-term operating margins, as well as an increase in the discount rate.

Impairment charge

No impairment charge was recognised in the year (2022: £nil).

The Group performed its annual test for impairment for all CGUs as at 30 June 2023. 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.

Notes to the consolidated financial statements continued

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 2022 restated*	35	328	3	177	228	771
Additions	–	–	–	17	–	17
Acquisition of subsidiaries	–	14	–	–	1	15
Disposals	–	–	–	(2)	–	(2)
Exchange movement	(1)	(9)	–	(8)	(13)	(31)
At 30 September 2023	34	333	3	184	216	770
Accumulated amortisation at 1 October 2022	33	166	3	128	121	451
Charge for the year	1	37	–	15	16	69
Disposals	–	–	–	(2)	–	(2)
Exchange movement	(1)	(7)	–	(7)	(7)	(22)
At 30 September 2023	33	196	3	134	130	496
Net book amount at 30 September 2023	1	137	–	50	86	274

	Brands £m	Technology £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
Cost at 1 October 2021	32	195	3	160	164	554
Additions	–	19	–	10	–	29
Acquisition of subsidiaries*	–	98	–	–	38	136
Disposals	–	–	–	(10)	–	(10)
Exchange movement	3	16	–	17	26	62
At 30 September 2022 restated*	35	328	3	177	228	771
Accumulated amortisation at 1 October 2021	30	127	3	109	95	364
Charge for the year	1	27	–	14	14	56
Disposals	–	–	–	(10)	–	(10)
Exchange movement	2	12	–	15	12	41
At 30 September 2022	33	166	3	128	121	451
Net book amount at 30 September 2022 restated*	2	162	–	49	107	320

Note:

* Restated for the finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Lockstep (see notes 1 and 16.1).

All amortisation charges in the year have been charged through selling and administrative expenses. Of these amortisation charges, those relating to acquired intangibles of £54m (primarily Brands, Technology and Customer relationships) has been classified as a recurring adjustment (2022: £42m); 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.

Notes to the consolidated financial statements continued

7 Property, plant and equipment continued

	Land and buildings £m	Plant and equipment £m	Motor vehicles and office equipment £m	Right-of- use assets: Property £m	Right-of- use assets: Vehicles £m	Right-of- use assets: Total £m	Total £m
Cost at 1 October 2022	14	134	31	126	6	132	311
Additions	–	5	–	13	2	15	20
Disposals	–	(9)	(3)	–	(1)	(1)	(13)
Exchange movement	(1)	(6)	(1)	(5)	–	(5)	(13)
At 30 September 2023	13	124	27	134	7	141	305
Accumulated depreciation at 1 October 2022	6	76	24	48	5	53	159
Charge for the year	–	18	2	18	1	19	39
Impairment	–	2	1	19	–	19	22
Disposals	–	(9)	(3)	–	–	–	(12)
Exchange movement	–	(4)	(1)	(2)	–	(2)	(7)
At 30 September 2023	6	83	23	83	6	89	201
Net book amount at 30 September 2023	7	41	4	51	1	52	104

	Land and buildings £m	Plant and equipment £m	Motor vehicles and office equipment £m	Right-of-use assets: Property £m	Right-of-use assets: Vehicles £m	Right-of-use assets: Total £m	Total £m
Cost at 1 October 2021	11	141	46	116	5	121	319
Additions	–	11	1	5	1	6	18
Acquisition of subsidiaries	–	2	–	–	–	–	2
Disposals	–	(27)	(18)	(5)	–	(5)	(50)
Exchange movement	3	7	2	10	–	10	22
At 30 September 2022	14	134	31	126	6	132	311
Accumulated depreciation at 1 October 2021	5	77	37	33	3	36	155
Charge for the year	–	19	3	17	2	19	41
Disposals	–	(27)	(18)	(5)	–	(5)	(50)
Exchange movement	1	7	2	3	–	3	13
At 30 September 2022	6	76	24	48	5	53	159
Net book amount at 30 September 2022	8	58	7	78	1	79	152

All depreciation charges in the years presented have been charged through selling and administrative expenses.

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.

	2023 £m	2022 £m
Fair value at 1 October	4	21
Fair value revaluation	–	30
Derecognition	–	(47)
Fair value at 30 September	4	4

The Group has recognised £nil (2022: £nil) dividend income relating to equity investments held at the balance sheet dates.

The fair value revaluation of £30m in the prior year related to the Group's investment in Brightpearl, which arose on acquisition of the remaining share capital during 2022; the equity investment in Brightpearl of £47m was subsequently derecognised. The gain on revaluation of £30m was recognised in other comprehensive income.

9 Working capital

This note provides the amounts invested by the Group in working capital balances at the end of the financial year. Working capital is made up of trade and other receivables, trade and other payables, and deferred income.

Trade and other receivables are made up of amounts owed to the Group by customers, amounts that we pay to our suppliers in advance, and incremental costs to acquire a contract. Trade receivables are shown net of an allowance for expected credit losses. Our trade and other payables are amounts we owe to our suppliers that have been invoiced to us or accrued by us. They also include amounts due in relation to taxes and social security from 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.

Notes to the consolidated financial statements continued

9 Working capital continued

9.1 Trade and other receivables

Accounting policy

Trade receivables and contract assets

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for expected credit losses.

The Group uses the term "Trade receivables" for contract receivables. These are recognised when the right to consideration is unconditional. Typically, the Group invoices fees for perpetual licences on contract closure and delivery. For performance obligations satisfied over time, judgement is required in determining whether a right to consideration is unconditional. In such situations, a receivable is recognised for the transaction price of the non-cancellable portion of the contract when the Group starts satisfying the performance obligation.

When revenue recognised in respect of a customer contract exceeds amounts received or receivable from the customer a contract asset is recognised.

The carrying amounts of trade receivables and contract assets are reduced by allowances for expected credit losses using the simplified approach under IFRS 9. The Group uses a matrix approach to determine the allowance, with default rates assessed for each country in which the Group operates. The default rates applied are based on the ageing of the receivable, past experience of credit losses, and forward-looking information. An allowance for a receivable's estimated lifetime expected credit losses is first recorded when the receivable is initially recognised, and subsequently adjusted to reflect changes in credit risk until the balance is collected. In the event that management considers that a receivable cannot be collected, the balance is written off.

Incremental costs of obtaining customer contracts

The incremental costs of obtaining customer contracts are capitalised under IFRS 15. Contract acquisition costs primarily consist of sales commissions earned by the Group's sales force and business partners.

Judgement is required in determining the amounts to be capitalised, particularly where the commissions are based on cumulative targets. The Group capitalises such cumulative target commissions for all customer contracts that count towards the cumulative target but only if nothing other than obtaining customer contracts can contribute to achieving the cumulative target.

The capitalised assets are amortised over the period during which the related revenue is recognised, which may extend beyond the initial contract term where the Group expects to benefit from future renewals as a result of incurring the costs. Typically, either the Group does not pay sales commissions for customer contract renewals or such commissions are not commensurate with the commissions paid for new contracts. Consequently, the Group amortises sales commissions paid for new customer contracts on a straight-line basis over the expected contract life including probable contract renewals. Judgement is required in estimating these contract lives. In exercising this judgement, the Group considers respective renewal history adjusted for indications that the renewal history is not fully indicative of future renewals.

The amortisation periods range from one year to eight years depending on the type of commission arrangement. Amortisation of the capitalised costs of obtaining customer contracts is reported within selling and administrative expenses.

	2023 £m	2022 £m
Non-current:		
Customer acquisition costs	133	123
Other receivables	4	4
Prepayments	1	1
	138	128
Current:		
Trade receivables	259	241
Less: allowance for expected credit losses	(10)	(14)
Trade receivables—net	249	227
Other receivables	12	16
Prepayments	66	65
Customer acquisition costs	49	47
	376	355

The Group has incurred £167m (2022: £144m) to obtain customer contracts and an amortisation expense of £147m (2022: £123m) was recognised in operating profit during the year. There were no material contract assets.

	2023 £m	2022 £m
Movements on the Group allowance for expected credit losses of trade receivables were as follows:		
At 1 October	14	22
Increase in allowance for expected credit losses	4	5
Receivables written off during the year as uncollectable	(5)	(4)
Unused amounts reversed	(2)	(9)
Exchange movement	(1)	—
At 30 September	10	14

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.

Notes to the consolidated financial statements continued

9 Working capital continued

9.1 Trade and other receivables continued

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 2023	Not yet due £m	1–30 days overdue £m	31–60 days overdue £m	61–90 days overdue £m	91+ days overdue £m	Total £m
Expected credit loss rate	1%	3%	7%	16%	61%	–
Estimated total gross carrying amount at default	224	14	6	3	12	259
Expected credit loss	(2)	–	–	(1)	(7)	(10)

Trade receivables at 30 September 2022	Not yet due £m	1–30 days overdue £m	31–60 days overdue £m	61–90 days overdue £m	91+ days overdue £m	Total £m
Expected credit loss rate	1%	2%	7%	15%	65%	–
Estimated total gross carrying amount at default	200	15	6	5	15	241
Expected credit loss	(3)	–	–	(1)	(10)	(14)

Included in selling and administrative expenses in the income statement is a debit of £4m (2022: credit of £3m) in relation to receivables credit losses.

The maximum exposure to credit risk at the end of the reporting period is the fair value of each class of receivables mentioned above. The Group held no collateral as security. The carrying value of trade receivables approximate 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.

Current trade and other payables can be analysed as follows:	2023 £m	2022 £m
Trade payables	35	32
Other tax and social security payable	42	44
Other payables	60	44
Accruals	241	248
	378	368

Non-current trade and other payables can be analysed as follows:	2023 £m	2022 £m
Other payables	13	6
	13	6

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 2022 was recognised as revenue during the year. Other than the recognition and unwind of deferred income from the sale of subscription and maintenance and support contracts, 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.

Notes to the consolidated financial statements continued

10 Provisions continued

	Restructuring £m	Legal £m	Building £m	Other £m	Total £m
At 1 October 2022	23	16	13	1	53
• Additional provision in the year	–	11	10	–	21
• Provision utilised in the year	(12)	(2)	(2)	–	(16)
• Unused amount reversed	(4)	(6)	(2)	–	(12)
• Exchange movement	1	–	–	–	1
At 30 September 2023	8	19	19	1	47

	Restructuring £m	Legal £m	Building £m	Other £m	Total £m
Maturity profile					
<1 year	5	16	1	1	23
1–2 years	3	3	4	–	10
2–5 years	–	–	8	–	8
>5 years	–	–	6	–	6
At 30 September 2023	8	19	19	1	47

Restructuring provisions are for the estimated costs of Group restructuring activities and mainly relate to employee severance which remains unpaid at the balance sheet date. These provisions will be utilised as obligations are settled which is currently expected to be within two years. This includes the non-recurring restructuring costs recognised in previous years, of which £10m was utilised in the year, which remain unpaid at the balance sheet date.

Legal provisions have been made in relation to ongoing disputes with third parties and other claims against the Group. The amount and ageing of legal provisions is assessed regularly, based upon internal and external legal advice, as required. This includes the non-recurring employee-related costs, of which there were £9m additions in the year, which remain unpaid at the balance sheet date (see note 3.6). The unused amounts reversed in the year (£6m) relate to a number of different legal claims.

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, of which there were £10m additions in the year, 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 a small defined benefit scheme in France.

For defined contribution schemes, the Group pays contributions into separate funds on behalf of the employee and has no further obligations to employees. The risks associated with this type of plan are assumed by the member. Contributions paid by the Group in respect of the current period are included within the income statement.

The defined benefit scheme is a pension arrangement under which participating members receive a pension benefit at retirement determined by the scheme rules, salary and length of pensionable service. The income statement charge for the defined benefit scheme is the current/past service cost and the net interest cost which is the change in the net defined benefit liability that arises from the passage of time. The Group underwrites both financial and demographic risks associated with this type of plan.

Accounting policy

Obligations under defined contribution schemes are recognised as an operating cost in the income statement as incurred.

The Group also operates a small post-employment benefit scheme in France. The assets of this scheme are held separately from the assets of the Group. Under French legislation, the Group is required to make one-off payments to employees in France who reach retirement age while still in employment. The costs of providing benefits under this scheme are determined using the projected unit credit actuarial valuation method.

The current service cost and gains and losses on settlements and curtailments are included in selling and administrative expenses in the income statement. Past service costs should be recognised on the earlier of the date of the plan amendment and the date the Group recognises restructuring-related costs. Interest on the benefit plan assets and the imputed interest on benefit plan liabilities are included within selling and administrative expenses in the income statement.

Changes in the post-employment benefit obligation due to experience and changes in actuarial assumptions are included in the statement of comprehensive income in full in the period in which they arise.

The liability recognised on the balance sheet in respect of the defined benefit scheme is the present value of the defined benefit obligation and future administration costs at the end of the reporting period, less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximate to the terms of the related benefit obligation liability.

The calculation of the defined benefit obligation of a defined benefit plan requires estimation of future events, for example salary and pension increases, inflation and mortality rates. In the event that future experience does not bear out the estimates made in previous years, an adjustment will be made to the plan's defined benefit obligation in future periods which could have a material effect on the Group.

A sensitivity analysis has been performed on the significant assumptions. The significant assumptions are deemed to be the discount rate and salary increases, as these are most likely to have a material impact on the defined benefit obligations. The analysis has been performed by the independent actuaries.

Notes to the consolidated financial statements continued

11 Post-employment benefits continued

Pension costs included in the consolidated income statement	Note	2023 £m	2022 £m
Defined contribution schemes		29	23
Defined benefit plans		1	1
	3.3	30	24

Defined benefit plans

The most recent actuarial valuations of the post-employment benefit plan has been performed during the year for the year ended 30 September 2023.

Weighted average principal assumptions made by the actuaries	2023 %	2022 %
Rate of increase in pensionable salaries	1.9	1.9
Discount rate	4.1	3.7
Inflation assumption	1.9	1.9

Mortality rate assumptions made by the actuaries	2023 Years	2022 Years
Average life expectancy for 65-year-old male	19	19
Average life expectancy for 65-year-old female	23	23
Average life expectancy for 45-year-old male	36	36
Average life expectancy for 45-year-old female	41	41

Amounts recognised on the balance sheet	2023 £m	2022 £m
Present value of funded obligations	(19)	(19)
Fair value of plan assets	—	—
Net liability recognised on the balance sheet	(19)	(19)

At 30 September 2023 and 30 September 2022 there were no plan assets held in relation to the post-employment benefit plan.

Expected contributions to the post-employment benefit plan for the year ending 30 September 2024 are £1m (2022: expected contributions for the year ended 30 September 2023: £1m).

Amounts recognised in the income statement	2023 £m	2022 £m
Current service cost	(2)	(2)
Others (Curtailements/Plan amendments)	1	1
Total included within staff costs—all within selling and administrative expenses	(1)	(1)

	2023 £m	2022 £m
Changes in the present value of the defined benefit obligation		
At 1 October	(19)	(22)
Exchange movement	1	(1)
Service cost	(2)	(2)
Curtailments/Plan amendments	1	1
Actuarial gain	–	5
At 30 September	(19)	(19)

	2023 £m	2022 £m
Analysis of the movement in the balance sheet liability		
At 1 October	(19)	(22)
Exchange movement	1	(1)
Total expense as recognised in the income statement	(1)	(1)
Actuarial gain*	–	5
At 30 September	(19)	(19)

Note:

* In the current year, an actuarial gain of £nil (2022: £5m) has been recognised, gross of a £nil (2022: £2m) tax charge. The net impact of £nil (2022: £3m) has been recognised within other comprehensive income. See note 4 for the tax impact of the gain in the prior year.

		2023 £m	2022 £m
Sensitivity analysis on significant actuarial assumptions			
Discount rate applied to scheme obligations	+/- 0.75% p.a.	2	1
Salary increases	+/- 0.75% p.a.	2	1

Notes to the consolidated financial statements continued

12 Deferred income tax

Deferred income tax is an accounting adjustment to recognise liabilities or benefits that are expected to arise in the future due to differences in the carrying value of assets and liabilities and their respective tax bases. In this note we outline the accounting policies, movements in the year on the deferred tax account and the net deferred tax asset or liability at the year end.

A deferred tax asset represents a tax reduction that is expected to arise in a future period.

A deferred tax liability represents taxes which will become payable in a future period as a result of a current or previous transaction.

Accounting policy

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

Tax assets and liabilities are offset when there is a legally enforceable right and there is an intention to settle the balances net.

	Other intangible assets (excluding goodwill)	Tax losses	Accounting provisions/ accruals	Goodwill	Deferred revenue	Share options and awards	Capitalised R&D	Other	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Deferred tax									
At 30 September 2021	(24)	7	30	(20)	18	10	2	12	35
Income statement credit/(debit)	7	3	(22)	(1)	(3)	1	9	(2)	(8)
Acquisition or disposal of subsidiaries*	(32)	11	—	—	—	—	—	—	(21)
Other comprehensive income movement	—	—	—	—	—	—	—	(2)	(2)
Exchange movement	(4)	1	—	(3)	—	—	1	3	(2)
At 30 September 2022 restated*	(53)	22	8	(24)	15	11	12	11	2
Income statement credit/(debit)	3	2	2	(1)	4	3	25	(8)	30
Acquisition or disposal of subsidiaries	(3)	—	—	—	—	—	—	—	(3)
Other comprehensive income movement	—	—	—	—	—	6	—	—	6
Exchange movement	8	(1)	—	1	(3)	—	—	(2)	3
At 30 September 2023	(45)	23	10	(24)	16	20	37	1	38

Note:

* Restated for the finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Lockstep (see notes 1 and 16.1).

	2023	2022 Restated*
	£m	£m
The net deferred tax asset at the end of the year is analysed below:		
Deferred tax assets	56	19
Deferred tax liabilities	(18)	(17)
Net deferred tax asset	38	2

Note:

* Restated for the finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Lockstep (see notes 1 and 16.1).

Deferred tax assets have been recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered. Each of these assets are reviewed to ensure there is sufficient evidence to support their recognition. Deferred tax liabilities for the taxable temporary differences associated with the Group's investments in subsidiaries have been appropriately recognised to the extent that it is probable that the temporary differences will reverse in the future. Deferred taxes have been provided for the future tax impact of repatriating the Group's undistributed earnings, which is consistent with the position in 2022.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as required by IAS 12 "Income Taxes") during the year are shown in the above table. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Deferred tax assets and liabilities categorised as "other" in the above table include various balances in relation to the following items:

	2023	2022
	£m	£m
Interest carried forward	–	11
Unremitted earnings	(7)	(5)
Lease liability	10	12
Right-of-use lease assets	(4)	(11)
Other amounts	2	4
	1	11

The Company has unrecognised carried forward losses of £111m (2022: £113m, restated for completion of Lockstep purchase price accounting) available to reduce certain future taxable profits. Deferred tax assets of £26m (2022: £24m) have not been recognised in respect of these losses due to uncertainty regarding whether suitable profits will arise in future periods against which the deferred tax asset would reverse. Of these, £18m (2022: £18m) relate to UK capital losses that are available indefinitely but cannot be used to offset UK trading profit.

Notes to the consolidated financial statements continued

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

	2023 £m	2022 £m
Reconciliation of profit for the year to cash generated from continuing operations		
Profit for the year	211	260
Adjustments for:		
• Income tax	71	77
• Finance income	(12)	(1)
• Finance costs	45	31
• Amortisation of intangible assets	69	56
• Depreciation and impairment of property, plant and equipment	61	41
• R&D tax credits	(3)	(4)
• Share-based payments	49	36
• Gain on disposal of subsidiaries	–	(53)
• Exchange movement	(4)	(1)
Changes in working capital (excluding effects of acquisitions and disposals of subsidiaries):		
• Increase in trade and other receivables	(58)	(50)
• Increase/(decrease) in trade and other payables and provisions	22	(70)
• Increase in deferred income	54	46
Cash generated from continuing operations	505	368

13.2 Net debt

	2023 £m	2022 £m
Reconciliation of net cash flow to movement in net debt		
Cash inflows/(outflows) in the year (pre-exchange movements)	236	(124)
Cash inflows from loans and lease liabilities	(69)	(331)
Change in net debt resulting from cash flows	167	(455)
Cash and lease liabilities recognised from acquisitions of subsidiaries or similar transactions	1	12
Cash and lease liabilities derecognised on disposals of subsidiaries or similar transactions	–	(13)
Other non-cash movements	(15)	(7)
Exchange movement	19	(23)
Movement in net debt in the year	172	(486)
Net debt at 1 October	(733)	(247)
Net debt at 30 September	(561)	(733)

	At 1 October 2022	Cash flow	Acquisition of subsidiaries	Non-cash movements	Exchange movement	At 30 September 2023
Analysis of change in net debt	£m	£m	£m	£m	£m	£m
Cash and cash equivalents	489	236	1	–	(30)	696
<i>Liabilities arising from financing activities</i>						
Loans due within one year	(161)	148	–	–	13	–
Loans due after more than one year	(966)	(235)	–	(1)	31	(1,171)
Lease liabilities due within one year	(17)	18	–	(16)	1	(14)
Lease liabilities after more than one year	(78)	–	–	2	4	(72)
	(1,222)	(69)	–	(15)	49	(1,257)
Total	(733)	167	1	(15)	19	(561)

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

Notes to the consolidated financial statements continued

13 Cash flow and net debt continued

13.3 Cash and cash equivalents (excluding bank overdrafts)

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.

	2023 £m	2022 £m
Cash at bank and in hand	249	377
Short-term bank deposits	447	112
	696	489

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 treasury policy is to place cash and cash equivalents with counterparties which are well-established banks with high credit ratings where available.

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 2023, 99% (2022: 97%) of the cash and cash equivalents balance was deposited with financial institutions rated at least A- by Standard & Poor's.

The Group's maximum exposure to credit risk in relation to cash and cash equivalents is their carrying amount on the balance sheet.

13.4 Borrowings

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.

	2023 £m	2022 £m
Current		
US senior loan notes	–	161
Lease liabilities	14	17
	14	178
	2023 £m	2022 £m
Non-current		
US senior loan notes	–	225
Sterling denominated bond notes	742	741
Euro denominated bond notes	431	–
Lease liabilities	72	78
Unamortised RCF loan costs	(2)	–
	1,243	1,044

In the prior year, included in US senior loan notes above was £386m of unsecured loans (after unamortised issue costs).

In the table above, US senior loan notes, sterling denominated bond notes and euro denominated bond notes ("bond notes") are stated net of unamortised issue and discount costs of £10m (2022: £9m).

Borrowings	Year issued	Interest coupon*	Maturity	2023 £m	2022 £m
Bonds					
• GBP 350m bond notes	2021	1.63%	25-Feb-31	350	350
• GBP 400m bond notes	2022	2.88%	8-Feb-34	400	400
• EUR 500m bond notes	2023	3.82%	15-Feb-28	433	–
US private placement					
• USD 150m loan note	2013	3.71%	20-May-23	–	135
• USD 50m loan note	2013	3.86%	20-May-25	–	45
• EUR 30m loan note	2015	2.07%	26-Jan-23	–	26
• USD 200m loan note	2015	3.73%	26-Jan-25	–	180

Note:

* This does not include the impact of cross currency interest rate swaps entered into in relation to the GBP 350m bond notes and EUR 500m bond notes.

The Group's debt is sourced from sterling and euro denominated bond notes, with a syndicated multi-currency Revolving Credit Facility (RCF) also available.

During the year, the Group issued euro denominated bond notes under its newly established Euro Medium Term Note (EMTN) programme, for a nominal amount of EUR 500m and an expiry date of February 2028. Cash proceeds from the issuance, net of transaction costs, were EUR 498m (£442m).

Bond notes at 30 September 2023 were £1,173m (30 September 2022: £741m), comprised of sterling denominated bond notes £742m (30 September 2022: £741m) and euro denominated bond notes £431m (30 September 2022: £nil).

The Group's RCF was refinanced in December 2022, with facility levels of £630m, and maturity in December 2027, with an extension option for up to two further years subject to specific provisions. In November 2023, after the balance sheet date, a one-year extension was agreed, resulting in a new maturity in December 2028. An extension option for a further year remains available subject to specific provisions. At 30 September 2023, £nil of the RCF was drawn down and associated unamortised costs of £2m had been paid and capitalised.

The previously held RCF was undrawn at 30 September 2022.

Total US senior loan notes at 30 September 2023 were £nil following the repayment of the remaining balance during the current year (30 September 2022: £386m comprising USD 400m and EUR 30m).

Further information on lease liabilities is included in note 3.4.

Notes to the consolidated financial statements continued

14 Financial instruments

This note shows details of the fair value and carrying value of short- and long-term borrowings, trade and other payables, trade and other receivables, derivative financial instruments, equity investments, short-term bank deposits, and cash at bank and in hand. These items are all classified as “financial instruments” under accounting standards. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In order to assist users of these financial statements in making an assessment of any risks relating to financial instruments, this note also sets out the maturity of these items and analyses their sensitivity to changes in key inputs, such as interest rates and foreign exchange rates. An explanation of the Group’s exposure to, and management of, capital, liquidity, credit, interest rate, and foreign currency risk is set out in the financial risk management section at the end of this note.

Accounting policy

Financial assets and financial liabilities are recognised on the Group’s balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the rights to receive cash flows from the asset have expired, or when the Group has transferred those rights and either has also transferred substantially all the risks and rewards of the asset or has neither transferred nor retained substantially all the risks and rewards of the asset but no longer has control of the asset.

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled, or expires.

The Group may use derivative financial instruments to manage its exposures to fluctuating foreign exchange rates and foreign currency cash flows in relation to external borrowings. These instruments are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

At the inception of designated hedge relationships, the Group documents its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

The amounts on the consolidated balance sheet that are accounted for as financial instruments, and their classification under IFRS 9, are as follows:

		IFRS 9 classification				
		At amortised cost £m	Derivatives used for hedging £m	At fair value through profit or loss £m	At fair value through other comprehensive income £m	Total £m
As at 30 September 2023						
Non-current assets						
Equity investments	8	–	–	–	4	4
Trade and other receivables: other receivables	9.1	2	–	2	–	4
Derivative financial instruments—cross currency interest rate swaps		–	1	–	–	1
Current assets						
Trade and other receivables: trade receivables	9.1	249	–	–	–	249
Trade and other receivables: other receivables	9.1	11	–	1	–	12
Cash and cash equivalents	13.3	696	–	–	–	696
Current liabilities						
Trade and other payables excluding other tax and social security	9.2	(336)	–	–	–	(336)
Borrowings	13.4	(14)	–	–	–	(14)
Non-current liabilities						
Borrowings	13.4	(1,243)	–	–	–	(1,243)
Trade and other payables: other payables		(13)	–	–	–	(13)
Derivative financial instruments—cross currency interest rate swaps	14.5	–	(20)	–	–	(20)
		(648)	(19)	3	4	(660)

		IFRS 9 classification				
		At amortised cost £m	Derivatives used for hedging £m	At fair value through profit or loss £m	At fair value through other comprehensive income £m	Total £m
As at 30 September 2022	Note					
Non-current assets						
Equity investments	8	–	–	–	4	4
Trade and other receivables: other receivables	9.1	1	–	3	–	4
Current assets						
Trade and other receivables: trade receivables	9.1	227	–	–	–	227
Trade and other receivables: other receivables	9.1	15	–	1	–	16
Cash and cash equivalents	13.3	489	–	–	–	489
Current liabilities						
Trade and other payables excluding other tax and social security	9.2	(324)	–	–	–	(324)
Borrowings	13.4	(178)	–	–	–	(178)
Non-current liabilities						
Borrowings	13.4	(1,044)	–	–	–	(1,044)
Trade and other payables: other payables		(6)	–	–	–	(6)
Derivative financial instruments—cross currency interest rate swaps	14.5	–	(60)	–	–	(60)
		(820)	(60)	4	4	(872)

Notes to the consolidated financial statements continued

14 Financial instruments continued

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 and euro denominated bond notes are 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 held in the prior year 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 Group does not hold any financial liabilities whose fair value would be considered as a level 3 fair value as defined within IFRS 13.

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

	Note	2023		2022	
		Book value £m	Fair value £m	Book value £m	Fair value £m
Long-term borrowing (excluding lease liabilities)	13.4	(1,171)	(1,014)	(966)	(753)
Short-term borrowing (excluding lease liabilities)	13.4	–	–	(161)	(158)

Contingent consideration receivable

The Group recognises contingent consideration receivable of £3m (2022: £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.

Derivative financial instruments—cross currency interest rate swaps

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

14.2 Maturity of financial liabilities

The maturity profile of the undiscounted contractual amount of the Group's financial liabilities (excluding cross currency interest rate swaps) at 30 September was as follows:

	2023			
	Borrowings: bank loans and bond notes £m	Borrowings: lease liabilities £m	Trade and other payables excluding other tax and social security £m	Total £m
In less than one year	35	15	336	386
In more than one year but not more than five years	562	56	13	631
In more than five years	825	23	–	848
	1,422	94	349	1,865

	2022			
	Borrowings: bank loans, bond notes and loan notes £m	Borrowings: lease liabilities £m	Trade and other payables excluding other tax and social security £m	Total £m
In less than one year	192	20	324	536
In more than one year but not more than five years	325	60	6	391
In more than five years	825	28	–	853
	1,342	108	330	1,780

The maturity profile of the undiscounted contractual amounts of the Group's cross-currency interest rate swaps, including expected interest payments, at 30 September 2023 was as follows:

	2023		
	Receipts £m	Payments £m	Total £m
In less than one year	27	(33)	(6)
In more than one year but not more than five years	640	(668)	(28)
In more than five years	367	(378)	(11)
	1,034	(1,079)	(45)

	2022		
	Receipts £m	Payments £m	Total £m
In less than one year	4	(7)	(3)
In more than one year but not more than five years	23	(37)	(14)
In more than five years	373	(423)	(50)
	400	(467)	(67)

Notes to the consolidated financial statements continued

14 Financial instruments continued

14.3 Borrowing facilities

The Group has the following undrawn committed borrowing facility available at 30 September in respect of which all conditions precedent had been met at that date:

	2023	2022
	£m	£m
Expiring in more than one year but not more than five years	630	781

The facility has been arranged to help finance the expansion of the Group's activities. This facility incurs commitment fees at market rates. In November 2023, after the balance sheet date, a one-year extension was agreed to the facility, resulting in a new maturity in December 2028. One extension option remains available for a further year subject to specific provisions.

14.4 Market risk sensitivity analysis

Financial instruments affected by market risks include borrowings and deposits.

The following analysis is intended to illustrate the sensitivity to changes in market variables, being sterling/US Dollar and sterling/euro exchange rates.

The sensitivity analysis assumes reasonable movements in foreign exchange rates before the effect of tax. Sensitivity to movements in sterling/US Dollar and sterling/Euro exchange rates of 10% are shown, reflecting changes of reasonable proportion in the context of movement in those currency pairs over the last year.

Using the above assumptions, the following table shows the illustrative effect on equity resulting from changes in sterling/US Dollar and sterling/Euro exchange rates:

	2023	2022
	Equity gains/(losses)	Equity gains/(losses)
	£m	£m
10% strengthening of sterling versus the US Dollar	51	62
10% strengthening of sterling versus the Euro	(9)	2
10% weakening of sterling versus the US Dollar	(63)	(75)
10% weakening of sterling versus the Euro	10	(3)

14.5 Hedge accounting

Accounting policy

On transition to IFRS 9, the Group elected to continue to apply the hedge accounting requirements of IAS 39. The Group applies hedge accounting to external borrowings and cross-currency interest rate swap contracts that are designated as a hedge of a net investment in foreign operations. The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation which is determined to be an effective hedge is recognised in other comprehensive income and accumulated in the foreign currency translation reserve. The ineffective portion is recognised immediately in profit or loss. On disposal of the net investment, the foreign exchange gains and losses on the hedging instrument are recycled to the income statement from equity.

Where borrowings denominated in a currency other than sterling, or cross-currency interest rate swap contracts, are used to hedge the Group's exposure to foreign currency exchange movements of its net investment in its subsidiaries, these relationships are designated as net investment hedges for accounting purposes. The hedges are documented and assessed for effectiveness on an ongoing basis.

The Group applies hedge accounting to certain exchange differences arising between the functional currencies of a foreign operation and Parent Company, regardless of whether the net investment is held directly or through an intermediate parent.

The Group applies cash flow hedge accounting to cross-currency interest rate swap contracts that are designated as a hedge of cash flows arising from foreign currency denominated borrowings. The effective portion of changes in the fair value of such a derivative is recognised in other comprehensive income and accumulated in the hedging reserve. The effective portion of changes in fair value of the derivative that is recognised in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge.

Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve are immediately reclassified to profit or loss.

The Group designates the change in fair value of the forward element of forward exchange contracts as the hedging instrument in cash flow hedging relationships. The amount accumulated in the hedging reserve is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

Notes to the consolidated financial statements continued

14 Financial instruments continued

14.5 Hedge accounting continued

Net investment hedges

The Group hedges the risk exposure to foreign currency exchange movements of its net investment in its subsidiaries in the US and Eurozone.

Until repayment of the US senior loan notes during the year, a proportion of the Group's external US Dollar denominated borrowings, and the total of its euro denominated borrowings, were designated as hedging instruments. Subsequent to repayment of the US senior loan notes, a portion of the Groups external euro denominated borrowings, relating to the newly issued EUR 500m bond was designated as hedging instruments.

The underlying risk of the hedging instruments exactly matches the hedged risk as the borrowings and net investments in subsidiaries are denominated in the same currencies, giving a hedge ratio of 1:1. Hedge ineffectiveness will arise if the carrying amount of the net investment falls below the carrying amount of the designated borrowings.

During the year, the Group has designated USD cross-currency interest rate swap contracts totalling £614m (USD 750m) (2022: £350m, USD 429m) as hedging instruments to hedge risk exposure to foreign currency exchange movements of its net investment in its subsidiaries in the US. Sources of ineffectiveness on this hedge relationship will arise from a difference in credit ratings between the counterparties and modifications to the terms of either the hedged item or the instrument. During the year, £nil (2022: £nil) has been recognised in the income statement as ineffective.

Changes in the carrying amount of the loan notes relate to foreign exchange movements recognised through other comprehensive income. The change in the carrying amount of the derivative financial instrument is due to fair value movements also recognised through other comprehensive income.

The impact of the hedging instrument on the consolidated balance sheet is as follows:

			Carrying amount*	Change in carrying amount as a result of movements in the year recognised in OCI
As at 30 September 2023			£m	£m
	Nominal amount			
Non-current borrowings	EUR bond notes	EUR 156m	136	(3)
Derivative financial instruments	Cross-currency interest rate swap	USD 429m	18	(42)
Derivative financial instruments	Cross-currency interest rate swap	USD 321m	(1)	(1)
N/A	USD loan notes**	USD 250m	–	(21)
N/A	USD loan notes**	USD 150m	–	(12)
			153	(79)

Note:

* Liability/(asset) position.

** Repaid during the year (see note 13.4).

			Carrying amount	Change in carrying amount as a result of movements in the year recognised in OCI
As at 30 September 2022			£m	£m
	Nominal amount			
Non-current borrowings	USD loan notes	USD 250m	225	39
Current borrowings	USD loan notes	USD 150m	135	23
Current borrowings	EUR loan notes	EUR 30m	26	1
Derivative financial instruments	Cross-currency interest rate swap	USD 429m	60	60
			446	123

The impact of the hedged item on the consolidated balance sheet is as follows:

	2023		2022	
	Change in value of hedged item used to determine hedge effectiveness	Foreign currency translation reserve	Change in value of hedged item used to determine hedge effectiveness	Foreign currency translation reserve
	£m	£m	£m	£m
Net investment in foreign subsidiaries—USD	(76)	79	122	155
Net investment in foreign subsidiaries—EUR	(3)	1	1	4
	(79)	80	123	159

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.

Cash flow hedges

The Group hedges the risk exposure to foreign currency exchange movements of its foreign currency borrowings.

During the year, the Group issued euro-denominated bond notes for a nominal amount of EUR 500m. With respect to EUR 300m of this balance, the Group has designated cross currency swap contracts (to receive fixed euro and pay fixed sterling) as the hedging instruments in a cash flow hedge relationship to mitigate the risk of changes in the denominated cash flows related to the euro borrowings attributable to changes in the exchange rate, for which hedge accounting has been applied.

The underlying risk of the hedging instruments exactly matches the hedged risk as the hedging instrument and euro borrowings are arranged on the same payment profile, for the same interest rate and nominal amount, giving a hedge ratio of 1:1. Hedge ineffectiveness will arise if the carrying amount of the euro borrowings falls below the amount of the cross currency swap contract, for example on early repayment of the euro borrowings.

Sources of ineffectiveness on this hedge relationship will arise from a difference in credit ratings between the counterparties and modifications to the terms of either hedged item or instrument. At 30 September 2023, £nil (2022: £nil) has been recognized in profit or loss due to ineffectiveness. The hedges are documented and are assessed for effectiveness on an ongoing basis.

Gains and losses recognised in other comprehensive income on currency swap contracts are recognised in profit or loss (within finance costs) in the periods in which the hedged forecast transaction affects profit or loss. A reconciliation of movements in the hedging reserve in relation to the cash flow hedging instrument is provided in note 15.3.

The impact of the hedging instrument on the consolidated balance sheet is as follows:

As at 30 September 2023			Carrying amount*	Change in carrying amount as a result of net movements in the year recognised in OCI	Change in carrying amount as a result of net movements in the year recognised in P&L
Nominal amount			£m	£m	£m
Derivative financial instruments	Cross-currency interest rate swap	EUR 300m	2	(4)	6
			2	(4)	6

Note:

* Liability position.

The Group did not apply any cash flow hedging in the previous year.

Further information on the Group's exposure to foreign currency risk and how the risk is managed is included in note 14.6.

Notes to the consolidated financial statements continued

14 Financial instruments continued

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 its ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders, while maintaining 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; the progressive growth of the dividend; and the return of surplus capital 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.

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's borrowings at 30 September 2023 principally comprise sterling and euro denominated bond notes, which are at fixed interest rates, and a bank RCF, which is subject to floating interest rates. Additionally, the Group is exposed to interest rate risk on floating rate deposits. 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 2023, the Group had £696m (2022: £489m) of cash and cash equivalents, while its borrowings comprised:

- Sterling denominated bond notes of £742m (2022: £741m), comprising a £350m bond issued in 2021 and a £400m bond issued in 2022. The Group is also party to a cross-currency interest rate swap in relation to the £350m bond, as a result of which the bond had an effective average fixed interest rate of 2.45% (2022: 1.89%). The £400m bond had an average fixed coupon of 2.88% (2022: 2.88%).
- Euro denominated bond notes of £433m (2022: £nil). The Group is also party to cross-currency interest rate swaps in relation to a part of this EUR 500m bond, as a result of which the bond had an effective average fixed interest rate of 4.43% (2022: nil).
- Unsecured bank loans of £nil (2022: £nil), which comprises an undrawn RCF.

At 30 September 2022, the Group also held US private placement loan notes of £386m which attracted an average fixed interest rate of 3.56%.

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.

A portion of the Group's external euro denominated borrowings (EUR 156m of a nominal EUR 500m) are designated as a hedge of the net investment in its subsidiaries in the Eurozone. The foreign exchange movements on translation of the portion of these borrowings into sterling have therefore been recognised in the translation reserve. In the prior year, all of the Group's external US Dollar denominated borrowings and euro denominated borrowings were similarly designated as a hedge of the net investment in its subsidiaries in the US and Eurozone.

During the current year, the Group entered into cross-currency swap contracts to both receive fixed sterling and pay fixed US dollars (£264m, USD 321m), as well as receive fixed euros and pay fixed sterling (EUR 300m, £264m).

The euro-sterling swap contracts have been designated as the hedging instruments in a cash flow hedge relationship to mitigate the risk of changes in the cash flows related to the remaining euro denominated borrowings attributable to changes in exchange rate. The average interest rate of the euro-sterling swap contracts is 4.98%, fixed for the lifetime of the instrument. See note 14.5.

The US Dollar-sterling swap contracts have been designated as a hedge of the Group's net investment in its subsidiaries in the US. See note 14.5.

During the prior year, the Group also entered into cross-currency swap contracts to receive fixed sterling and pay fixed US dollars (£350m, USD 429m), and designated this as a hedge of the net investment in its subsidiaries in the US. See note 14.5.

Certain of the Group's intercompany balances have been identified as part of the Group's net investment in foreign operations. Foreign exchange effects on these balances that remain on consolidation are also reflected in the translation reserve. The Group's other currency exposures comprise those currency gains and losses recognised in the income statement, reflecting other monetary assets and liabilities of the Group that are not denominated in the functional currency of the entity involved. At 30 September 2023 and 30 September 2022, these exposures were immaterial to the Group.

Notes to the consolidated financial statements continued

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 schemes for our employees primarily include The Sage Group Performance Share Plan for Directors and senior executives, The Sage Group Restricted Share Plan for senior management and the Sage Save and Share Plan (the "SAYE Plan"). 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 shares outstanding.

This note also shows the dividends paid in the year and any dividends that are to be proposed and paid post-year end. Dividends are paid as an amount per ordinary share held.

15.1 Ordinary shares

Accounting policy

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the owners of the Company until the shares are cancelled or reissued.

Issued and fully paid ordinary shares of 1 ⁴⁷ / ₁₀₀ pence each	2023 shares	2023 £m	2022 shares	2022 £m
At 1 October	1,100,789,295	12	1,120,789,295	12
Cancellation of treasury shares	–	–	(20,000,000)	–
At 30 September	1,100,789,295	12	1,100,789,295	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. 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 awards 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 £49m (2022: £36m), all of which related to equity-settled share-based payment transactions.

Scheme	2023 £m	2022 £m
Performance Share Plan	4	5
Restricted Share Plan	42	29
Share options	3	2
Total	49	36

£6m of the charge for the year (2022: £nil) relates to acquisition related remuneration and is reported as a recurring adjustment within other M&A activity-related items. See note 3.6.

The Sage Group Performance Share Plan

Annual grants of performance shares will normally be made to Executive Directors after the preliminary declaration of the annual results. Under the Performance Share Plan, 857,978 (2022: 1,036,987) awards were made during the year.

Awards for 2021

These performance shares are subject to a service condition and three performance conditions. Performance conditions are weighted 70% on the achievement of revenue targets and 30% on the achievement of a TSR target.

The revenue targets are based on compound annualised recurring revenue growth and Cloud Native annualised recurring revenue over the performance period. Where annualised recurring revenue is between prescribed target ranges, the extent to which the revenue performance conditions are satisfied will be calculated on a straight-line, pro-rata basis within a defined range.

2021 awards	Range 1	Range 2
Annualised recurring revenue growth (%)	6.0%–8.5%	8.5%–10.0%
Performance condition satisfied (%)	7%–28%	28%–35%
Cloud native annualised recurring revenue (£m)	£600m–£750m	£750m–£900m
Performance condition satisfied (%)	7%–28%	28%–35%

The performance target relating to TSR measures share price performance against a designated comparator group. Where TSR is between median and upper quartile, the TSR vesting percentage will be calculated on a straight-line, pro-rata basis between 6% and 24%, and where TSR is between upper quartile and upper decile, the TSR vesting percentage will be calculated on a straight-line, pro-rata basis between 24% and 30%.

The comparator group for awards granted for 2021 onwards is the companies comprised in the FTSE 100 Index at the start of the performance period, excluding financial services and extraction companies.

Awards for 2022

These performance shares are subject to a service condition and three performance conditions. Performance conditions are weighted 55% on the achievement of a financial performance target, 30% on the achievement of a TSR target, and 15% on the achievement of ESG targets.

The financial performance target is based on the achievement of Sage Business Cloud (SBC) Penetration targets for the final year of the performance period. Where SBC Penetration is between prescribed targets, the extent to which the financial performance condition is satisfied will be calculated on a straight-line, pro-rata basis within a defined range.

2022 awards	Range 1	Range 2
• SBC Penetration (%)	75%–80%	80%–85%
• Performance condition satisfied (%)	11%–44%	44%–55%

The performance target relating to TSR measures share price performance against a designated comparator group. Where TSR is between median and upper quartile, the TSR vesting percentage will be calculated on a straight-line, pro-rata basis between 6% and 24%, and where TSR is between upper quartile and upper decile, the TSR vesting percentage will be calculated on a straight-line, pro-rata basis between 24% and 30%.

The comparator group for awards granted for 2022 onwards is the companies comprised in the FTSE 100 Index at the start of the performance period, excluding financial services and extraction companies.

Notes to the consolidated financial statements continued

15 Equity continued

15.2 Share-based payments continued

The performance targets relating to ESG are based on the achievement of targets relating to (i) the aggregate number of volunteering hours recorded through the Sage Foundation during the performance period, (ii) the aggregate number of individuals supported through Sage's Sustainability and Society strategy during the performance period, and (iii) Sage's ESG Strategy Impact at the end of the performance period. Where aggregate volunteering hours and aggregate individuals supported are between prescribed targets, the extent to which the ESG performance conditions are satisfied will be calculated on a straight-line, pro-rata basis within a defined range.

2022 awards	Range 1	Range 2
• Volunteering hours (number)	400,000–500,000	500,000–600,000
• Performance condition satisfied (%)	0.75%–3%	3%–3.75%
• Individuals supported (number)	22,000–27,000	27,000–32,000
• Performance condition satisfied (%)	0.75%–3%	3%–3.75%

Sage's ESG Strategy Impact will be measured by (i) its alignment to the Sustainability Accounting Standards Board's (SASB's) standards, (ii) its achievement of Global Reporting Initiative's (GRI's) sustainability reporting standards (GRI CORE and GRI COMPREHENSIVE are the two levels to which Sage can align), and (iii) achievement of a top 10% ranking in at least 3 ESG rating schemes.

Given an achievement of full SASB alignment, achieving GRI CORE would result in the performance condition being 1.5% satisfied, while achieving GRI COMPREHENSIVE would result in the performance condition being 6% satisfied. Where the ESG Strategy Impact is between GRI CORE and GRI COMPREHENSIVE, the extent to which the ESG performance condition is satisfied will be calculated on a straight-line, pro-rata basis within this defined range of 1.5%–6%.

Given an achievement of full SASB alignment and GRI COMPREHENSIVE, achieving a top 10% ranking in at least 3 ESG rating schemes would result in the performance condition being 7.5% satisfied. Where a top 10% ranking is between zero and 3 ESG rating schemes, the extent to which the ESG performance condition is satisfied will be calculated on a straight-line, pro-rata basis within this defined range of 6%–7.5%.

Awards for 2023

These performance shares are subject to a service condition and three performance conditions. Performance conditions are weighted 50% on the achievement of a financial performance target, 30% on the achievement of a TSR target, and 20% on the achievement of ESG targets.

The financial performance target is based on the achievement of Sage Business Cloud (SBC) Penetration targets for the final year of the performance period. Where SBC Penetration is between prescribed targets, the extent to which the financial performance condition is satisfied will be calculated on a straight-line, pro-rata basis within a defined range.

2023 awards	Range 1	Range 2
• SBC Penetration (%)	85%–89%	89%–92%
• Performance condition satisfied (%)	10%–40%	40%–50%

The performance target relating to TSR measures share price performance against a designated comparator group. Where TSR is between median and upper quartile, the TSR vesting percentage will be calculated on a straight-line, pro-rata basis between 6% and 24%, and where TSR is between upper quartile and upper decile, the TSR vesting percentage will be calculated on a straight-line, pro-rata basis between 24% and 30%.

The comparator group for awards granted for 2023 onwards is the companies comprised in the FTSE 100 Index at the start of the performance period, excluding financial services and extraction companies.

The performance targets relating to ESG are based on the achievement of targets relating to (i) a Protect the Planet condition, (ii) a Tech for Good condition, and (iii) two Diversity, Equity and Inclusion conditions. Where attainment of each of the ESG condition are between prescribed targets, the extent to which the ESG performance conditions are satisfied will be calculated on a straight-line, pro-rata basis within defined ranges as detailed below.

The Protect the Planet condition will be measured by reference to the reduction in the Group's Scope 1, 2, and 3 carbon emissions during the performance period.

2023 awards	Range 1	Range 2
• Reduction in carbon emissions (%)	6.9%–13.8%	13.8%–20.7%
• Performance condition satisfied (%)	1.5%–6%	6%–7.5%

The Tech for Good condition will be measured by reference to the number of Sage products that have embedded functionality for carbon accounting at the end of the performance period.

2023 awards	Range 1	Range 2
• Number of products (number)	3–6	6–8
• Performance condition satisfied (%)	1%–4%	4%–5%

The Diversity, Equity and Inclusion conditions will be measured by reference to (i) the inclusion score in the employee engagement survey undertaken in the last financial year of the performance period, and (ii) the percentage of leadership teams meeting Sage's global gender diversity target at the end of the performance period.

2023 awards	Range 1	Range 2
• Inclusion score (number)	82–84	84–86
• Performance condition satisfied (%)	0.75%–3%	3%–3.75%
• Percentage of teams (%)	50%–65%	65%–80%
• Performance condition satisfied (%)	0.75%–3%	3%–3.75%

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 2022
Share price at grant date	8.02
Number of employees	9
Shares under award	857,978
Vesting period (years)	3
Expected volatility	28.4%
Award life (years)	3
Expected life (years)	3
Risk-free rate	3.29%
Fair value per award	6.55

Grant date	December 2021	February 2022	18 May 2022	24 May 2022
Share price at grant date	7.74	7.11	6.51	6.65
Number of employees	6	2	3	1
Shares under award	458,777	399,859	100,225	78,126
Vesting period (years)	3	3	3	3
Expected volatility	27.6%	26.6%	28.2%	28.2%
Award life (years)	3	3	3	3
Expected life (years)	3	3	3	3
Risk-free rate	0.50%	1.04%	1.49%	1.46%
Fair value per award	6.29	5.82	5.72	5.70

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.

Notes to the consolidated financial statements continued

15 Equity continued

15.2 Share-based payments continued

A reconciliation of award movements over the year is shown below:

	2023		2022	
	Number '000s	Weighted average exercise price £	Number '000s	Weighted average exercise price £
Outstanding at 1 October	3,055	—	4,260	—
Awarded	858	—	1,037	—
Forfeited	(536)	—	(899)	—
Exercised	(930)	—	(1,343)	—
Outstanding at 30 September	2,447	—	3,055	—
Exercisable at 30 September	—	—	—	—

	2023		2022	
	Expected	Contractual	Expected	Contractual
Range of exercise prices	Expected	Contractual	Expected	Contractual
N/A	1.2	1.2	0.9	0.9

The Sage Group Restricted Share Plan

The Group's Restricted Share Plan is a long-term incentive plan issued to senior management across the Group.

These contingent share awards are 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. These awards only have service conditions and their fair values are equal to the share price on the date of grant. During the year 6,553,637 (2022: 10,816,324) awards were made, with fair values ranging from 8.12p to 8.43p.

A reconciliation of award movements over the year is shown below:

	2023		2022	
	Number '000s	Weighted average exercise price £	Number '000s	Weighted average exercise price £
Outstanding at 1 October	17,727	—	12,082	—
Awarded	6,554	—	10,816	—
Forfeited	(1,527)	—	(2,005)	—
Exercised	(4,120)	—	(3,166)	—
Outstanding at 30 September	18,634	—	17,727	—
Exercisable at 30 September	—	—	—	—

	2023		2022	
	Expected	Contractual	Expected	Contractual
Range of exercise prices	Expected	Contractual	Expected	Contractual
N/A	1.6	1.6	2.0	2.0

Share options

Share options comprise The Sage 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, with a forfeiture assumption included for any anticipated lapses as employees leave the Group.

During the year, 1,579,315 (2022: 1,628,909) options were granted under the terms of the Save and Share.

As part of certain acquisitions, the Group awards certain employees with options proportional to previously held options in the company acquired. Nil (2022: nil) options have been granted in the year.

A reconciliation of award movements over the year is shown below:

	2023		2022	
	Number	Weighted average exercise price	Number	Weighted average exercise price
	'000s	£	'000s	£
Outstanding at 1 October	963	3.45	1,628	2.96
Forfeited	(15)	3.20	(28)	4.88
Exercised	(243)	3.95	(637)	1.61
Outstanding at 30 September	705	3.28	963	3.45
Exercisable at 30 September	705	3.28	963	3.45

	2023		2022	
	Weighted average remaining life		Weighted average remaining life	
	years		years	
Range of exercise prices	Expected	Contractual	Expected	Contractual
72p-702p	—	3.0	—	4.0

Notes to the consolidated financial statements continued

15 Equity continued

15.3 Other reserves

All components of other reserves are presented on a consolidated basis on the face of the consolidated statement of changes in equity.

	Translation reserve £m	Hedging reserve £m	Merger reserve £m	Total £m
Other reserves can be analysed as follows:				
At 1 October 2022	206	–	61	267
Exchange differences on translating foreign operations and net investment hedges	(82)	–	–	(82)
Cash flow hedges	–	4	–	4
At 30 September 2023	124	4	61	189

	Translation reserve £m	Merger reserve £m	Total £m
Other reserves can be analysed as follows:			
At 1 October 2021	42	61	103
Exchange differences on translating foreign operations and net investment hedges	177	–	177
Exchange differences recycled through income statement on sale of foreign operations	(13)	–	(13)
At 30 September 2022	206	61	267

This note further explains the nature and purpose of the translation, hedging 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.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss.

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

	2023	2022
	£m	£m
Retained earnings		
At 1 October	570	448
Profit for the year	211	260
Actuarial gain on post-employment benefit obligations, net of tax (note 11)	–	3
Employee share option scheme—value of employee services including deferred tax	57	37
Proceeds from issuance of treasury shares	11	7
Fair value gain on reassessment of equity investment	–	30
Purchase of shares by Employee Benefit Trust	(1)	(32)
Dividends paid to owners of the parent (note 15.5)	(190)	(183)
At 30 September	658	570

Treasury shares

At 30 September 2023, the Group held 73,906,470 (2022: 81,168,903) treasury shares.

During the year, the Group agreed to satisfy the vesting of certain share awards, utilising a total of 7,262,433 (2022: 6,396,278) treasury shares.

During the prior year, the Group cancelled 20,000,000 treasury shares, which reduced the number of Ordinary shares to 1,100,789,295 at 30 September 2022. See note 15.1.

Shares purchased under the Group's buyback programme are either cancelled or are retained in treasury and reissued in the future. Where the shares are retained as treasury shares, they represent a deduction from equity attributable to owners of the parent.

In the prior year, the Group purchased a total of 27,979,129 Ordinary shares, initially held as treasury shares, as part of a non-discretionary share buyback programme entered into on 6 September 2021 and completed on 24 January 2022. Consideration of £249m for this share buyback programme was paid in the prior year.

Notes to the consolidated financial statements continued

15 Equity continued

15.4 Retained earnings continued

Employee Benefit Trust

The Employee Benefit Trust ("EBT") holds shares in the Company and was set up for the benefit of Group employees. The EBT purchases the Company's shares in the market or is gifted these by the Company for use in connection with the Group's share-based payments arrangements. Once purchased, shares are not sold back into the market. The EBT holds 4,419,478 ordinary shares in the Company (2022: 4,610,875) at a cost of £34m (2022: £33m) with £1m of shares purchased during the year (2022: £32m), funded by the Company, and a nominal value of £nil (2022: £nil).

During the year, the EBT utilised 258,505 shares it held to satisfy the vesting of certain share awards (2022: nil). The EBT did not receive additional funds for future purchase of shares in the market (2022: £nil).

The costs of funding and administering the EBT are charged to the profit and loss account of the Company in the period to which they relate. The market value of the shares of the Company held by the EBT at 30 September 2023 was £44m (2022: £32m).

15.5 Dividends

Accounting policy

Dividends are recognised through equity when approved by the Company's shareholders or on payment, whichever is earlier.

	2023 £m	2022 £m
Final dividend paid for the year ended 30 September 2022 of 12.10p per share (2022: final dividend paid for the year ended 30 September 2021 of 11.63p per share)	123 —	— 119
Interim dividend paid for the year ended 30 September 2023 of 6.55p per share (2022: interim dividend paid for the year ended 30 September 2022 of 6.30p per share)	67 —	— 64
	190	183

In addition, the Directors are proposing a final dividend in respect of the financial year ended 30 September 2023 of 12.75p per share, which will absorb an estimated £131m 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 9 February 2024 to shareholders who are on the register of members on 12 January 2024. 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, rather than a business combination, when they satisfy the 'concentration test' exemption under IFRS 3 "Business Combinations". This 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.

Notes to the consolidated financial statements continued

16 Acquisitions and disposals continued

16.1 Acquisitions

Corecon

On 5 May 2023, the Group acquired 100% equity capital and voting rights of Corecon Technologies Inc ("Corecon"), a company based in the US, for total cash consideration of £13m. Corecon is a cloud native subscription-based software company used to streamline and manage project operations focused on the construction industry.

Summary of acquisition	Total £m
Acquisition-date fair value of consideration	13
Fair value of identifiable net assets	(12)
Deferred tax liability	2
Goodwill	3

Acquired intangible assets comprises technology, at a fair value of £10m, which will be amortised over a useful economic life of 8 years, in line with comparable previously acquired technology and Sage policy range of 3 to 8 years, and customer relationships at a fair value of £1m which will be amortised over a useful economic life of 5 years consistent with Sage policy.

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

	Valuation £m	Useful economic life (years)
Acquired intangible assets		
Customer relationships	1	5
Technology	10	8
Acquired intangible assets	11	

Acquired goodwill of £3m comprises the fair value of the acquired control premium, workforce in place and the expected synergies. The goodwill has been allocated to the Group's geographic CGUs where the underlying benefit arising from the acquisition is expected to be realised. This is predominantly within North America. No goodwill is expected to be deductible for tax purposes. The results of the business are allocated to the North America operating segment in line with the underlying operations.

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

	Total £m
Cash consideration	(13)
Cash and cash equivalents acquired	1
Net cash outflow	(12)

Transaction costs of £3m relating to the acquisition have been included in selling and administrative expenses, classified as other M&A activity-related items within recurring adjustments between underlying and statutory results. These costs relate to advisory, legal and other professional services, see note 3.6.

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

The consolidated income statement includes revenue and loss after tax relating to Corecon for the period since the acquisition date, of which both are immaterial.

On an underlying and statutory basis, the impact on revenue and profit after tax would have been immaterial, if Corecon had been acquired at the start of the financial year and included in the Group's results for the year ended 30 September 2023.

Spherics

On 11 October 2022, the Group acquired 100% equity capital and voting rights of Spherics Technology Ltd ("Spherics"), a company based in the UK, for total cash consideration £11m. Spherics provides a carbon accounting software solution to help businesses easily understand and reduce their environmental impact.

	Total £m
Summary of acquisition	
Acquisition-date fair value of consideration	11
Fair value of identifiable net assets	(4)
Deferred tax liability	1
Goodwill	8

Acquired intangible assets comprises technology, at a fair value of £4m, which will be amortised over a useful economic life of 8 years.

Acquired goodwill of £8m comprises the fair value of the acquired control premium, workforce in place and the expected synergies. The goodwill has been allocated to the Group's UK & Ireland CGU where the underlying benefit arising from the acquisition is expected to be realised. No goodwill is expected to be deductible for tax purposes. The results of the business are allocated to the UK & Ireland operating segment in line with the underlying operations.

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

	Total £m
Cash consideration	(11)
Cash and cash equivalents acquired	–
Net cash outflow	(11)

Transaction costs of £1m relating to the acquisition have been included in selling and administrative expenses, classified as other M&A activity-related items within recurring adjustments between underlying and statutory results. These costs relate to advisory, legal and other professional services, see note 3.6.

Arrangements have been put in place for retention payments to remunerate employees of Spherics for future services. The amount recognised to date of £5m is included in selling and administrative expenses, in the consolidated income statement, as other M&A activity-related items. The total cost of these arrangements will be recognised in future periods over the retention period, contingent on employment.

The consolidated income statement reported by Spherics for the period since the acquisition date, includes an immaterial amount of revenue and loss after tax.

On an underlying and statutory basis, the impact on revenue and profit after tax would have been immaterial, if Spherics had been acquired at the start of the financial year and included in the Group's results for the year ended 30 September 2023.

Measurement adjustments to business combinations reported using provisional amounts—Lockstep

On 30 August 2022, the Group acquired 100% equity capital and voting rights of Lockstep Network Holdings Inc ("Lockstep") for total cash consideration of £80m, of which £3m was deferred and paid in the current year.

The acquired net assets as recognised in the financial statements at 30 September 2022 were based on a provisional assessment of their fair value while the Group undertook a valuation of the acquired intangible assets. During the year, the purchase price accounting has been approved and completed.

Notes to the consolidated financial statements continued

16 Acquisitions and disposals continued

16.1 Acquisitions continued

The intangible assets identified and subsequently valued as at the date of acquisition include:

	Valuation £m	Useful economic life (years)
Acquired intangible assets		
Customer relationships	3	8
Technology	23	8
Acquired intangible assets	26	

The comparative information for the financial year 2022 has been restated to reflect the adjustment to the provisional amounts.

As a result of the recognition of intangible assets of £26m, and net deferred tax liability of £1m, there was a corresponding decrease of £25m to goodwill. The remaining balancing £54m goodwill comprises the fair value of the acquired control premium, workforce in place and the expected synergies. The goodwill has been allocated to the Group's North America CGU where the underlying benefit arising from the acquisition is expected to be realised. No goodwill is expected to be deductible for tax purposes. The results of the business are allocated to the North America operating segment in line with the underlying operations.

No other adjustments have been made to the provisional fair value of assets and liabilities reported at 30 September 2022, as set out below:

	Previously reported provisional fair values £m	Measurement adjustments £m	Final fair values £m
Fair value of identifiable net assets acquired			
Intangible assets	–	26	26
Deferred tax liability	–	(1)	(1)
Other identifiable net assets	1	–	1
Fair value of identifiable net assets acquired	1	25	26
Goodwill	79	(25)	54
Total consideration	80	–	80

The increased amortisation charge on the intangible assets from the acquisition date to 30 September 2022 was not material and therefore no adjustment has been made for this. No changes have been identified to the directly attributable acquisition related costs which were included during the financial year ended 30 September 2022 in relation to the acquisition.

16.2 Disposals and discontinued operations

Discontinued operations and assets and liabilities held for sale

There are no assets or liabilities held for sale at 30 September 2023 (30 September 2022: none).

The Group had no discontinued operations during the year (30 September 2022: none).

17 Related party transactions

This note provides information about transactions between the Group and its related parties. A group's related parties include any entities over which it has control, joint control, or significant influence, and any persons who are members of its key management personnel.

The Group's related parties are its subsidiary undertakings and its key management personnel, which comprises the Group's Executive Leadership Team members and the Non-executive Directors. Transactions and outstanding balances between the parent and its subsidiaries within the Group and between those subsidiaries have been eliminated on consolidation and are not disclosed in this note. Compensation paid to the Executive Leadership Team is disclosed in note 3.3.

No other related party transactions occurred during the current year or the prior year.

18 Events after the balance sheet date

On 21 November 2023, The Sage Group plc approved a share buyback programme of its ordinary shares of up to £350m, which is expected to commence on 22 November 2023 and end no later than 23 April 2024.

19 Group undertakings

While we present consolidated results in these financial statements, our structure is such that there are a number of different operating and holding companies that contribute significantly to the overall result.

Our subsidiaries are located around the world and each contributes to the profits, assets, and cash flow of the Group.

The entities listed below and on the following pages are subsidiaries of the Company or the Group. The Group percentage of equity capital and voting rights is 100% for all subsidiaries listed below unless indicated otherwise. The results for all of the subsidiaries have been consolidated within these financial statements.

Country	Name	Registered address
Australia	Brightpearl Pty Limited	Suite 60 Level 2, 2 O'Connell Street, Parramatta NSW 2150, Australia
Australia	HAMY (Australia) Pty Limited	C/o—Fincorp Accountants, Suite 7, 2–4 Northumberland Road, Caringbah NSW 2229, Australia
Australia	Ocrex Australia Pty. Limited	Level 17, 100 Barangaroo Avenue, Barangaroo NSW 2000, Australia
Australia	Sage Business Solutions Pty Ltd	Level 17, 100 Barangaroo Avenue, Barangaroo NSW 2000, Australia
Australia	Sage Intacct Australia Pty Limited	Level 17, 100 Barangaroo Avenue, Barangaroo NSW 2000, Australia
Australia	Snowdrop Systems Pty Ltd	Level 17, 100 Barangaroo Avenue, Barangaroo NSW 2000, Australia
Austria	Sage GmbH	Stella-Klein-Löw-Weg 15, AT-1020, Wien, Austria
Bahamas	Intelligent Apps Holdings Ltd	Bayside Executive Park, Building No. 2, West Bay Street & Blake Road, P.O Box N-3910, Nassau, The Bahamas
Belgium	Sage S.A.	Buro & Design Center, Esplanade 1, 1020 Brussels, Belgium
Botswana	Sage Software Botswana (Pty) Ltd	Plot 50371, Fairground Office Park, Gaborone, Botswana
Canada	Sage Software Canada Ltd	111, 5th Avenue SW, Suite 3100-C, Calgary AB T2P 5L3, Canada
France	Inventory Planner SAS ⁵	10 Place de Belgique, 92250, La Garenne-Colombes, Paris, France
France	Sage Holding France SAS	10 Place de Belgique, 92250, La Garenne-Colombes, Paris, France
France	Sage Overseas Limited (Branch Registration)	10 Place de Belgique, 92250, La Garenne-Colombes, Paris, France
France	Sage SAS	10 Place de Belgique, 92250, La Garenne-Colombes, Paris, France
Germany	Best Software (Germany) GmbH	Franklinstraße 61–63, 60486, Frankfurt am Main, Germany
Germany	eWare GmbH ⁵	Untere Weidenstr. 5, c/o Raë Becker & Koll., 81543, München, Germany
Germany	Sage bäurer GmbH	Josefstraße 10, 78166, Donaueschingen, Germany
Germany	Sage CRM Solutions GmbH	Franklinstraße 61–63 60486, Frankfurt am Main, Germany
Germany	Sage GmbH	Franklinstraße 61–63 60486, Frankfurt am Main, Germany
Germany	Sage Management & Services GmbH	Franklinstraße 61–63 60486, Frankfurt am Main, Germany
Germany	Sage Services GmbH	Karl-Heine-Straße 109–111, 04229, Leipzig, Germany
India	Sage Business Technology (India) Private Limited ³	The Atrium at Quark City, Zone-D, Second Floor, A-45, Industrial Focal Point, Phase VIII B, Mohali, 160059, India
India	Corecon Technologies India Private Limited ³	B-M.C.F-97/B, ARYA NAGAR MOHNA ROAD,, BALLABGARH, FARIDABAD, Haryana, 121004, India
India	Intacct Software Private Limited ^{1,3}	No 501 & 502, Tower C, 5th Floor, The Millenia, No. 1 & 2, Murphy Road, Bangalore, Karnataka, 560 008, India
India	Lockstep Network India Pvt. Ltd. ³	1 st and 2 nd Flr Sky Loft, Creaticity Mall Opp Golf Course, Shastrinagar Yerwada, Pune, 411006, India
India	Sage Software India Pvt Ltd ³	N-34, Lower Ground Floor, Kalkaji, New Delhi, 110 019, India
India	VV Finly Technology Pvt. Ltd. ³	#S-204, Wilson Court Apts, 6 th Cross, 2 nd Main, Wilson Garden, Bangalore, 560027, India

Notes to the consolidated financial statements continued

19 Group undertakings continued

Country	Name	Registered address
Ireland	Ocrex Limited	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Ireland	Sage Global Services (Ireland) Limited	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Ireland	Sage Hibernia Limited	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Ireland	Sage Irish Finance Company Unlimited Company ⁴	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Ireland	Sage Technologies Limited	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Ireland	Sage Treasury Ireland Unlimited Company	Number One, Central Park, Leopardstown, Dublin 18, Ireland
Ireland	TAS Software Limited ⁴	Deloitte House, 29 Earlsfort Terrace, Dublin, Dublin 2, D02 AY28
Ireland	Tonwomp Unlimited Company	Deloitte House, 29 Earlsfort Terrace, Dublin, Dublin 2, D02 AY28
Israel	Budgeta Technologies Ltd ⁵	32 HaBarzel St., Tel Aviv, 6971046, Israel
Kenya	Sage Software East Africa Limited	114 & 115, 1st Floor, Nivina Towers, LR NO. 1870/IX/96, Westlands Road, Nairobi, Kenya
Latvia	CakeHR SIA	Brīvības iela 40-27, Rīga, 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 ¹	Tour Crystal 1, Niveau 9, Bd Sidi Mohamed Ben Abdellah, Casablanca, 20030, Morocco
Namibia	Sage Software Namibia (Pty) Ltd	344 Independence Avenue, Windhoek, P O BOX 1571, Namibia
Nigeria	Sage Software Nigeria Limited	Landmark Towers, 5B Water Corporation Road, Victoria Island, Lagos, Nigeria
Poland	Sage Software Poland sp. z o.o. ⁵	ul. Towarowa 28, 00-839, Warsaw, Poland
Portugal	Sage Portugal—Software, S.A.	Edifício Olympus II, Av. Dom Afonso Henriques 1462, 4450-013, Matosinhos, Portugal
Romania	Intacct Development Romania SRL ⁵	Bulevardul 21 Decembrie 1989, Nr. 77, camera C.1.2, clădirea C-D, The Office, Etaj 1, Cluj-Napoca, Judet Cluj, Romania
Singapore	Sage Singapore Pte. Ltd.	7 Straits View # 12-00, Marina One East Tower, Singapore, 018936, Singapore
South Africa	Sage Alchemex (Pty) Ltd	23A Flanders Drive, Mount Edgecombe, Durban, 4321, South Africa
South Africa	Sage South Africa (Pty) Ltd*	Floor 6 Gateway West, 22 Magwa Crescent, Waterfall 5-1R, Midrand, Gauteng, 2066, South Africa
Spain	Sage Spain Holdco, S.L.U.	Moraleja Building One—Planta 1, Parque Empresarial de La Moraleja, Avenida de Europa no19, 28108 Alcobendas, Madrid, Spain
Spain	Sage Spain, S.L. ¹	Moraleja Building One—Planta 1, Parque Empresarial de La Moraleja, Avenida de Europa no19, 28108 Alcobendas, Madrid, Spain
Switzerland	Sage Bäurer AG	c/o Legalis Consulting GmbH, Suurstoffi 29, 6343, Rotkreuz, Switzerland
United Arab Emirates	Sage Software Middle East FZ-LLC	Premises: 116-120, Floor: 01, Building: 11, Dubai, United Arab Emirates
United Kingdom	ACCPAC UK Limited	3 Field Court, Gray's Inn, London, WC1R 5EF, United Kingdom
United Kingdom	Brightpearl Limited	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	FUTRLI LTD ²	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	GoProposal Ltd ⁵	3 Field Court, Gray's Inn, London, WC1R 5EF, United Kingdom
United Kingdom	HR Bakery Ltd	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Interact UK Holdings Limited*	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Ocrex UK Ltd ⁶	C23—5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom

Country	Name	Registered address
United Kingdom	Protx Group Limited	3 Field Court, Gray's Inn, London, WC1R 5EF, United Kingdom
United Kingdom	Sage (UK) Ltd	C23-5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage 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	3 Field Court, Gray's Inn, London, WC1R 5EF, United Kingdom
United Kingdom	Sage Hibernia Investments No. 2 Limited	3 Field Court, Gray's Inn, London, WC1R 5EF, United Kingdom
United Kingdom	Sage Holding Company Limited*	C23-5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Holdings Limited	C23-5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Irish Investments LLP ²	C23-5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Irish Investments One Limited*	C23-5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Irish Investments Two Limited* ²	C23-5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Online Holdings Limited	C23-5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Overseas Limited.	C23-5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage People Limited	C23-5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Treasury Company Limited*	C23-5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage US LLP	C23-5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage USD Hedgeco 1	C23-5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage USD Hedgeco 2	C23-5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sage Whitley Limited	C23-5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Sagesoft	C23-5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Snowdrop Systems Limited	C23-5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United Kingdom	Spherics Technology Ltd ³	C23-5 & 6 Cobalt Park Way, Cobalt Park, Newcastle upon Tyne, NE28 9EJ, United Kingdom
United States	Brightpearl, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Corecon Technologies, Inc.	5912 Bolsa Avenue Suite 109, Huntington Beach, CA 92649
United States	Ocrex, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Sage Budgeta, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Sage Global Services US, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States

Notes to the consolidated financial statements continued

19 Group undertakings continued

Country	Name	Registered address
United States	Sage Intacct, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Sage People, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Sage Software Holdings, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Sage Software International, Inc.	C/o Corporation Service Company, 100 Shockoe Slip, 2nd Floor, Richmond VA 23219, United States
United States	Sage Software North America	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Sage Software, Inc.	C/o Corporation Service Company, 100 Shockoe Slip, 2nd Floor, Richmond VA 23219, United States
United States	Sage Tempus, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Softline Holdings USA, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Softline Software USA, LLC	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	Softline Software, Inc.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States
United States	South Acquisition Corp.	C/o Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle DE 19808, United States

Notes:

- * Direct subsidiary.
- 1 Group holding in the subsidiary is >99% and <100%.
- 2 Accounting date is 30 March 2023.
- 3 Accounting date is 31 March 2023.
- 4 Accounting date is 30 December 2023.
- 5 Accounting date is 31 December 2023.
- 6 Accounting date is 30 June 2023.

Company financial statements

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Company balance sheet

At 30 September 2023

	Note	2023 £m	2022 £m
Non-current assets			
Investments	2	3,088	3,088
Debtors	4	433	
Deferred tax assets		3	1
		3,524	3,089
Current assets			
Cash at bank and in hand	3	1	–
Debtors	4	1,726	1,774
		1,727	1,774
Creditors: amounts falling due within one year			
Trade and other payables	5	(31)	(16)
Net current assets		1,696	1,758
Total assets less current liabilities		5,220	4,847
Creditors: amounts falling due after one year			
Borrowings	6	(1,173)	(741)
Net assets		4,047	4,106
Capital and reserves			
Called up share capital	8.1	12	12
Share premium account		548	548
Other reserves	8.2	(452)	(502)
Profit and loss account		3,939	4,048
Total shareholders' funds		4,047	4,106

The Company's profit for the year was £71m (2022: £20m).

The financial statements on pages 262 to 268 were approved by the Board of Directors on 21 November 2023 and are signed on its behalf by:

Jonathan Howell

Chief Financial Officer

Company's registered number 02231246

Company statement of changes in equity

	Attributable to owners of the parent				
	Called up share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total equity £m
At 1 October 2022	12	548	(502)	4,048	4,106
Profit for the year	–	–	–	71	71
Total comprehensive income for the year ended 30 September 2023	–	–	–	71	71
Transactions with owners:					
Employee share option scheme—value of employee services	–	–	–	50	50
Utilisation of treasury shares	–	–	51	(51)	–
Proceeds from issuance of treasury shares	–	–	–	11	11
Purchase of shares by Employee Benefit Trust	–	–	(1)	–	(1)
Dividends paid to owners of the parent	–	–	–	(190)	(190)
Total transactions with owners for the year ended 30 September 2023	–	–	50	(180)	(130)
At 30 September 2023	12	548	(452)	3,939	4,047

	Attributable to owners of the parent				
	Called up share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total equity £m
At 1 October 2021	12	548	(424)	4,122	4,258
Profit for the year	–	–	–	20	20
Total comprehensive income for the year ended 30 September 2022	–	–	–	20	20
Transactions with owners:					
Employee share option scheme—value of employee services	–	–	–	36	36
Utilisation of treasury shares	–	–	41	(41)	–
Proceeds from issuance of treasury shares	–	–	–	7	7
Cancellation of treasury shares	–	–	128	(128)	–
Share buyback programme	–	–	(215)	215	–
Purchase of shares by Employee Benefit Trust	–	–	(32)	–	(32)
Dividends paid to owners of the parent	–	–	–	(183)	(183)
Total transactions with owners for the year ended 30 September 2022	–	–	(78)	(94)	(172)
At 30 September 2022	12	548	(502)	4,048	4,106

Auditor's remuneration

The audit fees payable in relation to the audit of the financial statements of the Company are £46,000 (2022: £42,000).

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 129 to 163.

Share-based payments

The Company issues equity-settled share-based payments to certain employees and employees of its subsidiaries. Equity-settled share-based payments granted to employees of the Company are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the shares that will eventually vest allowing for the effect of non market-based vesting conditions.

Fair value is measured using the Black-Scholes or the Monte Carlo pricing models. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Company also provides certain employees and employees of its subsidiaries with the ability to purchase the Company's ordinary shares at a discount to the current market value at the date of the grant. For awards made to its own employees, the Company records an expense, based on its estimate of the discount related to shares expected to vest, on a straight-line basis over the vesting period.

At the end of each reporting period, the entity revises its estimates for the number of options expected to vest. It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to equity.

For awards made to subsidiary employees, the fair value of awards made is recognised by the Company through the profit and loss account. Intergroup recharges to the employing subsidiary, up to the fair value of awards made to employees of that subsidiary, subsequently reverse the decrease to the profit and loss account.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Financial instruments

The Company only enters into basic financial instrument transactions that result in the recognition of basic financial assets and liabilities, including trade and other receivables and payables and loans to and from related parties. These transactions are initially recorded at transaction price, unless the arrangement constitutes a financing transaction where the transaction is measured at the present value of the future receipt discounted at a market rate of interest, and subsequently recognised at amortised cost.

Financial assets

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in comprehensive income or expense.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party, or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expired.

Dividends

Dividends are recognised through equity when approved by the Company's shareholders or on payment, whichever is earlier.

Employee Benefit Trust

The Company's Employee Benefit Trust is considered an extension of the Company and therefore forms part of these financial statements.

Notes to the Company financial statements

1 Dividends

	2023 £m	2022 £m
Final dividend paid for the year ended 30 September 2022 of 12.10p per share (2022: final dividend paid for the year ended 30 September 2021 of 11.63p per share)	123 –	– 119
Interim dividend paid for the year ended 30 September 2023 of 6.55p per share (2022: interim dividend paid for the year ended 30 September 2022 of 6.30p per share)	67 –	– 64
	190	183

In addition, the Directors are proposing a final dividend in respect of the financial year ended 30 September 2023 of 12.75p per share, which will absorb an estimated £131m 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 9 February 2024 to shareholders who are on the register of members on 12 January 2024. These financial statements do not reflect this proposed dividend payable.

2 Fixed assets: investments

Equity interests in subsidiary undertakings are as follows:

	2023 £m	2022 £m
Cost	3,224	3,224
Provision for diminution in value	(136)	(136)
Net book value	3,088	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 2023, are shown in note 19 of the Group financial statements. All of these subsidiary undertakings are wholly-owned, unless otherwise indicated in note 19 of the Group financial statements. All subsidiaries are engaged in the development, distribution, and support of business management software and related products and services for small and medium-sized businesses.

All operating subsidiaries' results are included in the Group financial statements. The accounting reference date of all subsidiaries is 30 September, unless otherwise indicated in note 19 of the Group financial statements.

3 Cash at bank and in hand

	2023 £m	2022 £m
Cash at bank and in hand	1	–

4 Debtors

	2023 £m	2022 £m
Prepayments and accrued income	–	1
Amounts owed by Group undertakings	2,159	1,773
	2,159	1,774

Of amounts owed by Group undertakings £433m (2022: £nil) is due greater than one year. Amounts owed by group undertakings are unsecured and attract a rate of interest of 0.0% and SONIA plus 1.6% (2022: 0.0% and SONIA plus 1.6%).

5 Trade and other payables

	2023 £m	2022 £m
Accruals	31	16
	31	16

6 Borrowings

	2023 £m	2022 £m
Sterling denominated bond notes	742	741
Euro denominated bond notes	431	–
	1,173	741

In the current year, bond notes were issued in February 2023 for a nominal amount of EUR 500m and expire in February 2028. Net cash proceeds from the issuance were EUR 498m (£442m). For further information, see note 13.4 of the Group consolidated financial statements.

In the prior year, bond notes were issued in February 2022 for a nominal amount of £400m and expire in February 2034. Net cash proceeds from the issuance were £396m.

7 Obligations under operating leases

	2023 Property, vehicles, plant and equipment £m	2022 Property, vehicles, plant and equipment £m
Total future minimum lease payments under non-cancellable operating leases falling due for payment as follows:		
Within one year	3	3
Later than one year and less than five years	12	13
After five years	11	14
	26	30

The Company leases various offices under non-cancellable operating lease agreements. These leases have various terms, escalation clauses, and renewal rights.

Notes to the Company financial statements continued

8 Equity

8.1 Called up share capital

Issued and fully paid ordinary shares of 1 ⁴⁷ / ₇ pence each	2023 shares	2023 £m	2022 shares	2022 £m
At 1 October	1,100,789,295	12	1,120,789,295	12
Cancellation of treasury shares	–	–	(20,000,000)	–
At 30 September	1,100,789,295	12	1,100,789,295	12

See note 15.1 of the Group consolidated financial statements.

8.2 Other reserves

	Treasury shares £m	Merger reserve £m	Capital redemption reserve £m	Total other reserves £m
At 1 October 2022	(565)	61	2	(502)
Utilisation of treasury shares	51	–	–	51
Purchase of shares by Employee Benefit Trust	(1)	–	–	(1)
At 30 September 2023	(515)	61	2	(452)

	Treasury shares £m	Merger reserve £m	Capital redemption reserve £m	Total other reserves £m
At 1 October 2021	(487)	61	2	(424)
Utilisation of treasury shares	41	–	–	41
Cancellation of treasury shares	128	–	–	128
Share Buyback Programme	(215)	–	–	(215)
Purchase of shares by Employee Benefit Trust	(32)	–	–	(32)
At 30 September 2022	(565)	61	2	(502)

Treasury shares

Purchase of treasury shares

At 30 September 2023, the Group held 73,906,470 (2022: 81,168,903) treasury shares.

During the year, the Group agreed to satisfy the vesting of certain share awards, utilising a total of 7,262,433 (2022: 6,396,278) treasury shares.

During the prior year, the Group cancelled 20,000,000 treasury shares, which reduced the number of Ordinary shares to 1,100,789,295 at 30 September 2022. See note 15.1.

Shares purchased under the Group's buyback programme are either cancelled or are retained in treasury and reissued in the future. Where the shares are retained as treasury shares, they represent a deduction from equity attributable to owners of the parent.

In the prior year, the Group purchased a total of 27,979,129 Ordinary shares, initially held as treasury shares, as part of a non-discretionary share buyback programme entered into on 6 September 2021 and completed on 24 January 2022. Consideration of £249m for this share buyback programme was paid in the prior year.

Employee Benefit Trust

The Employee Benefit Trust ("EBT") holds shares in the Company and was set up for the benefit of Group employees. The EBT purchases the Company's shares in the market or is gifted these by the Company for use in connection with the Group's share-based payments arrangements. Once purchased, shares are not sold back into the market. The EBT holds 4,419,478 ordinary shares in the Company (2022: 4,610,875) at a cost of £34m (2022: £33m) with £1m of shares purchased during the year (2022: £32m), funded by the Company, and a nominal value of £nil (2022: £nil).

During the year, the EBT utilised 258,505 shares it held to satisfy the vesting of certain share awards (2022: nil). The EBT did not receive additional funds for future purchase of shares in the market (2022: £nil).

The costs of funding and administering the EBT are charged to the profit and loss account of the Company in the period to which they relate. The market value of the shares of the Company held by the EBT at 30 September 2023 was £44m (2022: £32m).

Glossary

Alternative Performance Measures

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

Measure	Description	Rationale
Underlying (revenue and profit) measures	<p>Underlying measures are adjusted to exclude items which in management's judgement need to be disclosed separately by virtue of their size, nature or frequency to aid understanding of the performance for the year or comparability between periods:</p> <ul style="list-style-type: none"> 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, and unhedged FX on intercompany balances; 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. <p>Recurring items are adjusted each period irrespective of materiality to ensure consistent treatment.</p> <p>Underlying basic EPS is also adjusted for the tax impact of recurring and non-recurring items.</p> <p>All prior period underlying measures (revenue and profit) are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations.</p>	<p>Underlying measures allow management and investors to compare performance without the effects of foreign exchange movements or recurring or non-recurring items.</p> <p>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.</p>
Organic (revenue and profit) measures	<p>In addition to the adjustments made for Underlying measures, Organic measures:</p> <ul style="list-style-type: none"> 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. <p>Acquisitions and disposals where the revenue and contribution impact would be immaterial are not adjusted.</p>	<p>Organic measures allow management and investors to understand the like-for-like revenue and current period margin performance of the continuing business.</p>
Underlying Cash Flow from Operations	<p>Underlying Cash Flow from Operations is Underlying Operating Profit adjusted for non-cash items, net capital expenditure (excluding business combinations and similar items) and changes in working capital.</p>	<p>To show the cash flow generated by the operations and calculate underlying cash conversion.</p>

Glossary continued

Measure	Description	Rationale
Underlying Cash Conversion	Underlying Cash Flow from Operations divided by Underlying (as reported) Operating Profit.	Cash conversion informs management and investors about the cash operating cycle of the business and how efficiently operating profit is converted into cash.
EBITDA	<p>EBITDA is Underlying Operating Profit excluding underlying depreciation, amortisation and share based payments.</p> <p>Underlying depreciation and amortisation is the statutory equivalent measure, adjusted for the amortisation of acquired intangibles. Underlying share based payments is the statutory equivalent measure, adjusted for M&A-related share based payment charges included within other M&A activity related items.</p>	To calculate the Net Debt to EBITDA leverage ratio and to show profitability before the impact of major non-cash charges.
Annualised recurring revenue	Annualised recurring revenue ("ARR") is the normalised recurring revenue in the last month of the reporting period, adjusted consistently period to period, multiplied by twelve. Adjustments to normalise reported recurring revenue involve excluding certain components (such as non-refundable contract sign up fees) to ensure the measure reflects that part of the revenue base which (subject to ongoing use and renewal) can reasonably be expected to repeat in future periods.	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, derivative financial instruments 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	Underlying software subscription revenue as a percentage of underlying total revenue.	To measure the progress of migrating our customer base from licence and maintenance to a subscription relationship.
% Sage Business Cloud Penetration	Underlying recurring revenue from the Sage Business Cloud as a percentage of the underlying 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 capital employed, which is the average (of the opening and closing balance for the period) total net assets excluding net debt, derivative financial instruments, provisions for non-recurring costs, financial liability for purchase of own shares and tax assets or liabilities.	As an indicator of the current period financial return on the capital invested in the company. ROCE is used as an underpin in the FY21, FY22 and FY23 PSP awards.
Net debt	Net debt is cash and cash equivalents less current and non-current borrowings.	To calculate the Net Debt to EBITDA leverage ratio and an indicator of our indebtedness.

AGM

Annual General Meeting

AI

Artificial Intelligence

API

Application Program Interface

CAGR

Compound Annual Growth Rate

CDP

Carbon Disclosure Project

CEO

Chief Executive Officer

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

ELT

Executive Leadership Team

EPS

Earnings Per Share

ERP

Enterprise Resource Planning

EU

European Union

FCF

Free Cash Flow

FY20

Financial year ending 30 September 2020

FY21

Financial year ending 30 September 2021

FY22

Financial year ending 30 September 2022

FY23

Financial year ending 30 September 2023

GHG

Greenhouse Gas

HCM

Human Capital Management

HR

Human Resources

IFRS

International Financial Reporting Standards

ISV

Independent Software Vendor

KPI

Key Performance Indicator

LSE

London Stock Exchange

LTIP

Long Term Incentive Plan

ML

Machine Learning

NED

Non-Executive Director

NPS

Net Promoter Score

PBT

Profit Before Tax

PSP

Performance Share Plan

R&D

Research and Development

SBC

Sage Business Cloud

SaaS

Software as a Service

SSRS

Software & Software Related Services

TSR

Total Shareholder Return

Shareholder Information

Financial calendar¹

Annual General Meeting	1 February 2024
Dividend payments²	
FY23 Final payable	9 February 2024
H1 FY24 Interim payable	28 June 2024
Results announcements	
Q1 FY24 Trading update	18 January 2024
H1 FY24 Interim results	16 May 2024
Q3 FY24 Trading update	30 July 2024
FY24 Full-Year results	20 November 2024

Note:

1. Please note that these dates are provisional and subject to change. Please access our financial calendar on sage.com, which is updated regularly.
2. All dividend payments are subject to Board and, in the case of the final dividend, shareholders' approval.

Shareholder information online

Equiniti, the registrar of The Sage Group plc., is able to notify shareholders by email of the availability of an electronic version of shareholder information. Whenever new shareholder information becomes available, such as Sage's full-year results, Equiniti can notify you by email and you will be able to access, read and print documents at your convenience.

To take advantage of this service, please go to www.shareview.co.uk, where full details of the shareholder portfolio services are provided. When registering for this service, you will need to have your 11-character Shareholder Reference Number to hand, which is shown on your dividend tax voucher, share certificate or Form of Proxy.

Should you decide at a later date that you do not want to receive these emails, you may amend your request by accessing your Shareview Portfolio online and amending your preferred method of communication from "email" to "post".

Our corporate website has more information about our business, products, investors, media, sustainability, and careers at Sage.

Stay up to date at www.sage.com

Annual General Meeting of shareholders

We consider the Annual General Meeting of shareholders (AGM) to be an important event in our calendar and a significant opportunity to engage with our shareholders. The 2024 AGM will be held on 1 February 2024. Further details will be set out in the Notice of AGM and on our website at sage.com.

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Information for investors

Information for investors is provided on the internet as part of Sage's website which can be found at: www.sage.com/investors

Investor enquiries

Enquiries can be directed to our Investor Relations department via our website.

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

www.sage.com

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Registered in England

Company number 2231246

The Sage logo, featuring the word "Sage" in a bold, black, sans-serif font. The letter 'S' is significantly larger than the other letters, and the 'a' is lowercase, while the other letters are uppercase.