

# sage

THE SAGE GROUP PLC  
ANNUAL REPORT AND ACCOUNTS 2019

# BECOMING A GREAT SAAS COMPANY

A photograph showing two women in an office environment. One woman, on the left, has curly dark hair and is wearing a green patterned blazer over a white top. She is looking down at a laptop screen. The other woman, on the right, has straight dark hair and is wearing a denim jacket over a light-colored top. She is also looking down at the laptop. They appear to be working together on a project. The background is slightly blurred, showing office furniture and other people in the distance.

## FINANCIAL HIGHLIGHTS

Organic recurring revenue growth

**10.8%**

FY18: 6.7%

Organic operating margin

**23.7%**

FY18: 28.8%

## STRATEGIC KPIs

Renewal by value

**101%**

FY18: 101%

Subscription penetration

**55%**

FY18: 45%

Annualised recurring revenue (ARR) growth

**12.6%**

FY18: N/A\*

Sage Business Cloud penetration

**48%**

FY18: 29%



See more about our Strategic KPIs on pages 8 to 9

\* FY19 is the first year of disclosure for ARR growth.

## OTHER KEY HIGHLIGHTS

Underlying cash conversion

**129%**

FY18: 96%

Organic revenue growth

**5.6%**

FY18: 6.5%

Statutory revenue growth

**5.0%**

FY18: 7.6%

Dividend

**16.91p**

FY18: 16.50p

## About our non-GAAP measures and why we use them

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

**Organic** measures allow management and investors to understand the like-for-like performance of the business. Full definitions of underlying and organic can be found within note 2 of the financial statements. Reconciliations of statutory revenue, operating profit and basic earnings per share to their underlying and organic equivalents are in the Financial review starting on page 46.

**On the cover:** Sage Intacct customer, Specialty's Café and Bakery, which operates over 50 restaurants in California, Washington and Illinois.

Sage is a global market leader for technology that helps small and medium businesses perform at their best. Sage is trusted by millions of customers worldwide to deliver the best cloud technology and support, with our partners, to manage finances, operations, and people. We believe in doing everything we can to help people be the best they can be, so the combined efforts of 13,000 Sage colleagues working with businesses and communities make a real difference to the world.



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# **OUR PURPOSE**

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

It's the reason we exist as a business.

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# **OUR VISION**

is to become a great SaaS Company for Customers and Colleagues alike.

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

# OUR STRATEGY

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



## Customer Success

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



## Colleague Success

Creating an environment that values the individual, fosters collaboration and rewards all colleagues



## Innovation

Creating solutions that deliver real customer value and solve real customer problems by doing things differently, leveraging incremental, emerging and experimental innovation

# THESE PRIORITIES HELP US...

# Capture the **MARKET OPPORTUNITY**

Sage operates in a total addressable market (TAM) set to be worth

## \$36bn in FY20

comprising 72m businesses. This market grows at 7% per year, with spend on cloud growing at 13%.

Included within this TAM is the single-largest software category in the world, Accounting and Financials.



### Market growth

Market growth in this TAM is well ahead of global GDP growth. Catalysts for this growth are:

#### 1. Gaining insights and efficiencies

- Accounting and Financials software is no longer about producing backward-looking accounts. As technology evolves, software can continue to help businesses become more efficient and allow them to gain more insights into their business. This adds significant value and results in back-office software becoming more critical to a business's long-term success.
- This includes data-entry automation, artificial intelligence, machine learning, business insights and analytics. Read more about what Sage is doing here on pages 26 to 29.

#### 2. The shift to subscription and the cloud

- Moving to a business model where consumers pay a subscription fee for usage rather than owning an asset is becoming increasingly prevalent across all industries. This, combined with cloud technology, allows the vendor to offer more value by offering access to the latest upgrades as soon as they are available. It also boosts retention rates of customers as vendors can improve their relationship with customers.
- Furthermore, as governments and other stakeholders automate processes (such as Making Tax Digital in the UK), there is more demand from customers to be on the latest version of software to ensure they remain compliant.
- Globally, cloud adoption rates are expected to continue to trend upwards from 43% in 2019 to 46% in 2020. The USA is the most cloud adoptive region and forecast to reach 55% in 2020, with the UK&I expected to be at 43% and France at 33%. See more on the economics of a subscription model on pages 6 to 7.

by serving

# **SMALL AND MEDIUM**

businesses

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



#### Small businesses

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



#### Medium businesses

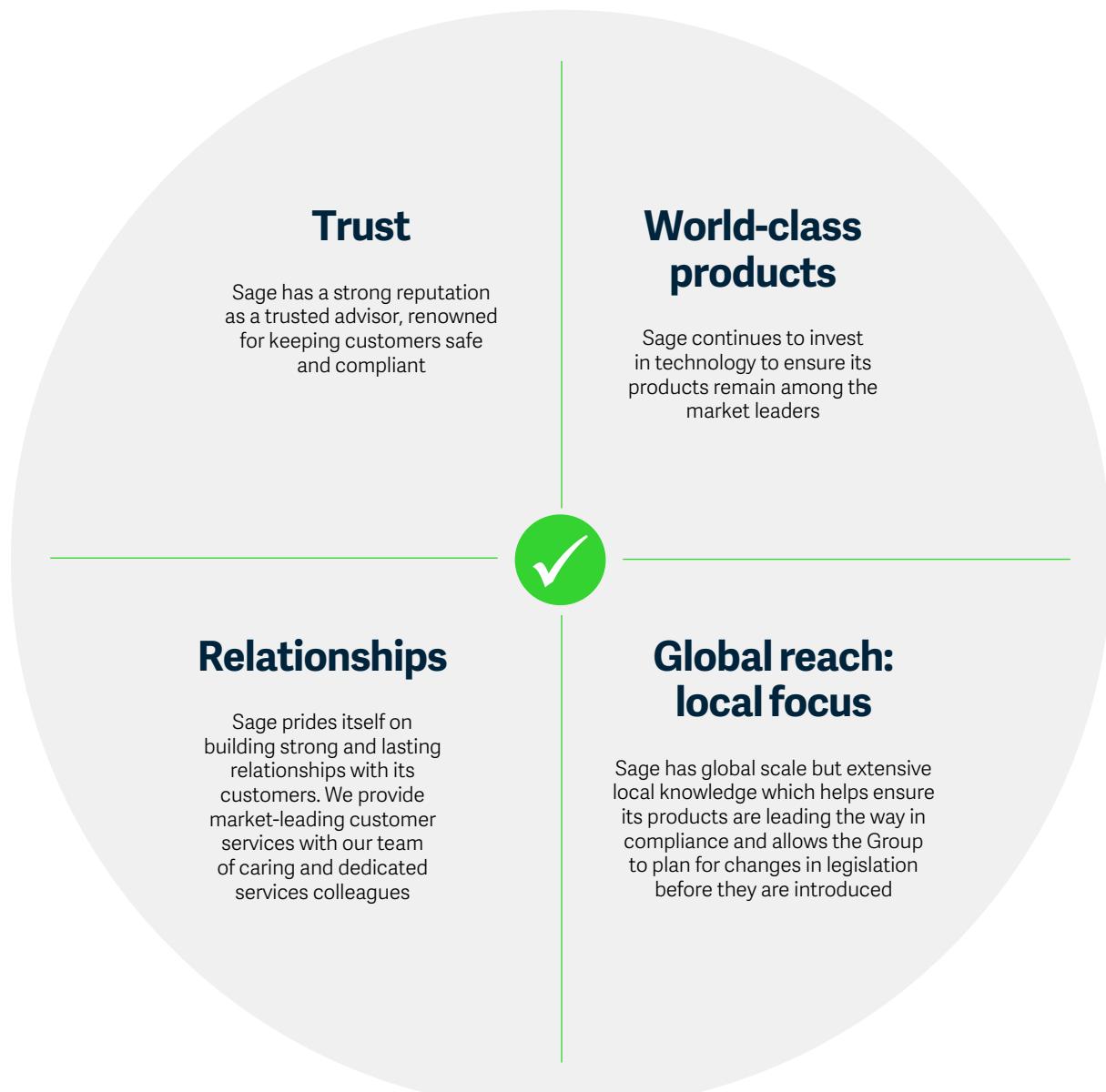
Medium customers are more complex, usually functionally structured around specialist teams and departments with different needs. They are often scaling and transforming and need insights for growth and competitive advantage. They typically spend longer integrating our solutions into their business.

Sage serves **millions** of small and medium customers around the world.

through unique

# COMPETITIVE ADVANTAGES

That enhance our proposition and ensure we stand out against the competition.



and the power of the

# SAGE BUSINESS CLOUD

Sage Business Cloud is a suite of unified solutions that add high-value with common services, so customers can integrate and migrate data across solutions. This is supported by a rich and robust marketplace with almost 1,000 ISV apps and emerging tech across artificial intelligence, machine learning and automation

Medium businesses

*Cloud connected and hybrid solutions*

**Sage X3**  
**Sage 200c**

Small businesses

**Sage 50c**

*Cloud native solutions*

**Sage Intacct**  
**Sage People**

Sage 50cloud and Sage 200cloud provide the power and productivity of the desktop with the freedom and security of the cloud. Sage continues to invest in these solutions, building cloud functionality so customers can access more of the benefits the cloud brings.

Sage Accounting, Sage Intacct and Sage People provide a fully functional and flexible cloud native solution with open APIs, giving access to a wide ecosystem of partners and ISVs.

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



**100,000**

Accountants who advise and sell Sage solutions



**40,000**

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



**1,000**

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



**Dozens**

of Strategic Alliances with some of the biggest names in technology



Read more about our solutions on page 29

# DELIVERING VALUE FOR THE WAY AHEAD

## INPUTS

### Trusted advisor

A trusted brand providing market leading customer service.

### Local knowledge

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

### People

Caring and committed colleagues, embracing Sage behaviours and values and invested in driving success for our customers.

### Routes to market

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

### Innovation

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

## HOW WE ATTRACT AND RETAIN CUSTOMERS

### AWARENESS & LAND

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

Offer guides and trials to prospective customers

### ADOPT

New customers sign up to Sage Business Cloud solutions on subscription

Customers on old licences are reactivated and join Sage on subscription and cloud solutions

Sage provides training and onboarding to get customers started



## WHAT THIS CREATES

### SERVICE

Sage provides customer support through phone, web chat, social media, chat bots and online forums and communities

Sage keeps in touch with customers through surveys and regular check-ins

### EXPAND

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

### RENEW

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

#### Customer

- Renewal by value of 101%

#### Colleague

- Colleague net promoter score +22 points year-on-year

#### Community

- 31,250 Sage Foundation days spent in the community

#### Shareholders

- High quality recurring revenue growth of 10.8%
- Underlying cash conversion of 129%
- Sustainable full year dividend of 16.91p per share



# Delivering for Shareholders **TODAY**

High-quality recurring revenue

**10.8%**  
organic recurring revenue growth

**£1.0bn**  
software subscription revenue

Strong free cash flow

**129%**  
underlying cash conversion

Efficient capital allocation

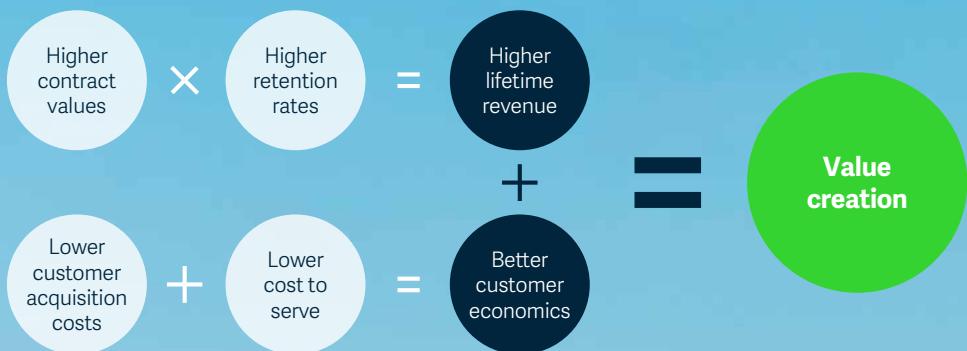
Investing efficiently for growth  
**23.7%**  
organic operating margin

Sustainable dividend

**16.91p**  
FY19 dividend, commitment to maintaining in real terms

---

## Reasons to pursue a **SAAS MODEL**



And significant value

# TOMORROW



As we continue to focus on becoming a great SaaS company

Driving an accelerated transition to subscription and the cloud is critical to unlocking the potential for significant value creation at Sage.

Moving to a true SaaS model will transform Sage's relationship with both existing and new customers.

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

As customers are happier, retention rates trend up. By delighting customers, reputation and advocacy are enhanced, increasing the ability to acquire new customers.

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

This is supported by a thriving ecosystem of ISVs and applications which allow the customer to have a truly bespoke experience, where their solution is tailored to their business needs.

Put together, customer lifetime value increases significantly but so does customer satisfaction as we deliver more of what the customer needs and help make their lives easier.

**Turn the page**  
to read about our Group KPIs  
and how we measure progress  
in our transition to SaaS

# HOW TO MEASURE A GREAT SAAS COMPANY

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

First introduced in April 2019, the KPIs will be disclosed every six months to demonstrate Sage's progress in the transition to a SaaS company.

**Renewal by value****101%**

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

**Annualised recurring revenue (ARR) growth****12.6%**

Defined as the normalised reported recurring revenue in the last month of the reporting period, adjusted consistently period to period, multiplied by 12 (FY19: £1,685m ARR).

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

**Subscription penetration****55%**

% of revenue on subscription

This is measured as software subscription revenue as a proportion of revenue and shows the progress Sage is making in migrating its customers to subscription (FY19: £1,004m organic software subscription revenue).

**Sage Business Cloud penetration****48%**

Defined as recurring revenue from the Sage Business Cloud as a proportion of the recurring revenue of the Future Sage Business Cloud Opportunity. This metric measures progress in the transition of the business to the Sage Business Cloud. Find out more about the portfolio view of revenue on page 46.

Sage also tracks other KPIs linked to strategic lenses including:



**Customer Success:**  
NPS and Renewal  
rate by value



**Colleague Success:**  
Colleague NPS,  
voluntary attrition,  
Sage Foundation Days

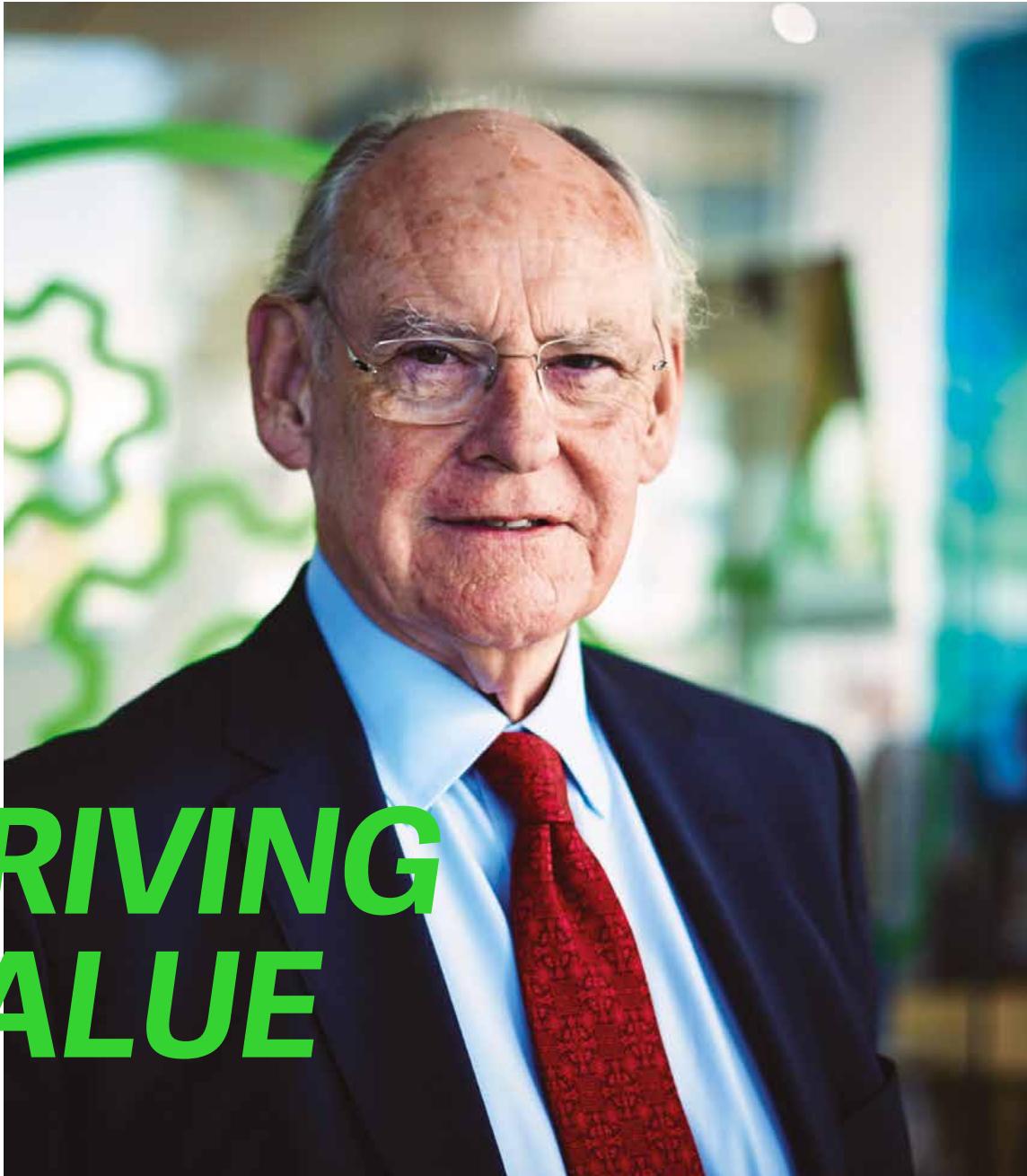


**Innovation:**  
Availability of native cloud  
solutions, Sage Business cloud  
penetration, consumption of  
cloud services



See more about our strategy and how  
we measure our progress on pages 16 to 29

# DRIVING VALUE



//

Sage will continue to focus on its vision to become a great SaaS company for customers and colleagues alike, with further progress in strategic execution to come.”

**In the past year the Sage Group has made further progress in its evolution towards a cloud and subscription-led business. 55% of Group revenue is now on subscription and the Group currently has annualised recurring revenue (ARR) growth of 12.6%.**

## Looking back at FY19

2018-19 has been a watershed year for The Sage Group. For the first time, more than half of our revenue is on subscription and through our relentless innovation, customers can access a wide range of cloud-based services making their business operations more efficient.

This year has also been Steve Hare's first as Chief Executive. He has led a major sharpening of the purpose, vision and strategic lenses of the business whilst defining and implementing a business model to give sustainability to the progress being achieved. He has also made important promotions to create a first-rate management team. They have been united around putting customers at the heart of all that we do, and the fruits of this effort are already clear.

By giving absolute clarity about an objective to grow ARR, Steve has brought a real sense of prioritisation to the business. The result, a growth of 12.6% in ARR to £1,685m at the end of the year, makes clear the benefits of focus. Subscription revenue exceeded £1bn for the first time with Sage Business Cloud penetration of 48% and renewal by value running at over 100%.

Innovation has been key: the Group has accelerated the development and availability of cloud solutions and services for customers in both the small and medium market segments. The internationalisation of our cloud native products from Sage Intacct to Australia (as a first step) and the development of Sage Accounting for Professional Users as the cloud native solution for small business accounting, have been important developments. We have embarked on Sage Intacct's roll out in the UK already in FY20.

The year has been characterised as one of considerable external uncertainty with Brexit at home and trade disruptions in the rest of the world. Despite this the management has remained focused on its customers and not been distracted by the many uncertainties affecting business.

## The Board in FY19

In addition to Steve Hare's appointment as CEO, Jonathan Howell transitioned from Non-executive Director and Chair of the Audit and Risk Committee to executive director and CFO. Neil Berkett stepped down from the Board during the year after six years to concentrate on his new role at NSPCC. Neil brought dedication, experience and valuable insight to Sage. We welcomed three new Non-executive Directors: Jonathan Bewes, Annette Court and Dr John Bates, who have a wealth of experience across finance, corporate strategy and technology and have already brought new perspectives to the Board.



Read my statement within the Corporate governance report for insight into the activities of the Board for 2019.  
See more on page 66

Jonathan and Annette took up positions as Chair of the Audit and Risk Committee and Chair of the Remuneration Committee respectively, in addition to their roles as Non-executive Directors.

During the year the Board has focused on ensuring that the Company's strategic ambitions and competitive edge are underpinned by a customer-centric culture in which colleagues are supported and innovation fostered. The Board has also invested time in ensuring the Group continues to meet the requirements of a changing corporate governance landscape. During FY19 the Board spent time with key stakeholders; meeting with colleagues, customers and partners in Newcastle, London, Reading and Atlanta, as well as participating in a Sage Foundation day with our charity partner, Working Chance, alongside Sage colleagues.

Our Board Associate role continues to prove valuable in providing two-way communication with colleagues, enabling the Board to hear more of colleagues' views whilst generating greater understanding of the role of the Board amongst colleagues. During the year, the Board appointed a successor to our first Board Associate who will remain in place for an 18-month term.

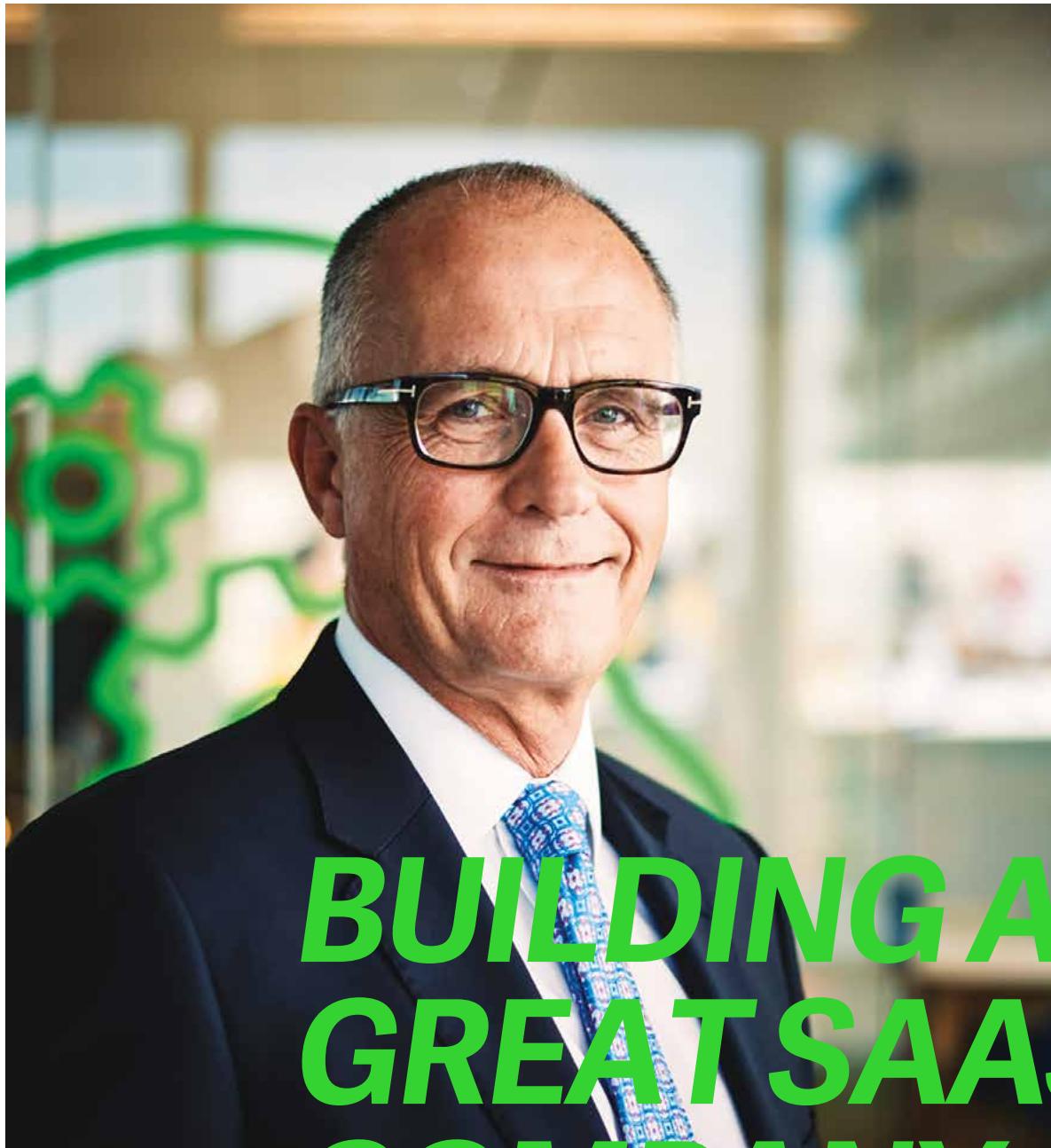
Sage has great people and I would like to thank all colleagues and the Board for their dedication during the year.

## Looking forward to FY20

As we look to FY20, Sage will continue to focus on its vision to become a great SaaS company for customers and colleagues alike, with further progress in strategic execution to come. We are cognisant that this is a multi-year process and the transition may not always be linear, but we know that continued focus on the vision is the right path to take for shareholders, customers, partners, colleagues and our communities.

The quality of revenue continues to improve and the Group remains strongly cash generative with underlying cash conversion of 129% and, in line with our policy, a 2.5% increase in the full year dividend to 16.91p in FY19.

**Sir Donald Brydon**  
Chairman



# BUILDING A GREAT SaaS COMPANY



**Steve Hare** outlines his plans for Sage to become a great SaaS business for customers and colleagues

### **Steve, you've been in role as CEO for just over a year now. What have been your main priorities during this time?**

My main priority has been to create focus, consistency and simplification within the business.

To achieve this, the first thing we did was to set out a new purpose, vision and strategy:

- Our purpose is to transform the way people think and work so their organisations can thrive.
- The vision is to create a great SaaS company, for customers and colleague alike, and this is underpinned by the three strategic lenses of Customer Success, Colleague Success and Innovation.

We have focused on each of these strategic lenses throughout the year and I am very happy with the progress we have made in the year. And we will continue to drive more strategic execution into FY20 and beyond.

### **You talk a lot about creating a great SaaS company. What does this mean to you and why is it worth pursuing?**

In simple terms, being a great SaaS company will mean that the vast majority of our revenue is on subscription and in the cloud.

This will enable us to continue to embrace a closer relationship with our customers, better understanding their needs and how best to serve them. In this mutually beneficial relationship, we can delight our customers, meaning they stay with us for longer and consume more of Sage's value-add services. This also means reputation and advocacy are enhanced, increasing our ability to acquire new customers.

Over time, this reduces the cost to acquire and the cost to serve our customers, and put together, lifetime value of customers is significantly enhanced. To achieve this, it's very important to have happy and engaged colleagues who then look after your customers.

We're very encouraged by the acceleration in recurring revenue in FY19. We entered the year with momentum and added sequential ARR every month in the year, putting us further ahead in our transition to Sage Business Cloud than anticipated. We've also made significant progress in our strategic execution, particularly in the development and roll out of our cloud offerings and the reshaping of our portfolio. We will continue to prioritise high quality recurring revenue growth over SSRS, and whilst we do not expect a linear progression in financial performance during this multi-year transition, our recent strong performance and continued progress towards becoming a great SaaS company means that we look forward with confidence."

**Steve Hare**  
Chief Executive Officer

ARR growth  
of 12.6% to

**£1,685m**

Sage Business Cloud  
penetration

**48%**

Software subscription  
penetration

**55%**

Renewal by  
value

**101%**



Read more on pages 8 to 9

### Can you tell us about what strategic progress you've made against each of the strategic lenses in the year?

I'm really pleased with the progress we've made in the year.

In Customer Success, upgrading our internal solutions and tools is allowing us to embrace a closer relationship with our customers so we can understand how best to serve them.

We have also re-shaped the organisational design to allow a more customer-centric view of the market. This includes creating 'small' and 'medium' business segments in the organisation to ensure we are focused on providing the best support to these customers. And I have made promotions to my Executive Committee to reinforce this organisational design.



**See more on the Executive Committee on page 69**

In Colleague Success, we have spent time training leaders to ensure they are fully aligned behind the transition to a SaaS model and we have invested in colleague engagement and experience to continue to make Sage a great place to work.

One example of how we've improved engagement is through the Big Conversation. This was a three day online forum to engage with colleagues and understand their key priorities. There were thousands of comments left by our colleagues and the feedback has helped shape decision-making and culture of the Company, including setting the new Sage values which launched at the start of FY20.

And in Innovation, we have shown significant progress in developing our cloud native portfolio:

- Sage Intacct has been launched in Australia and the UK in 2019 with further plans to launch in South Africa in 2020;
- We have invested in Sage Accounting in FY19 and will launch a more functionally rich tier of this solution for Professional Users in 2020, starting in the UK. Together, they provide the small business solution for cloud native accounts, to acquire new customers and, over time, offer a migration path for existing Sage 50 customers.
- We also announced the small but strategically significant acquisitions of:
  - AutoEntry, a provider of data entry automation; and
  - Allocate.AI, technology that enables automation of time tracking, project planning and resource allocation, to enhance the portfolio of cloud services within Sage Business Cloud.

### And what have you done to simplify the organisation?

The purpose, vision and strategy have been instrumental in enabling colleagues to focus on what's most important in the business.

Aside from this, we have also split our products into two portfolios: we now have the majority of our products in the Future Sage Business Cloud Opportunity, which represents products in, or with a clear pathway to, Sage Business Cloud. And we also have the Other portfolio, a smaller set of products where we do not see a path to Sage Business Cloud.



**The purpose, vision and strategy have been instrumental in enabling colleagues to focus on what's most important in the business."**



**See more about purpose, vision and strategy on pages 2 to 3**



I want to build on what we've achieved in FY19 and continue to demonstrate strong strategic execution into FY20 and beyond as we become a great SaaS company.”

In order to focus on subscription and the cloud, we are disposing of or finding other value creation paths for products within the Other portfolio and we have made good progress in the year: we disposed of the US Payroll Processing business in February 2019, we have announced the agreement to dispose of Sage Pay UK and the Brazilian business is now held for sale.

#### How are you measuring your success?

The leading financial metric is growth in high quality recurring revenue. In FY19 organic recurring revenue growth was 10.8%, which surpassed expectations and shows our continued focus on driving revenue on subscription and the cloud.

But how we achieve success is equally as important. We implemented four strategic KPIs in April 2019 to demonstrate Sage's progress in transitioning towards a SaaS company.



[Find out more on pages 8 to 9](#)

These KPIs show how we achieve success, and reinforce the quality of our performance, and I'm delighted to say we have made significant progress against each of these KPIs in FY19:

- We delivered ARR growth of 12.6% to £1,685m reflecting growing momentum in high quality recurring revenue at the end of the year with the business continuing to show sequential progression in recurring revenue over time;
- Software subscription penetration is now 55% as the business continues to transition existing customers and attract new customers to subscription and the cloud;
- Sage Business Cloud penetration is now 48% as the business continues to focus on core solutions which have a direct pathway to Sage Business Cloud; and
- Renewal by value remains strong at 101% demonstrating the strength of the existing customer base.

#### What are your main priorities for FY20?

I want to build on what we've achieved in FY19 and continue to demonstrate strong strategic execution into FY20 and beyond as we become a great SaaS company.

In Customer Success, we will continue the roll out of systems, solutions and processes, as well as embedding the more customer-centric view of the market through the new organisational design.

In Colleague Success, we will continue to focus on colleagues and leaders and we have introduced a new set of values, which we will work on embedding throughout the year.



[Find out more on pages 16 to 29](#)

In Innovation, we will continue to invest in Sage Business Cloud, developing and rolling out cloud solutions, as well as continuing to drive adoption of cloud services amongst customers.

#### What is your guidance for FY20?

Building on the significant ARR created in FY19, we expect recurring revenue growth of 8-9%, driven by strong ongoing performance in the Future Sage Business Cloud Opportunity, as we continue to focus on attracting and migrating customers to Sage Business Cloud. Other revenue (SSRS and processing) is expected to decline by high single digits in line with this focus, and organic operating margin is expected to be around 23%, as Sage continues to invest in the transition to SaaS.

#### Strategic Report for FY19

Our Strategic Report on pages 2 to 65 has been reviewed and approved by the Board.

**Steve Hare**  
Chief Executive Officer

# OUR STRATEGY

We are focused on three strategic lenses to help us become a great SaaS company





## CUSTOMER SUCCESS

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



See more on pages 18 to 21



## COLLEAGUE SUCCESS

Creating an environment that values the individual, fosters collaboration and rewards all colleagues.



See more on pages 22 to 25

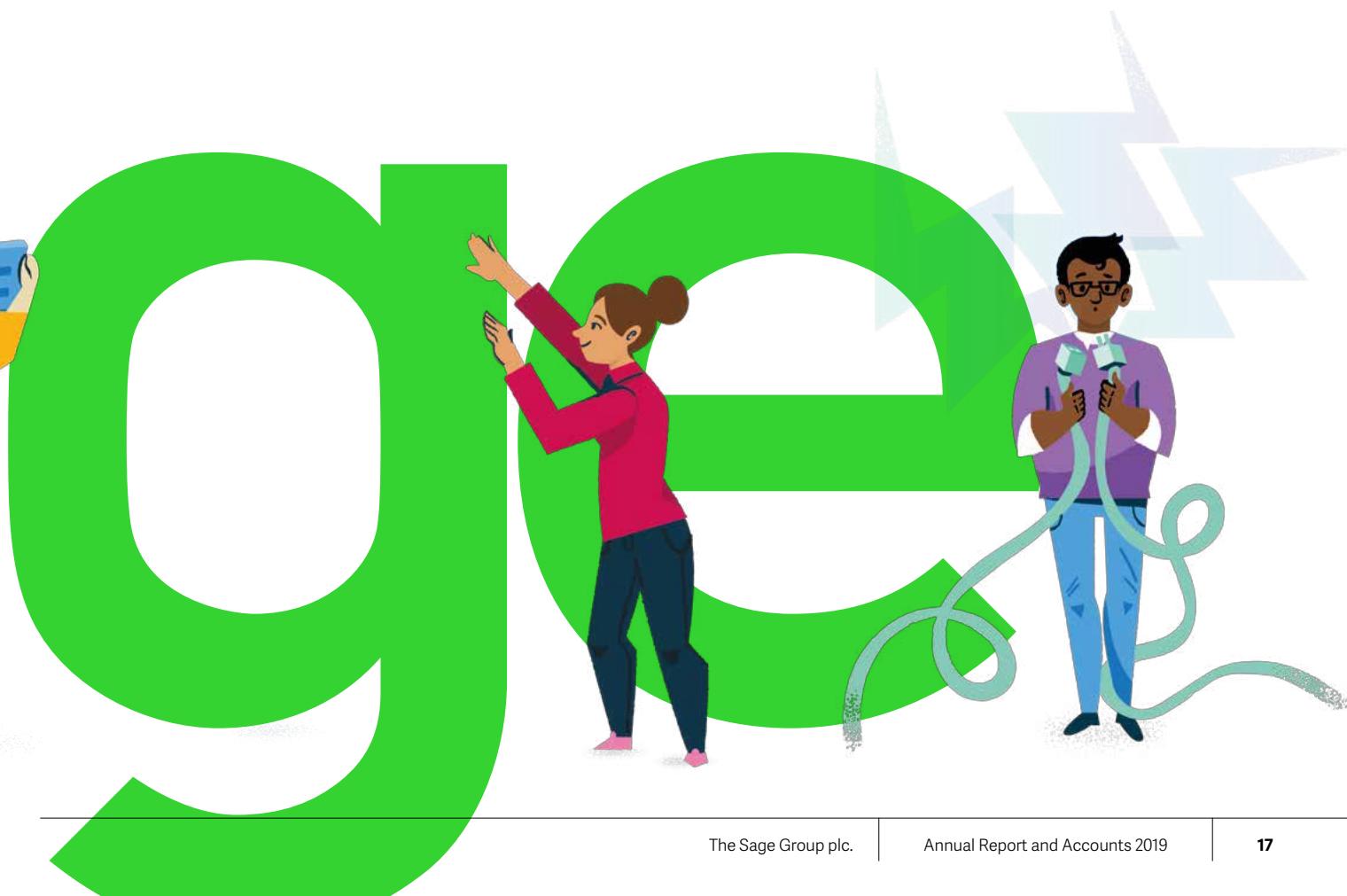


## INNOVATION

Creating solutions that deliver real customer value and solve real customer problems by doing things differently, leveraging incremental, emerging and experimental innovation.



See more on pages 26 to 29





“

Our business can't work without Sage and as our business becomes more complex, Sage will help us manage that.”

**Pukka Pads**



# CUSTOMER SUCCESS

Customer Success is driven by creating enduring subscription relationships and having a customer-centric approach in everything we do.

## Becoming a great SaaS company means supporting our customers every step of the way

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

Throughout FY19, Sage has focused on Customer Success to embrace a closer relationship with the customer, understanding what they need to allow them to be more successful.

### Pukka Pads: A Sage customer



#### Pukka Pads

The Pukka Pad Group was founded in 1999 and is a leading global manufacturer and supplier of a wide range of stationery items, including paper pads, notebooks, files and journals.

Pukka Pads has integrated Sage 200 Cloud, which is proving to be a massive success. The Group is able to keep control of its stocks, process orders and consolidate financials, which is key for a global brand.



Turn the page to see how we engage with customers across the journey

### In FY19 the business has been focused on the following:

**1**

#### Solutions and processes

During FY19, Sage has invested in a single customer relationship management (CRM) system, to provide a single view of the customer. By doing this, Sage has improved quality of data and customer insight so we can understand what the customer wants more effectively and tailor the sales approach to meet their needs.

This process is now complete in the UK with the US expected to complete in H1 2020, as well as launching in other major geographies.

Sage has also focused on continuing the digitisation of the customer services function. Instead of phone conversations alone, the customer now has access to web chat, AI, online forums and communities.

This model also allows for 24/7 customer support, leveraging Sage's global presence to provide call sharing across regions. The outcome is building deeper customer relationships, reducing wait times and improving customer experience.

**2**

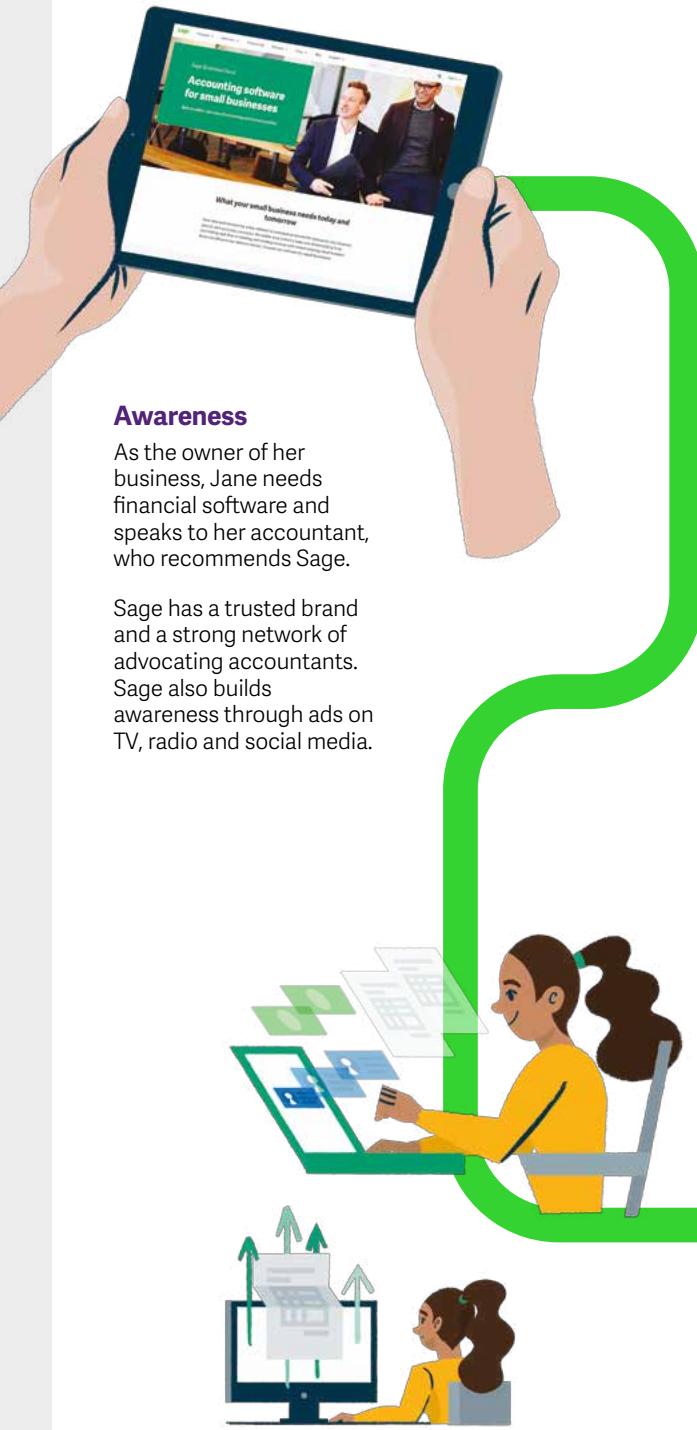
#### Understanding and embedding the customer lifecycle journey

Over the past five years, Sage has been successfully transitioning from an on-premise licence-based model to one of subscription and the cloud. In a licence world, the sale to the customer is the number one priority. In a subscription world, the sale is just the start of the customer journey.

In FY19 Sage has mapped out and embedded the customer journey lifecycle within the organisation. We have embedded systems, solutions and processes and have also trained colleagues so they understand the importance of each step of the customer journey.

#### How we measure our progress

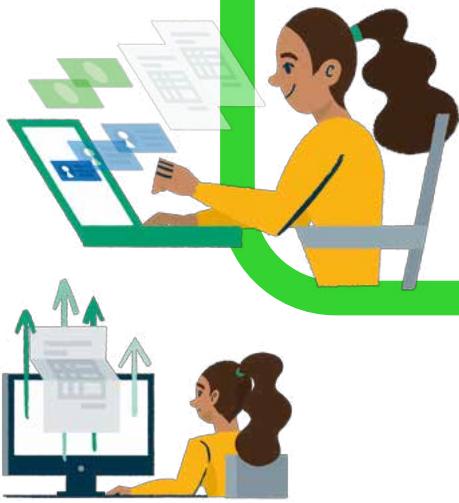
- NPS
- Renewal rate by value



#### Awareness

As the owner of her business, Jane needs financial software and speaks to her accountant, who recommends Sage.

Sage has a trusted brand and a strong network of advocating accountants. Sage also builds awareness through ads on TV, radio and social media.



#### Land

Jane goes online to sage.com. The website provides her with all she needs to know about which software to choose, plus advice on how to successfully build her business.

# Small business journey

In the following example, Jane is the founder and owner of a small graphic design business. She likes to work very closely with her clients to deliver the most creative solutions. Jane needs financial software that she can trust, which will easily automate accounting and compliance. This means that she can spend more time focusing on her customers.



#### Adopt

Jane signs up for a cloud accounting subscription and can easily start using the application. Sage follows up with a welcome call, offering to answer any questions that she has.

Jane and her accountant can both access her data through the cloud.

## Service

In-app pop-ups highlight new features and additional functionality, which helps Jane run her business more effectively.

Sage also provides an in-product help centre, supplemented by web chat, AI, online communities and phone support.



## Renew

Sage uses feedback from Jane to constantly improve the customer experience. Jane feels she has had strong support from Sage throughout the year. She renews her software subscription and recommends Sage to her peers.



## Expand

As Jane's business grows, she starts to expand her team. By staying close to Jane, Sage understands that her needs are evolving. Jane signs up for cloud payroll and HCM software to integrate more of her business seamlessly within Sage.



**See our business model on pages 4 to 5 to see how we deliver value for all stakeholders**



# COLLEAGUE SUCCESS

Sage is committed to building a culture that fosters collaboration and open, honest dialogue and where colleagues feel connected to Sage's vision, putting customers at the heart of everything we do.

Supporting motivated colleagues further supports the success of Sage's customers, helping their organisations to thrive.

There has been significant progress made in developing Colleague Success in FY19, focusing on both leadership and colleagues.



## Becoming a great SaaS company means listening to our colleagues to find out what matters



**Amanda Cusdin**  
Chief People Officer



Sage continues to place colleague success, diversity and inclusion and wellbeing at the heart of what we do, making Sage a place where colleagues can reach their full potential and bring their whole selves to work.”

### Leadership

During FY19, the 40 most senior leaders have been enrolled in an executive development programme to ensure they are fully aligned on Sage's transition to a SaaS model. The programme involves nine days of face-to-face interaction, with additional one-to-one coaching and peer support through the entire year, with specific focus on the purpose, vision, strategy and leadership behaviours.

### Colleague engagement and experience

In order to build a culture that fosters collaboration and open, honest dialogue and where colleagues feel connected to Sage's vision, Sage has focused on increasing engagement with colleagues and improving the colleague experience.

The Big Conversation is a key example of building engagement internally and further details of this are set out on pages 24 to 25.

Sage also carries out quarterly pulse surveys amongst all colleagues. Using the latest analytics tools, the survey data can be analysed within 48 hours to quickly understand and respond to colleague feedback. Engagement has improved dramatically, with response rates of 84% at the latest survey, up from 52% in FY18 and with 14,000 comments made during the latest survey. The survey also showed an increase in employee NPS of 22 points since Q4 FY18.

The Sage Foundation continues to be an important asset to attract and retain the best talent. In FY19, 31,250 Foundation days were taken by colleagues.

### How we measure our progress

- Colleague NPS
- Voluntary attrition
- Sage Foundation days

# THE BIG CONVERSATIONS THAT MATTER

“

We need to make sure we are rewarding the right kind of behaviours that are truly representative of a business doing things the right way.”

The Big Conversation took place in June 2019. The three-day-long exercise encouraged all 13,000 colleagues to log in and engage in an online conversation.

“

I do feel empowered to voice my opinion and bring ideas to the table as well as actively listen to my team members' ideas too.”

#### The Big Conversation

The Big Conversation took place in June 2019. The three-day-long exercise encouraged all 13,000 colleagues to log in and engage in an online conversation. The engagement in the Big Conversation resulted in 9,000 comments from 3,700 participants across 23 countries. Topics covered colleagues' experiences, ideas and potential action points as Sage implements the next phase of its cultural transformation.

Analysis from the Big Conversation has helped Sage to build a fresh set of values and behaviours, shaped by the passion of its colleagues. The new values and behaviours guide how colleagues interact with each other and with customers. By living these values and behaviours, Sage colleagues can succeed together and do the right thing for customers. This helps build a winning SaaS culture, ensuring the Colleague Success that underpins our purpose and vision.

**3,700**  
participants

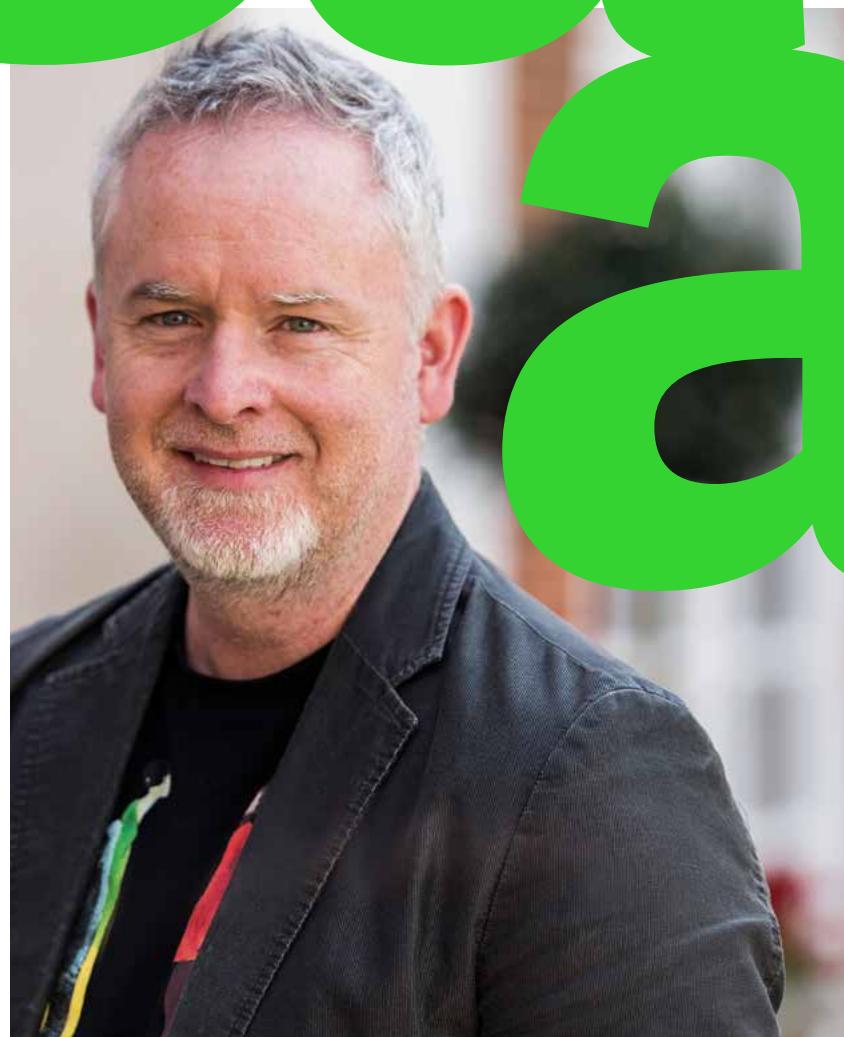
**23**  
countries

**9,000**  
comments



# INNOVATION

**Aaron Harris, Chief Technology Officer**  
outlines his strategy to revolutionise the business



Innovation at Sage means developing solutions that deliver real customer value and solve real customer problems by doing things differently, using incremental, emerging and experimental innovation.

# Q&A

## Becoming a great SaaS company means delivering technology that truly transforms our customers' businesses

### Aaron, tell us what innovation means to you:

To me, innovation means solutions that deliver real customer value and solve real customer problems by doing things differently. Every function within Sage can deliver customer value through innovation. In fact, the transition from on-premise software to cloud software requires Sage to integrate all customer interactions, from marketing and sales to service and support to billing and payments, into a digital customer journey.

### What have been your first impressions of innovation at Sage since you became CTO?

I've been incredibly impressed by the level of innovation at Sage. Sage colleagues are passionate about their products and customers and embrace modern approaches to software development. Sage has significant resources and assets to leverage across its global network of partners, customers and colleagues to allow innovation.

The issue at Sage is not innovation: it's integration. In the past, Sage has been constrained by fragmented product development and a disconnect between product and go-to-market, which have failed to align customer requirements and development priorities.

### So how do you fix this?

The aim in FY19 has been improving Sage's integration capabilities with the ongoing product portfolio rationalisation and aligning the operating model to a more customer-centric view, supported by the strengthened SaaS focus in the Executive Committee. We're starting to see a difference already and this will continue into FY20.

### Where do you see Sage software heading in the future?

Sage is leading efforts to transform periodic, manual processes that often focus on past activity to continuous, automated processes with a view to the future. There are three areas that we are continuing to focus on:

- Eliminate the Close: We will drive automated, real-time capture of business activity. Periodic reconciliation will be replaced by continuous reconciliation and repetitive close activities will be automated. Management will have insight into their business performance at any point, in real-time, instead of several days after the period close.
- Build Continuous Trust: We will monitor all business activity in real-time to discover anomalies. We will evolve inefficient controls designed for humans into intelligent exception management systems. This will transform the audit from a point-in-time, regulatory activity into a continuous, strategically valuable activity.
- Push Active Insights: We will empower our customers with insights into performance, identifying future opportunities and risks. We will actively monitor business activity to identify trends and insights. We will deliver powerful embedded analytics, augmented with AI, to enable rich, interactive discovery.

# Can you give us some examples of innovation at Sage in FY19?

There are so many things I could talk about, but let me pull out four examples:

## Sage Accounting

The Sage Accounting team demonstrates excellent adherence to modern cloud development principles, allowing them to rapidly deploy new versions without disrupting service. For instance, the team has built a bot to automate the build and deploy process so several versions can be deployed every day, leading to a better customer experience and more connected digital journey. Customer feedback has been terrific, with Sage Accounting NPS rising by 24 points in the year.

## Sage Intacct

Sage Intacct has developed several new capabilities powered by artificial intelligence and machine learning, including contract renewal forecasting, AI-powered timesheets and transaction anomaly detection. In fact, Sage Intacct engineers have applied for two patents derived from this work.

## Service Fabric

Service Fabric is an excellent innovation example. Service Fabric is the architectural 'glue' of Sage Business Cloud; a collection of cloud native services that can enable commonly required capabilities, like bank feeds, payments and VAT, into any of Sage's cloud solutions, instead of developing separately in each product. Separating these capabilities into modern web services allows the team to move fast and leverage its scale. For example, Sage was first to market supporting customer compliance with the "Making Tax Digital" legislation in the UK, a significant growth driver for Sage in the year.

## Pegg

Pegg, the world's first accounting chatbot, continues to evolve. From its origins as a social-media based bot, Pegg is now supplementing support for dozens of Sage products in three languages, handling up to 500 requests per hour.



## Innovation

San Francisco's premier performing arts centre, Yerba Buena Center for the Arts (YBCA), runs a non-profit facility that hosts its own cultural programming and offers discounted community rentals for local theatres and artists, as well as commercial rentals.

YBCA implemented Sage Intacct to streamline its business systems, move to the cloud, and establish better financial visibility. By adopting the new system, YBCA improved finance productivity by 25%, saved \$30,000 in personnel costs and increased budget accuracy by 30%. Sage Intacct also provides YBCA with understandable reports that have visual impact. This provides timely insights, helping non-finance personnel to make crucial programming decisions and track how the Center is performing against its mission.

## How we measure our progress

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

# Can you tell us more about how you're building out Sage Business Cloud?

**FY19 has been a significant year for investing in the cloud native portfolio, both in terms of solution development and geographic availability:**

Sage Intacct, formerly only available in the US and Canada, was launched in Australia in August 2019 and the UK in November 2019, with both regions gaining their first customers, as well as launching in South Africa in 2020.

Sage has invested in Sage Accounting in FY19 and will launch a more functionally rich tier of this solution for Professional Users in 2020, starting in the UK. Together, they provide the small business solution for cloud native accounts, to acquire new customers and, over time, offer a migration path for existing Sage 50 customers.

Sage has also completed the acquisitions of small but strategically significant assets:

- AutoEntry, a leading provider of data entry automation for accountants, bookkeepers and businesses. AutoEntry's technology utilises Artificial Intelligence (AI) and Optical Character Recognition (OCR); and
- Allocate.AI, technology that enables businesses to automate time tracking, project planning and resource allocation.



**Read more about Sage Business Cloud on page 4 of our gatefold**

## Sage Business Cloud product portfolio

### Sage Accounting

Sage Accounting allows small businesses to professionally manage their business, from invoicing and expense management, to compliance and tax.

Enables customers to connect and collaborate with their accountant/bookkeeper through a single platform, with all the data in one place.

### Sage Payroll

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

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

### Sage Intacct

The AICPA's only preferred Financial Management system, Sage Intacct provides best-in-class, multi-dimensional analysis and industry-specific capabilities to automate complex processes and improve company performance.

### Sage People

Transforms the way multinational organisations manage and engage their workforce.

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

### Sage X3

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

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

### Cloud connected solutions

Cloud connected solutions, Sage 50cloud and Sage 200cloud, provide the power and productivity of the desktop, with the freedom and security of the cloud. Sage continues to invest in these solutions, building up cloud functionality so customers can access more of the benefits the cloud brings.

# NON-FINANCIAL INFORMATION STATEMENT

Every day, we support and enable the success of our customers, colleagues and partners around the world. Those who look deeper, reach higher and strive harder. They are the people that fuel the global economy and drive worldwide progress. It is our responsibility to ensure we do the right thing for their continued success.

## Non-financial information statement

### **Ethics & Governance**

Human rights	pg.41
Code of Conduct	pg.41
Suppliers	pg.41
Anti-bribery & corruption policy	pg.41
Tax strategy	pg.41

### **Environment**

Direct and indirect GhG emissions	pg.44	Social	
Environmental policy	pg.43	Gender diversity	pg.34

## OUR PEOPLE

Striving to be our best in an environment which embraces colleague experience, diversity, inclusion and wellbeing.



[See more on pages 32 to 35](#)

## OUR CUSTOMERS

Championing small businesses and entrepreneurs.



[See more on pages 36 to 37](#)

## SAGE FOUNDATION

Giving back to the community through voluntary work and fundraising.



[See more on pages 38 to 41](#)

## THE ENVIRONMENT

Committed to managing our use of resources and proactively managing our environmental impact.



[See more on pages 42 to 45](#)

### Section 172(1) statement

The Directors are well aware of their duty under s.172 of the Companies Act 2006 to act in the way which they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole and, in doing so, to have regard (amongst other matters) to:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company,

(the "s.172(1) Matters").

Induction materials provided on appointment include an explanation of Directors' duties, and the Board is regularly reminded of the s.172(1) Matters, including as a rolling agenda item at every Board meeting.

In preparation for the Company's implementation of the UK Corporate Governance Code July 2018 (the "2018 Code"), and anticipating the new reporting requirements applicable from FY20, during the year the Board undertook a review of the actions it currently undertakes to comply with s.172. The review included an analysis of how the Board currently engages with its stakeholders and considered recommendations on how such engagement could be enhanced.

Further information on the steps taken during FY19 in order to prepare for full compliance with the 2018 Code in FY20 are set out on page 70. Information on how the Directors have had regard to the s.172(1) Matters can be found on pages 82 to 84.

“

Colleague Success to us means making Sage a great place to work for our people – a place they can bring their whole selves, do the best work of their career and deliver the best experience for our customers in a high-performing culture. Applying this lens to all of our People activity in FY19 has led to a positive cultural shift and greater colleague engagement, with all our core people metrics trending in the right direction. We have strong momentum as we head into FY20.”

Amanda Cusdin  
Chief People Officer

# OUR PEOPLE





**Amanda Cusdin**  
Chief People Officer

In 2019, Sage has focused on putting people at the heart of its business. With Colleague Success as a strategic lens, we have transformed several key areas to ensure we make Sage a place where colleagues can reach their full potential and bring their whole selves to work.

## Leadership development and talent management

During the year, we made several leadership changes to strengthen the executive team through both talent management and external recruitment. Rob Reid joined the Executive Committee and Keith Robinson was appointed as an Executive Committee advisor in October 2018. Steve Hare was appointed as Chief Executive Officer in November 2018 and we welcomed Jonathan Howell as Sage Group's Chief Financial Officer in December 2018. Aaron Harris transitioned from leading Sage Intacct's technology vision to become the Group's Chief Technology Officer in April 2019 and at the same time, Lee Perkins was made Chief Product Officer and appointed to the Executive Committee. In October 2019, we announced three new internal Executive Committee appointments to accelerate our SaaS strategy. Marc Linden was appointed to EVP and General Manager, Medium Segment Native Cloud Solutions, Sue Goble was appointed Chief Customer Success Officer and Derk Bleeker was appointed Chief Corporate Development Officer.

Additionally, to further strengthen our leadership capability we have partnered with the well known organisational psychology firm YSC. Through this partnership we have enhanced our selection approach for senior leadership roles, introduced a new model of potential into Sage enabling us to bring greater focus to internal talent development and strengthened the individual development plans for our most senior leaders through the insight which the YSC process brings.

Our commitment to developing our senior leaders saw the launch of the Executive Team Development Programme (ETDP) in April 2019 in partnership with the London Business School. This is building the individual and collective capability of our most senior 40 leaders at Sage as we become a great SaaS company. The programme involves nine days face to face delivery spread across 12 months, three of which took place in FY19, and supported by coaching and peer support through the entire year.

Leading@Sage – which targets line managers and equips them with the skills and capability to create high performance within their teams – has also continued its success. Over 70% of our leaders now have 'licence to lead'. We continue to evolve the curriculum and look for opportunities to reinforce the programme outside the classroom with ongoing coaching and support from our People Leaders and senior leaders.

In January we launched Growing@Sage, an initiative open to all colleagues which offers self-development modules in areas such as time management, presentations with impact and project management fundamentals. This initiative was launched in response to colleague feedback around personal development, and 339 modules were delivered globally in FY19.

We have consolidated our Sage Welcome so that all colleagues who join Sage experience a consistent and compelling introduction to the Company. In FY19 we delivered 103 sessions across the globe.

### Board gender diversity

**7 (70%)**  
Male

**3 (30%)**  
Female

### SMT<sup>1</sup> gender diversity

**82 (61%)**  
Male

**52 (39%)**  
Female

1. SMT refers to c.150 leaders in Sage including Executive Committee and Executive Team members.

## Sage behaviours

Strategy	Customer Success	Colleague Success	Innovation
Values	We do the right thing		
<b>Anchor behaviours</b>	<b>Start with our customer</b> <b>Insight:</b> Walk in our customers' shoes to gain data and insights that drive decisions <b>Focused pace:</b> Focus on customer and partner priorities and move at speed <b>Adaptation:</b> Iterate and learn to meet changing customer needs	<b>Together we succeed</b> <b>Care:</b> Value, respect, back each other and support our local communities <b>Accountability:</b> Do what we say we will do and be our best every day <b>Collective responsibility:</b> Connect and solve problems together	<b>Innovate to win</b> <b>Seek diversity:</b> Be open and curious to learn from anyone, anywhere <b>Transparency:</b> Debate and explore openly and directly <b>Courage:</b> Show a competitive mindset by taking calculated risks, testing, trialling, and learning to move forward

## Values

Sage has refreshed its values and behaviours, which have been rolled out across the organisation from October 2019. The selection process was collaborative, drawing from feedback across both leadership and colleagues.

The design principles were based on ensuring the values and behaviours aligned to the three strategic lenses, matching culture with business strategy, and combining behaviours leaders want to drive strongly with the behaviours colleagues feel passionately about.

These new values and behaviours will help ensure that colleagues and leaders are fully aligned behind the transition to a great SaaS company, always doing the right thing for the organisation and our stakeholders.

## Colleague experience and engagement

'Colleague Success' as a strategic lens in FY19 has led to significant changes in colleague experience and engagement at Sage. We have focused on creating an inclusive culture which supports our colleagues to achieve their full potential.

Listening to and addressing colleague feedback has been an important part of putting our people at the heart of our business this year. To do this effectively, we have put in place a new colleague experience team and undertaken initiatives like 'The Big Conversation' (see pages 24 to 25 for additional information which has resulted in the development), of new core values and behaviours which launched at the beginning of FY20 (see above).

We also listen to colleagues through our ongoing quarterly pulse surveys. These are designed to allow colleagues to give feedback more regularly, and in a quick and consistent way, on what we're doing well on and the changes they want to see. The progress on the level of participation has increased significantly with 84% now taking part, indicating the high engagement of our colleagues as we make Sage a great place to work. Overall employee engagement has increased 22 points.

Manager Index – which measures how positively colleagues feel about the way leaders are supporting their success at Sage – is up to 85%, an increase of 6%, while 64% would recommend Sage as a great place to work, up 4% from October 2018. These insights combined with the Big Conversation have fuelled specific actions at the leader, functional and organisational level.

As an example, feedback from the pulse surveys was a big driver in the changes to performance management this year. We launched a new programme, 'Look, Evaluate, Assist and Deliver' (L.E.A.D.), which focuses on continuous feedback and development rather than retrospective feedback and annual assessment, and sees a more regular review process between managers and their teams. 'L.E.A.D.' is also fully integrated with our people management system – Sage People – so colleagues can continuously log feedback and progress against the goals and measures set out at the beginning of the year. It has been well received by colleagues, with over 1,400 colleagues nominating their managers to appear on Sage's 'Manager Wall of Fame' in recognition of helpful and informative reviews following L.E.A.D. reviews in June and July.

## Diversity and Inclusion

Lastly, we have reviewed the bonus process in FY19 to drive cultural change in our organisation. This year, 50% of the majority of colleagues' bonus potential is linked to their personal performance, and 50% linked to the Company's financial performance. This simplified bonus plan aims to give managers more autonomy over the potential reward of their teams, and give more clarity on our measures.

Focusing on colleague touchpoints has resulted in increased engagement in addition to our CEO being rated on Glassdoor as one of the top CEOs in the UK. We will build on this in FY20, with a focus on ensuring colleague recognition – both peer to peer and from leaders – is encouraged across the organisation.

### Year-end colleague count split by region

**12,643**

All colleagues

**4,436**

Central & Southern Europe

**2,918**

International

**2,936**

Northern Europe

**2,353**

North America

### Total workforce gender diversity

**6,817 (54%)**

Male

**5,733 (45%)**

Female

**93 (1%)**

Prefer not to say

Sage's commitment to Diversity & Inclusion (D&I) further accelerated in FY19, with Sage Foundation EVP Debbie Wall's brief extending to include D&I, and the launch of a D&I Council, chaired by the Chief Executive Officer and Chief People Officer.

The Council's purpose is to connect the business with our D&I strategy at a senior level, ensuring tight alignment of priorities between engagement and D&I with our overall business strategy. The group, consisting of colleagues from differing levels and regions across the organisation, helps monitor our global progress against goals and targets set as part of the D&I strategy.

Over these sessions Council members agreed goals to support Sage's strategy across current areas of focus: Gender Equality, Inclusion@Sage and Health & Wellbeing. Sage has pursued several initiatives that fall under these areas of focus over the year:

## Champions programme

Sage's D&I Champions programme continues to go from strength to strength, providing on-the-ground support in rolling out Sage's D&I strategy around the world, while an increasing number of Pride@Sage teams are helping several hundred colleagues to shape a more inclusive culture at Sage. They were responsible for Pride@Sage month, which was celebrated globally. Hundreds of colleagues took part in educational workshops, discussion forums, shared personal stories, fund raised and attended pride marches to promote a safe, supportive environment for LGBTQ+ colleagues at Sage.

## Partnerships

Sage entered into global partnerships with charities ENEI (The Employers Network for Equality & Inclusion) and Stonewall to support our future focus on inclusivity at Sage. With Stonewall, a UK-based LGBTQ+ charity, Sage became a Global Diversity Champion in June 2019. The charity will now support Sage to understand what we are doing well to promote LGBTQ+ inclusivity and what areas of growth should be focused on in FY20. This commitment to LGBTQ+ colleagues is now visible through the Stonewall badge on colleagues' email signatures.

## Sage D&I awards

Sage's D&I awards returned for the second year, including the same five categories as 2018, plus an additional sixth category themed around Sage Foundation. Colleagues voted for 'Inclusive Leader', 'Inspirational Woman of the Year', 'Unsung Star', 'Mentor of the Year', 'Making a Difference' and 'Sage Foundation Ambassador of the Year'. Nearly 4,000 nominations were made, with winners receiving a six-month mentorship with the Sage Executive Sponsor of their award, plus a \$250 donation to a Sage Foundation registered charity of their choice.

## Health and Wellbeing week

Health and Wellbeing week ran globally and reconnected colleagues with information from vital life saving first aid tips, healthy eating and mindfulness to personal stories and external speakers on mental health. Additionally, leaders wrote powerful insights on what they do to safeguard their own health and wellbeing. This included raising the profile of Sage's Mental Health First Aiders in the UK, showcasing the sources of external crisis support available to all of us as Sage colleagues.

In regionally specific activations, Sage is rolling out a transformation strategy for South Africa to support skills development, advance employment equity, empower black-owned enterprises, and address youth unemployment. In Atlanta, Sage hosted a collaborative business forum bringing together the region's civic and business leaders to discuss Atlanta's current D&I landscape, and opportunities for a more inclusive future. And the UK saw the launch of 'Sage Pathways', an initiative we've developed to ease candidates back into the workplace after a long absence. By the end of 2019 the first nine candidates will be in post and we're looking at expanding the pilot out across other markets.



# OUR CUSTOMERS

**Supporting customers as they navigate  
the current complex landscape**

No matter where Sage's customers are on their journey, we are committed to helping them manage complexity so they can thrive. We do this through the intelligent technology we provide them with to manage finances, people and operations, and also through championing their causes to help drive customer success.

As a market leader in business management solutions, Sage has a platform to table the issues facing small and medium businesses and ensure their voices are heard. In an age of increasing complexity and uncertainty, both politically and economically, Sage remains committed to three priorities: surfacing insight that highlights customer challenges; holding events and panel discussions that allow businesses to talk directly to each other and politicians; and campaigning to change policy for the better. Here are a few ways we've supported our customers this year.

## Brexit debate

Over the course of the year, we've held several events giving customers the opportunity to speak directly to politicians about Brexit. In February, Sage's UK Managing Director Sabby Gill chaired a roundtable in the House of Commons to mark the launch of a Whitepaper, 'Preparing Business for Brexit', and bring some of our enterprise customers face to face with Brexit decision makers. Our local MP for North Park Catherine McKinnell MP hosted – and Gillian Keegan MP and PM's business envoy William Vereker were guest speakers. All three took questions from our customers and gave advice on how best to prepare for Brexit.

Sage's Chairman Sir Donald Brydon also hosted a customer roundtable, Best Trading Arrangement for SMEs post-Brexit, in partnership with Department for Exiting the EU Minister Chris Heaton-Harris and policy think tank Reform. Customers voiced their concerns about dwindling orders, future sentiment, impact on ease of movement and future relationships with European customers, and gave clear direction to the Minister on the requirement for ongoing communication from the Government to cut through speculation around Brexit.

In addition, Sage has provided extensive advice for all businesses, including an in-depth Guide on How to Prepare for No Deal.

## Digitising tax

Many governments, including in the UK, Spain and Australia, are creating a digital tax reporting environment to help create efficiencies for business. Sage is committed to supporting businesses as they transition to a more digital way of working, and has developed relationships with relevant government departments to ensure the concerns and needs of businesses during this transition are addressed. For example, in the UK, Sage has worked closely with Her Majesty's Revenue & Customs (HMRC) to educate customers and the wider business community on the introduction of Making Tax Digital (MTD). Over 250,000 businesses used Sage's online MTD hub to help get them prepared, which provided them with free resources including expert-led webinars; online blogs and toolkits; information about upcoming MTD events; and other informative digital content.

Additionally, we are currently running a national campaign with small business advocate Peter Jones, who is well known for his work on BBC's Dragons' Den, to continue to raise awareness of MTD. In March 2019, we kicked off a series of 12 roadshows right across the country, from Exeter to Glasgow,

providing in person support and advice, in addition to providing free telephone consultations about MTD to any business which had an interest in MTD and wanted to receive advice on how to prepare.

## Trade

One area our customers continually seek advice on is trade, especially within the current context of political and economic uncertainty. In July, we launched a global initiative, We Power the Nation, which surveyed 3,000 small, medium and large businesses across 12 markets. We analysed the appetite, challenges and opportunities for trade and the role of technology across the globe, with an emphasis on overseas trade specifically, as half of those surveyed recognise themselves as exporters.

The research was shared across the world using various channels; in Malaysia, Sage hosted a roundtable to launch the research in the region with regional trade organisation MATRADE. The research was widely cited by regional press, and gave an optimistic view of the trading environment and opportunity in Malaysia.

## Productivity gap

In addition, the We Power the Nation research updated Sage's 2018 insights into global productivity, in particular the impact the admin burden is having on small and medium businesses. The study reveals that the global 'Productivity Puzzle' is far from solved – in fact it has worsened.

The total amount of economic value lost to admin in the last 12 months totalled £446bn, an increase of 2.6% compared to the year before. This £446bn figure is costed time spent during an average working week on unproductive administrative tasks. This could be significantly reduced for small and medium businesses by using technology and digital tools.

## Atlanta diversity

In Atlanta, Sage hosted a collaborative business forum bringing together the region's civic and business leaders to discuss Atlanta's current Diversity & Inclusion (D&I) landscape, and opportunities for a more inclusive future. The event featured an array of senior business leaders from organisations such as Amazon Web Services, Cardlytics, First Data, Google Fiber, the Atlanta Hawks, UPS and others following months of focus groups among the companies, facilitated by Sage.

It saw the launch of Sage research which found that while diversity and inclusion are becoming more mainstream in the local business community, the majority of organisations need better data and metrics to make these changes sustainable. 46% of respondents said they needed clearer D&I performance indicators, on data including the number of promotions for women. The report reveals a significant increase in education, training and awareness for employees as indicators of this change, with 69% of Atlanta-based organisations actively making updates to their D&I processes to foster a more inclusive workplace.



# SAGE FOUNDATION

Bringing colleagues together for good

Sage Foundation unifies colleagues and partners in a global programme of action philanthropy, transforming lives to support economic stability and social equality.



## 31,250

The number of working days this year Sage colleagues have spent volunteering, 30% more than last year

## Over £4.2m

The value of those working days spent volunteering

## 292

The number of grants awarded to not-for-profits this year

## \$720,000

Amount of money raised in FY19 to complete last year's \$1 million challenge and start the new \$2 million by 2022 challenge

## 549

The number of non-profits who benefitted from Sage Business Cloud product discounts

## Building an inclusive culture to do more good

We want to increase opportunities for young people, women and military veterans to drive innovation, enhance access to education, promote workforce development and support entrepreneurship.

Our 13,000 colleagues are encouraged to take five paid days a year to volunteer or fundraise for charities. We provide grants for non-profits, promote skills-based volunteering and offer product discounts on our software and cloud solutions.

Successfully driving positive engagement, Sage Foundation helps make Sage an employer of choice. Through an internal communications campaign titled the HAPPY campaign, Sage Foundation was able to increase the number of colleague volunteer days by 30% in FY19.

In September 2019 Sage Foundation conducted a survey with a sample of almost 600 colleagues across multiple markets. 91% of Sage colleagues said that volunteering made them happy, 71% of colleagues said that volunteering created a more inclusive culture at Sage and almost half of the respondents said that volunteering built cohesive teams within the business.

## Signature programmes to support our local communities

Sage Foundation united thousands of charities, colleagues and business partners across our 23 markets last year. Our strategic objectives are aligned to four of the 17 United Nations Sustainable Development Goals: education for all; gender equality; decent work and economic growth; and industry, innovation, and infrastructure.

Through our three signature programmes – **Sage Inspiring Youth, Sage Empowering Women and Sage Serving Heroes** we have a focused approach in how we support local communities across the globe.

### Sage Inspiring Youth

#### Sage FutureMakers AI workshops

Having successfully piloted FutureMakers workshops in the UK and Ireland last year, we plan to roll the programme out to four new markets as well as continuing the AI journey for young people in the UK. Youth between the age of 13 and 17 have been welcomed to the programme in South Africa with USA, Spain and France to follow soon.

The Sage FutureMakers curriculum inspires young people to develop creative solutions using ethical AI to develop those ideas, with the understanding that critical thinking, creativity, and storytelling will be more important than coding in the future.





## Working across communities to incubate solutions: **A Place to Call Home**

Having completed the initial phase of A Place to Call Home with research partner LKMco last year, we used the findings to develop a pilot project where we could intervene in the lives of young people at risk of homelessness. Working with Newcastle charity Family Gateway, we funded support for 11 local young people. The pilot proved that early intervention is not only affordable, but it works. All 11 young people were supported into safe and stable situations and the project brought together Newcastle City Council specialists as well as charity professionals. We introduced the pilot to government funders and fellow businesses to encourage support for a wider roll out of the project.

## Sage Empowering Women

### Fresh Pathways back to work

The Sage Pathways programme seeks to provide women who have been out of the workforce for two or more years, a transition route back to work. In the north of England 85% of people seeking to return to work are women. However, many who have been out of the workplace to take care of family members or because of other commitments lack the confidence to apply for roles and fear that their skills are out of date. This hard-to-reach, talented group of women is generally not looking at recruitment opportunities, which is why we've chosen to support them during this transitional phase. By the end of 2019 the first nine candidates will be in post and we're expanding the pilot into other markets.

## rAlnbow shoots for the stars

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

rAlnbow has received multiple innovation and PR awards, including the UNESCO Netexplo award and Sabre PR Award as well as a Silver Stevie Award. rAlnbow is a finalist in the HiIL (Hague Institute for Innovation of Law) Innovating Justice Award 2019 and is being recognised as a unique innovation that provides a non-human response to a very human problem.

rAlnbow has 15,477 users with 724,612 messages having been exchanged from both sides. Through aggregated high-level data, rAlnbow is able to detect patterns of alcohol abuse, domestic, infidelity, HIV/ Aids, and the impact on children of violent homes.

## Sage Serving Heroes

### Supporting veterans as they transition into business

Our work with veterans continues to expand across the UK, Australia, Canada and the USA. As supporters of the Invictus Games in Australia last year, we produced the Sage Power 50 book, celebrating veteran-owned businesses. The inspirational atmosphere of the Games was an opportunity to encourage veterans to consider the possibilities of transferring their skills into the business world, while also providing these businesses with a promotional boost.

In partnership with the Peter Jones Foundation and X-Forces Enterprise, we funded a mentoring programme introducing entrepreneurship to veterans and service leavers. We have supported two cohorts successfully and are expanding to cater for at least 30 more students with the newly designed Veteran Tycoon Enterprise programme.



## Rising up to the challenge of raising \$2 Million by 2022

In March 2019, CEO Steve Hare announced that Sage had achieved the \$1 Million Challenge – in which he urged all 13,000 colleagues to use their five paid Sage Foundation days to raise money for charities close to their hearts. He immediately followed up the announcement with a new \$2 Million by 2022 Challenge – which colleagues have responded to with enthusiasm. Across our markets, Sage colleagues have been skydiving, swimming, abseiling, running ultra-marathons, cycling to different countries, scaling bridges and more, to raise money for charity. Australian colleagues, along with EVP Sage Foundation and Diversity & Inclusion, Debbie Wall, scaled three peaks in 33 hours raising funds to support youth development charity WhiteLion.

Cycling challenges have been particularly popular with \$85,000 raised in one event alone which saw a team of 32 colleagues, Sage partners, customers and a charity partner cycling from London to Paris in just three days. Alles Rollt (everything that rolls) events in Vienna and Frankfurt attracted hundreds of colleagues, customers, charity partners and Sage partners – bringing together wheelchairs, skateboards, hand bikes, scooters – literally anything on wheels! Colleagues in South Africa took on the gruelling nine-day, 900km Joburg2C ride, stopping to help local communities along the route of the race.

## The secret to happiness

Volunteering and colleague engagement are at the heart of what we do. HAPPY is a global internal campaign promoting volunteering to colleagues. In 2019 it delivered a 30% increase in colleague volunteering, with inspiring messages highlighting the personal benefits of volunteering and giving back. Messaging included research quoted from Syracuse University, showing that those who volunteer are 42% happier.

The campaign headline read: "Hands up for 42% more happiness." For every day of volunteering completed, colleagues were awarded a badge with the letters H-A-P-P-Y, to show off their commitment.

## Ethics & 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. Our full expectations are included in our Partner and Supplier Codes of Conduct, which are available on our website at [www.sage.com](http://www.sage.com). We conduct due diligence on all new partners and suppliers and they are contractually obliged to adhere to our Code of Conduct.

### Anti-bribery & Corruption

Sage has a well embedded anti-bribery and corruption policy and associated whistleblowing procedures designed to ensure that colleagues and other parties including contractors and third parties are able to report any instances of poor practice safely through an independent organisation. All reports received via this or any other reporting mechanism are thoroughly investigated and reported to the Audit and Risk Committee, which reviews each case and its outcomes. None of our investigations during FY19 have identified any systemic issues or breaches of our obligations under The Bribery Act 2010.

### Governance & Oversight

We recognise that assurance over our business activities and those of our partners and suppliers is essential. During 2019 we monitored and reported on the completion of our mandatory Code of Conduct training for all colleagues. You can read more about our compliance and assurance activities over the principal risks associated with ethical business conduct from page 54 onwards.

### Tax Strategy

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

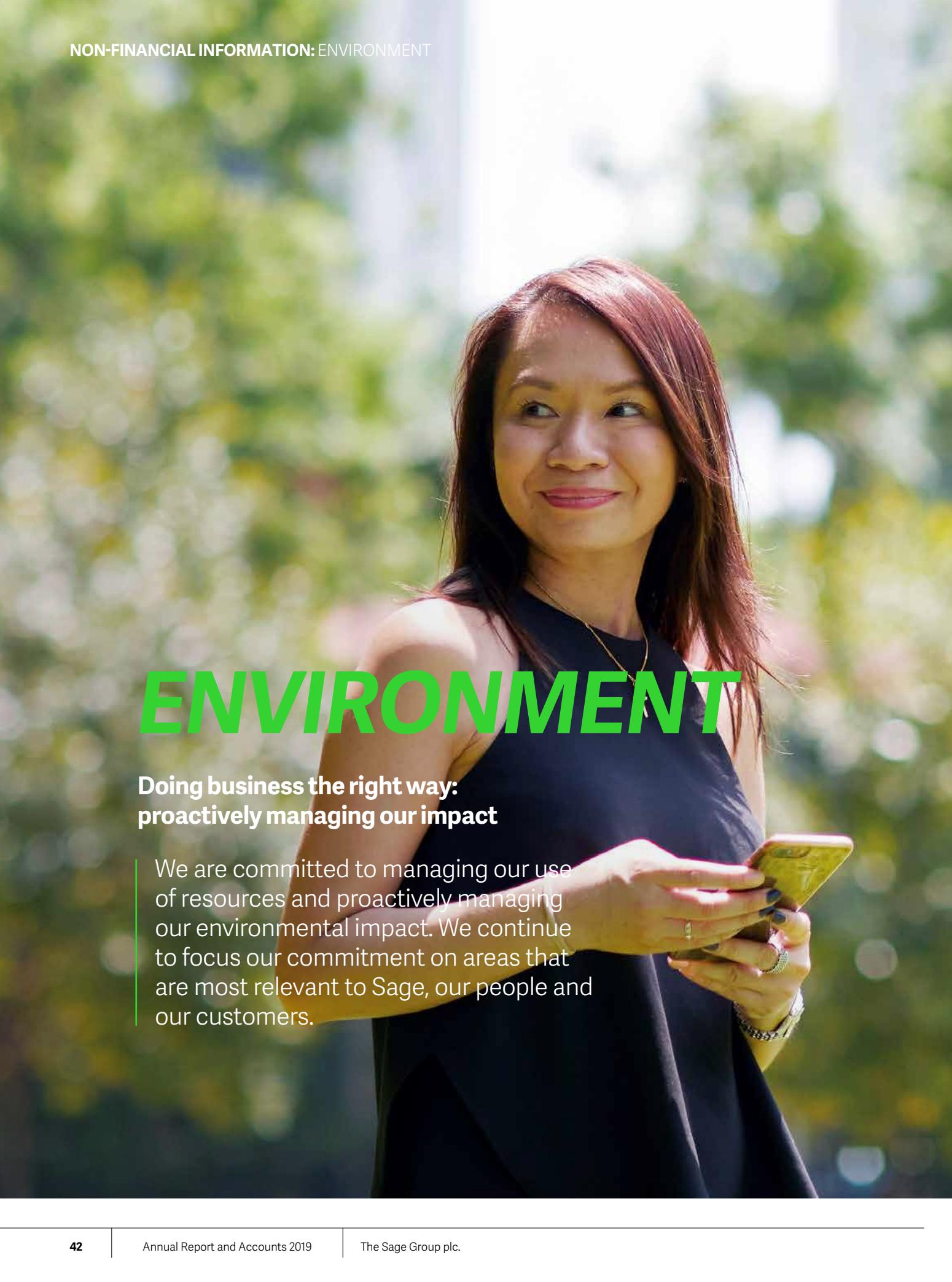
The HAPPY campaign will be further developed and expanded in FY20 as we continue to celebrate everything volunteering means to our colleagues and our communities.



**My experience as a volunteer has made me more patient and understanding. It has also made me realise that people who ask for help from charities are regular human beings, no different to any of us."**

**Ronnie Toumayan,**

Customer Support Representative, Canada



# ENVIRONMENT

## **Doing business the right way: proactively managing our impact**

We are committed to managing our use of resources and proactively managing our environmental impact. We continue to focus our commitment on areas that are most relevant to Sage, our people and our customers.



We aim to achieve good practice in our markets and share it across the Group.”



Our global CSR policy focuses on four key areas: industry, people, community and environment. Whilst local legal standards apply as an absolute minimum, we aim to achieve good practice in our markets and share this across the Group. We comply with local laws as a minimum standard and continue to participate in the global Carbon Disclosure Project (CDP), annually disclosing our management procedures and performance to investors. We continue to review and develop our approach to managing our environmental impact, risks and associated emissions. We have incorporated sustainability and ethical evaluation questions into our standard suite of tender documents. This enables us to understand and evaluate supplier environmental and ethical certifications and standards.

### Disclosing our impact

This section includes our mandatory reporting of greenhouse gas emissions pursuant to The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

In addition to this disclosure, we once again took part in the Carbon Disclosure Project (CDP), reporting our Scope 1, 2 and 3 emissions for the financial year ending 30 September 2018. This external submission also includes our approach to governance, risk management and stakeholder engagement on climate-related issues. We improved our CDP score in 2018 from a C to a B- rating.

### Reporting period

Our Mandatory Greenhouse Gas Report reporting period is 1 October 2018 to 30 September 2019. This reporting year has been established to align 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 in respect of those emissions for which we are responsible.

Sage has reported on all material emission sources which we are deemed to be responsible for. We do not report on any emission sources that are beyond the boundary of our operational control.

We have collected data on energy in our buildings, HVAC refrigerant leakage, water, air travel, taxi, hotel nights and business car travel, because we believe these encompass the most material emissions to our business.

Going forward we will continue to review this materiality, ensuring that we continue to manage and monitor our significant business emissions.

## Methodology

Our methodology used to calculate our emissions is based on the "Environmental Reporting Guidelines: including mandatory greenhouse gas emissions reporting guidance" (March 2019) issued by the Department for Business, Energy & Industrial Strategy (BEIS). We have also used BEIS 2019 conversion factors for the UK, combined with the most recent IEA international conversion factors (2016) for non-UK electricity within our reporting methodology.

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

## Global greenhouse gas emissions data for period 1 October 2018 to 30 September 2019

	FY19 tonnes CO <sub>2</sub> e	FY18 tonnes CO <sub>2</sub> e
Scope 1: Combustion of fuels and operation of facility	<b>1,805<sup>1</sup></b>	1,303 <sup>2</sup>
Scope 2: Electricity, heat, steam and cooling purchased for own use	<b>10,524<sup>3</sup></b>	11,343
Scope 3: Business travel (air, vehicle, taxi, hotel nights); Water	<b>8,662<sup>4</sup></b>	13,104
<b>Total emissions</b>	<b>20,991</b>	25,750
Company's chosen intensity measurement: Emissions reported above normalised to tonnes of CO <sub>2</sub> e per total GBP £1,000,000 revenue	<b>10.83</b>	13.87

## Scope 2 Market based and location based emissions

	FY19 tonnes CO <sub>2</sub> e
Location-based	<b>10,524</b>
Market-based	<b>9,075</b>

1. Scope 1 figures are showing an overall increase, most likely as a result of vehicle emission numbers now being included in here, rather than being included in Scope 3. Although there was an overall increase in Scope 1 emissions, it was noted that there was a large decrease in gas consumption at North Park as a result of building energy optimisation.
2. In our 2018 Annual Report this Scope 1 total for FY18 was stated as 1,489 tonnes CO<sub>2</sub>e. This FY18 emissions total has now been updated in this Annual Report as a result of improved refrigerant gas reporting in 2019, allowing for this number to be more accurately calculated.
3. As part of our monthly energy meetings with our in-house engineer we have focused on building optimisation. This has led us to change offices and atrium heating profiles during the summer, leading to significant reductions.
4. Large reduction in travel due to a travel embargo being in place at the start of the year and much stricter control on travel budgets within each region/country.

## Carbon emissions

### Scope of reported emissions

Emissions data from all our global Group operations within scope has been reported, including operations in Australia, Austria, Belgium, Botswana, Brazil, Canada, France, Germany, India, Ireland, Kenya, Malaysia, Morocco, Namibia, Nigeria, Poland, Portugal, Romania, Singapore, South Africa, Spain, Switzerland, the UAE, UK and the US. A breakdown below has been provided for where data has not been reported either because this was not available or is not applicable to the country. Where feasible we will be working with our suppliers in these locations to capture this information in future reporting years. Within the mandatory Scope 1 and 2 disclosure, all material emissions are understood to be included in our disclosure, with minor immaterial electricity and refrigerant gas exclusions at a small number of locations. We are reviewing data management processes across our global operations to better capture voluntary Scope 3 data such as water, waste, and travel information.

Inventory item	Excluded from reporting
<b>Electricity</b>	Spain (Valencia and Sevilla), France (Brest), UAE
<b>Refrigerant gas</b>	Brazil, Portugal, Canada, US, Austria, Germany, Poland, Romania, Spain, India, France, Malaysia, Australia, UAE
<b>Water</b>	Brazil (no water data for Americana and Porto Alegre property), Canada, US, Austria, Germany, Poland, Romania, Switzerland, India, Malaysia, Australia, UAE
<b>Waste</b>	Portugal, Canada, US, Austria, Germany, Poland, Romania, Switzerland, Malaysia, Australia, UAE
<b>Hotel nights</b>	Africa, UAE
<b>Air travel</b>	India, Africa, Brazil (data provided is not in miles), UAE
<b>Vehicle travel</b>	Brazil, Austria, India

## Intensity ratio

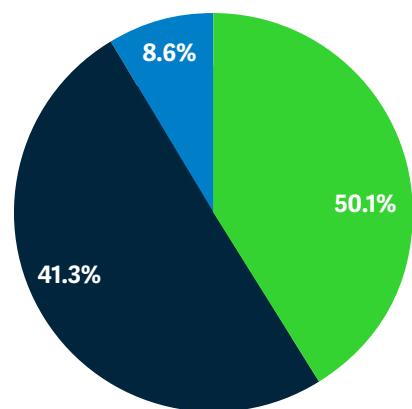
In order to express our annual emissions in relation to a quantifiable factor associated with our activities, we have used revenue in our intensity ratio calculation as this is the most relevant indication of our growth and provides for a good comparative measure over time.

## Reducing carbon and waste

We have continued to make a concerted effort to reduce our carbon footprint through initiatives across our business. Examples of initiatives we have progressed in this financial reporting year include:

- Increased use of bioethanol for business travel fuel
- All waste is diverted from landfill at North Park, Manchester and Dublin
- Investing in new technology with lower energy consumption including laptops and workstations
- Investment in energy reduction opportunities, including chiller improvements and building management system (BMS) technologies
- Further installation of LED lighting across the Group
- Selected office moves to more energy efficient buildings
- Energy efficiency integrated in to our office redevelopment plans
- Increased renewable energy sourcing through our contracts with suppliers, including our operations in countries such as Brazil, India and Portugal
- Reduce business travel and encourage sustainable travel practices across our operations

**Total CO<sub>2</sub>e by type**



■ Combustion of fuels and operation of facility  
■ Electricity, heat, steam and cooling purchased for own use  
■ Business travel (air, vehicle, taxi, hotel nights); water

## Total CO<sub>2</sub>e by type

	FY19 tonnes CO <sub>2</sub> e
Combustion of fuels and operation of facility	1,805
Electricity, heat, steam and cooling purchased for own use	10,524
Business travel (air, vehicle, taxi, hotel nights); water	8,662
<b>Total emissions</b>	<b>20,991</b>

## Sum of CO<sub>2</sub>(tonnes)

### Europe

### International

### North America



Region	Scope 1 emissions	Scope 2 emissions	Scope 3 emissions
	Generated from the gas and oil used in all buildings where the Group operates; emissions generated from Group-owned vehicles used for business travel; and fugitive emissions arising from the use of air conditioning and chiller/refrigerant plant to service the Group's property portfolio	Generated from the use of electricity in all buildings from which the Group operates	Business travel (air, vehicle, taxi, hotel nights); Water
International	3	5,271	1,620
North America	259	2,473	3,036
Northern Europe	791	1,687	2,223
Southern Europe	51	1,093	1,608
Unclassified <sup>1</sup>	701	0	175
<b>Grand Total</b>	<b>1,805</b>	<b>10,524</b>	<b>8,662</b>

1. Data provided could not be classified by region.

# FINANCIAL REVIEW



**Jonathan Howell**  
Chief Financial Officer

This financial review provides a brief summary of financial results on an organic basis, before moving to the underlying and statutory performance of the business. Organic measures allow management and investors to understand the like-for-like revenue and current period margin performance of the continuing business.

## Organic Financial Results

In FY19, Sage delivered recurring revenue growth of 11% to £1,559m and total revenue growth of 6% to £1,822m. Recurring revenue growth is underpinned by the 29% increase in software subscription revenue as the business continues to migrate existing customers and attract new customers to subscription and the cloud. Strength in recurring revenue has also, in part, been assisted by tailwinds from the weaker comparator in the prior year and as new regulations on digital tax submissions attract new and existing customers to the latest version of software.

Group SSRS decline of 18% to £255m reflects the ongoing transition to subscription revenue and a strong SSRS comparator in the prior year. Looking at sequential quarterly performance in the year, Q4 19 SSRS revenue was just 4% lower than Q1 19.

The Group delivered an organic operating profit of £432m and an organic operating margin of 23.7% in FY19. This margin reflects the increased investment to accelerate strategic execution, combined with increased colleague variable compensation in line with the improved business performance and the commitment to colleague success.

The Group also delivered underlying basic EPS of 28.40p, free cash flow of £443m and underlying cash conversion of 129%.

## Portfolio View of Revenue

Revenue by Portfolio <sup>1</sup>	Recurring			Total		
	FY19 £m	FY18 £m	Growth %	FY19 £m	FY18 £m	Growth %
Cloud native	£170m	£133m	27%	<b>£182m</b>	£145m	26%
Cloud connected <sup>2</sup>	£482m	£222m	117%	<b>£499m</b>	£235m	113%
<b>Sage Business Cloud</b>	<b>£652m</b>	<b>£355m</b>	<b>83%</b>	<b>£682m</b>	<b>£380m</b>	<b>79%</b>
Products with potential to migrate	£713m	£857m	(17%)	£889m	£1,085m	(18%)
<b>Future Sage Business Cloud Opportunity<sup>3</sup></b>	<b>£1,365m</b>	£1,212m	13%	<b>£1,571m</b>	£1,465m	<b>7%</b>
Other <sup>4</sup>	£193m	£194m	0%	£251m	£260m	(4%)
<b>Organic Total Revenue</b>	<b>£1,559m</b>	£1,406m	11%	<b>£1,822m</b>	£1,725m	6%
<b>Sage Business Cloud Penetration</b>	<b>48%</b>	29%				

1. The revenue portfolio breakdown is provided as supplementary information to illustrate the differences in the evolution and composition of key parts of our product portfolio. These portfolios do not represent Operating Segments as defined under IFRS 8.
2. Revenue from subscription customers using products that are part of Sage's strategic future product portfolio, where that product is based on an originally on-premise offering for which a substantial part of the customer value proposition is now linked to functionality delivered in or through the cloud.
3. Revenue from customers using products that are currently part of, or that management currently believe have a clear pathway to, Sage Business Cloud.
4. Revenue from customers using products for which management does not currently envisage a path to Sage Business Cloud, either because the product addresses a segment outside Sage's core focus, or due to the complexity and expense involved in a migration.

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

The Future Sage Business Cloud Opportunity continues to show strong performance, with recurring revenue growth of 13% and total revenue growth of 7%. Cloud native solutions have delivered recurring revenue growth of 27%, with Sage Intacct delivering recurring revenue growth of 29%.

The growth in cloud connected revenue of 117% to £482m reflects the migration of existing customers, predominantly from North America, Northern Europe and France as well as new customer acquisition and reactivation of customers in Northern Europe. Growth also reflects an additional £94m into this portfolio from the migration of products new to Sage Business Cloud<sup>1</sup>. The focus on driving revenue to cloud solutions has resulted in Sage Business Cloud penetration of 48%, up from 29% in the prior year.

The revenue in the 'Other' portfolio comprises products for which management does not envisage a path to Sage Business Cloud, predominantly because the product addresses a segment outside Sage's core focus. The flat recurring revenue and decline of 4% of total revenue in the 'Other' portfolio is in line with expectations and reflects the strategy to focus on solutions with a direct pathway to Sage Business Cloud.

Further to the disposal of the US Payroll Processing business in February 2019, Sage has announced the agreement to dispose of Sage Pay and that the Brazilian business is now held for sale, with both assets' products largely formerly within the 'Other' portfolio. Whilst payments and banking continues to be an important part of Sage's value proposition, Sage will instead continue to partner with best in class providers in this industry. Management decided to exit Brazil after a strategic review, as the region largely sells solutions which have no path to Sage Business Cloud.

## Statutory and Underlying Financial Results

Financial Results	Statutory			Underlying <sup>2</sup>		
	FY19	FY18	Change	FY19	FY18	Change
North America	<b>£657m</b>	£574m	15%	<b>£657m</b>	£611m	7%
Northern Europe	<b>£406m</b>	£380m	7%	<b>£406m</b>	£381m	7%
Central & Southern Europe	<b>£608m</b>	£625m	(3%)	<b>£608m</b>	£626m	(3%)
International	<b>£265m</b>	£267m	(1%)	<b>£265m</b>	£260m	2%
<b>Group Revenue</b>	<b>£1,936m</b>	£1,846m	5%	<b>£1,936m</b>	£1,878m	3%
Operating profit	<b>£382m</b>	£427m	(11%)	<b>£448m</b>	£509m	(12%)
% Operating profit margin	<b>19.7%</b>	23.2%	(3.5% pts)	<b>23.1%</b>	27.1%	(4.0% pts)
Profit before tax	<b>£361m</b>	£398m	(9%)	<b>£425m</b>	£481m	(12%)
Net profit	<b>£266m</b>	£295m	(10%)	<b>£309m</b>	£356m	(13%)
Basic EPS	<b>24.49p</b>	27.21p	(10%)	<b>28.40p</b>	32.85p	(14%)

1. Excluding this impact, cloud connected solutions have delivered growth of 73%.

2. Revenue and profit measures are defined in the Glossary on pages 214 to 215.

The Group delivered statutory revenue of £1,936m, a 5% increase on the prior year. Statutory revenue of £1,936m in FY19 is in line with underlying revenue, with the prior year difference largely being in North America, reflecting the deferred income unwind on the acquisition of Intacct and FX.

The Group delivered underlying revenue of £1,936m, an increase of 3% on the prior period. Underlying revenue reflects organic performance, excluding the impact of the adjustments made for assets held for sales and disposals and, for prior year, the impact of the proforma IFRS 15 adjustments.

The Group delivered a decrease in statutory operating profit of 11% to £382m, reflecting underlying performance and recurring and non-recurring items as per the reconciliation in the table below.

Underlying basic EPS decline of 14% is in line with the underlying operating profit of the business, net of taxation.

## Underlying & Organic Reconciliations to Statutory

	FY19			FY18		
	Revenue	Operating Profit	Operating Margin %	Revenue	Operating Profit	Operating Margin %
<b>Statutory</b>	<b>£1,936m</b>	<b>£382m</b>	<b>19.7%</b>	£1,846m	£427m	23.2%
Recurring items <sup>1</sup>	–	<b>£52m</b>	–	£11m	£67m	–
Non-recurring items:						
– (Gain)/loss on disposal of subsidiaries	–	<b>(£28m)</b>	–	–	£1m	–
– Impairment of assets held for sale	–	<b>£14m</b>	–	–	–	–
– Litigation items	–	–	–	–	£4m	–
– Restructuring costs	–	–	–	–	£5m	–
– Property restructuring costs	–	<b>£16m</b>	–	–	–	–
– Office relocation	–	<b>£12m</b>	–	–	–	–
Impact of FX <sup>2</sup>	–	–	–	£21m	£5m	–
<b>Underlying</b>	<b>£1,936m</b>	<b>£448m</b>	<b>23.1%</b>	£1,878m	£509m	27.1%
Disposals	<b>(£21m)</b>	–	–	(£48m)	£3m	–
Held for sale	<b>(£93m)</b>	<b>(£16m)</b>	–	(£95m)	(£8m)	–
Impact of IFRS 15 <sup>3</sup>	–	–	–	(£9m)	(£8m)	–
<b>Organic</b>	<b>£1,822m</b>	<b>£432m</b>	<b>23.7%</b>	£1,725m	£496m	28.8%

1. Recurring and non-recurring items are detailed in the paragraph below and in note 3.6 of the financial statements.

2. Impact of retranslating FY18 results at FY19 average rates.

3. Organic numbers for FY18 are restated on a pro-forma IFRS 15 basis. The definition of organic measures and the basis for the FY18 pro-forma IFRS 15 adjustments can be found in the Glossary on pages 214 to 215.

### Revenue

The Group delivered statutory and underlying revenue of £1,936m in FY19. The difference between statutory and underlying revenue in FY18 reflects a £21m FX adjustment relating to retranslation of the FY18 results at FY19 average rates and £11m in the prior year from the deferred income unwind on the Sage Intacct acquisition.

The difference between underlying and organic revenue reflects the adjustment of £21m of disposals, comprising £16m revenue from the disposal of the US Payroll Processing business in February 2019 (FY18: £40m) and £5m revenue from the disposal of the South African payments business in July 2019 (FY18: £9m). There is a further adjustment for assets held for sale of £93m comprising £40m of revenue from Sage Pay in Northern Europe (FY18: £41m) and £53m of revenue from the Brazilian business (FY18: £54m), and a £9m adjustment to restate FY18 organic revenue on a pro-forma IFRS 15 basis.

### Margin

The Group delivered a statutory operating profit of £382m. Adjustments between statutory and underlying operating profit in FY19 reflect £52m of recurring items (FY18: £67m), comprising £31m amortisation of acquisition related intangibles (FY18: £35m) and £21m of M&A related charges (FY18: £21m).

Adjustments between statutory and underlying profit in FY19 also include non-recurring items reflecting a £28m gain on disposals, of which £27m relates to the US Payroll Processing business (FY18: £1m charge), offset by the non-cash impairment of the Brazilian asset held for sale of £14m; property restructuring costs of £16m; and non-cash accelerated depreciation on North Park of £12m. Management expects a further non-cash, non-recurring accelerated depreciation charge on North Park in the region of £50m during FY20 and a further property restructuring cost of around £15m during FY20. The prior year also had a non-recurring charge of £4m relating to litigation items, £5m relating to restructuring costs and a £5m FX adjustment.

Adjustments between underlying and organic operating profit in FY19 relate to assets held for sale reflecting £14m operating profit attributable to Sage Pay (FY18: £15m), with a further £2m attributable to the Brazilian business (FY18: loss of £7m). The prior year also had an £8m adjustment to restate FY18 organic operating profit on a pro-forma IFRS 15 basis and £3m relating to net operating losses from disposals reflecting £5m in the US Payroll Processing business, offset by operating profits of £2m attributable to the South African payments business (net neutral impact in FY19).

### Organic Revenue Overview

Organic revenue for FY18 shows all measures of revenue and growth of revenue on an organic basis, compared on a pro-forma IFRS 15 basis. Revenue definitions are included in the Glossary on pages 214 to 215 and further detail on IFRS 15 can be found in note 17 to the accounts.

<b>Organic Revenue Mix</b>	<b>FY19</b>		<b>FY18</b>		<b>Revenue % Change</b>
	<b>£m</b>	<b>% of Total</b>	<b>£m</b>	<b>% of Total</b>	
Software subscription revenue	<b>£1,004m</b>	<b>55%</b>	£776m	45%	29%
Other recurring revenue	<b>£554m</b>	<b>31%</b>	£630m	36%	(12%)
<b>Organic Recurring Revenue</b>	<b>£1,559m</b>	<b>86%</b>	£1,406m	81%	11%
SSRS revenue	<b>£255m</b>	<b>14%</b>	£310m	18%	(18%)
Processing revenue	<b>£8m</b>	<b>0%</b>	£9m	1%	(3%)
<b>Organic Total Revenue</b>	<b>£1,822m</b>	<b>100%</b>	£1,725m	100%	6%

Total revenue has increased by 6% in FY19 to £1,822m. Recurring revenue has increased by 11% to £1,559m, underpinned by the 29% increase in software subscription revenue to £1,004m as the business continues to transition existing customers and attract new customers to subscription and the cloud. The decline in other recurring revenue of 12% to £554m reflects the substitution effect as customers migrate to subscription contracts. SSRS decline of 18% to £255m reflects the ongoing transition to subscription revenue and a strong SSRS comparator in the prior year.

In the portfolio view of revenue, the Future Sage Business Cloud Opportunity delivered recurring revenue growth of 13% to £1,365m and total revenue growth of 7% to £1,571m, driven by transitioning existing customers and attracting new customers to Sage Business Cloud. The 'Other' portfolio delivered flat recurring revenue performance at £193m and total revenue decline of 4% to £251m.

### North America

<b>Organic Revenue by Category</b>	<b>FY19</b>	<b>FY18</b>	<b>% Change</b>
Organic total revenue	<b>£641m</b>	£589m	9%
Organic recurring revenue	<b>£573m</b>	£512m	12%
% Subscription penetration	<b>56%</b>	46%	10% pts
% Sage Business Cloud penetration	<b>66%</b>	54%	12% pts
<b>Organic Total Revenue</b>	<b>FY19</b>	<b>FY18</b>	<b>% Change</b>
US (excluding Intacct)	<b>£425m</b>	£407m	4%
Canada	<b>£97m</b>	£89m	8%
Intacct	<b>£119m</b>	£93m	28%

North America delivered recurring revenue growth of 12% to £573m and total revenue growth of 9% to £641m. Subscription penetration is now 56%, up from 46% in the prior year, and Sage Business Cloud penetration is now 66%, up from 54% in the prior year, driven by both cloud connected and cloud native solutions.

The US (excluding Intacct) delivered recurring revenue growth of 7% to £371m and total revenue growth of 4% to £425m. The US has continued to show strong progress in the migration to cloud connected solutions with Sage 50 nearly at full penetration on cloud connected and well over half of Sage 200 customers now on a cloud connected solution.

Canada has also continued to deliver strong performance, with recurring revenue growth of 13% to £88m and total revenue growth of 8% to £97m, with cloud connected solutions also driving a significant part of the business's growth and over half of revenue from the 50 and 200 base now on a cloud connected solution.

Sage Intacct recurring revenue growth of 29% to £114m reflects continuing momentum in the US, driving growth through both existing customers and new customer acquisition.

### Northern Europe

<b>Organic Revenue by Category</b>	<b>FY19</b>	<b>FY18</b>	<b>% Change</b>
Organic total revenue	<b>£366m</b>	£334m	10%
Organic recurring revenue	<b>£340m</b>	£292m	16%
% Subscription penetration	<b>70%</b>	52%	18% pts
% Sage Business Cloud penetration	<b>67%</b>	28%	39% pts

Northern Europe (UK & Ireland) delivered recurring revenue growth of 16% to £340m and total revenue growth of 10% to £366m. Subscription penetration is 70%, up from 52% in the prior year, and Sage Business Cloud penetration is now 67%, up significantly from 28% in the prior year, as customers continue to migrate to Sage Business Cloud and as new products enter Sage Business Cloud that were previously only available on desktop. This is supplemented by growth in cloud native solutions of Sage People and Sage Accounting.

Strength in recurring revenue is driven largely by success in cloud connected solutions with well over half of Sage 50 and Sage 200 contracts now cloud connected in the region. Revenue on Sage 50 cloud connected in Northern Europe increased significantly, migrating new customers from 50 desktop, but also acquiring significant numbers of new customers and reactivations, in part due to new regulations on tax submissions attracting customers to the latest version of software. The region now has well over half of its 50 and 200 base on a cloud connected solution. Recurring revenue has also benefitted from a weak comparator in the prior year, but performance is strong even allowing for this impact.

The region saw a steep decline of 37% in SSRS revenue in FY19 to £25m, as the business continues to focus on subscription and the cloud, further impacted by large value licence and services sales in FY18 which drove an increase in SSRS at the expense of recurring revenue.

**Central & Southern Europe**

<b>Organic Revenue by Category</b>	<b>FY19</b>	<b>FY18</b>	<b>% Change</b>
Organic total revenue	<b>£608m</b>	£604m	1%
Organic recurring revenue	<b>£490m</b>	£458m	7%
% Subscription penetration	<b>45%</b>	37%	8% pts
% Sage Business Cloud penetration	<b>25%</b>	10%	15% pts
<b>Organic Total Revenue</b>	<b>FY19</b>	<b>FY18</b>	<b>% Change</b>
France	<b>£277m</b>	£271m	2%
Central Europe	<b>£178m</b>	£179m	(1%)
Iberia	<b>£153m</b>	£153m	0%

Central and Southern Europe delivered recurring revenue growth of 7% to £490m and total revenue growth of 1% to £608m. Subscription penetration is now 45%, up from 37% in the prior year, and there is now 25% Sage Business Cloud penetration in the region, up from 10% in the prior year. This is largely driven by cloud connected solutions, supplemented by a small amount of revenue from cloud native solutions.

France delivered recurring revenue growth of 5% to £239m and total revenue growth of 2% to £277m. Recurring revenue growth is driven by Sage 50 and Sage 200 cloud connected solutions as customers migrate from desktop, although the recurring revenue growth of these solutions (cloud connected and desktop) in total has not been as strong in this region as others. The region now has around half of its 50 and 200 base on a cloud connected solution. X3 SSRS declined as the region focused more on solutions which drive subscription revenue.

Central Europe delivered recurring revenue growth of 8% to £131m whilst total revenue declined by 1% to £178m. Growth in the region is mainly driven by local products.

Iberia delivered recurring revenue growth of 9% to £120m with total revenue flat at £153m. Growth in recurring revenue has been driven by the migration of customers to Sage 50 and Sage 200 cloud connected solutions, which are at an earlier stage than other regions, but are showing good traction.

**International**

<b>Organic Revenue by Category</b>	<b>FY19</b>	<b>FY18</b>	<b>% Change</b>
Organic total revenue	<b>£207m</b>	£198m	4%
Organic recurring revenue	<b>£156m</b>	£144m	8%
% Subscription penetration	<b>57%</b>	54%	3% pts
% Sage Business Cloud penetration	<b>9%</b>	7%	2% pts
<b>Organic Total Revenue</b>	<b>FY19</b>	<b>FY18</b>	<b>% Change</b>
Africa & Middle East	<b>£137m</b>	£127m	8%
Australia & Asia	<b>£70m</b>	£71m	(2%)

International delivered recurring revenue growth of 8% to £156m and total revenue growth of 4% to £207m. Subscription penetration is now 57%, up from 54% in the prior year, and Sage Business Cloud penetration in the region is 9%, up from 7% in the prior year. This excludes the revenues of the Brazilian business, which is held for sale as at the year-end.

Africa & Middle East, which now represents two-thirds of the International region's revenue, delivered recurring revenue growth of 12% to £102m and total revenue growth of 8% to £137m. Growth in the region is driven by local products and cloud native solutions, with a strong performance in Sage Accounting. Over the course of the year, the region has seen a slight decline in SSRS, driven by professional services.

Australia & Asia delivered recurring revenue growth of 3% to £54m and a total revenue decline of 2% to £70m, with Asia continuing to be a drag on growth. Australia delivered total revenue growth of 2% to £53m, reflecting slight growth from local products with a small element of revenue from cloud native solutions. Sage Intacct launched in Australia at the end of August 2019.

## Operating Profit

The Group delivered an organic operating profit of £432m and an organic operating margin of 23.7% in FY19. This margin reflects the increased investment to accelerate strategic execution, combined with increased colleague variable compensation in line with the improved business performance and the commitment to colleague success.

On an underlying basis, the operating profit is £448m (a 23.1% margin). The difference between organic and underlying operating profit reflects the operating profit from assets held for sale of Sage Pay and the Brazilian business, combined with adjustments in FY18, being the pro-forma IFRS 15 adjustment and the net operating losses from assets disposed of (US Payroll Processing and the South African payments business).

FY19 EBITDA is £509m, yielding an EBITDA margin of 26.3%.

	FY19	FY18	FY19 Margin %
<b>Organic Operating Profit</b>	<b>£432m</b>	£496m	23.7%
Impact of IFRS 15	–	£8m	
Impact of disposals	–	(£3m)	
Impact of assets held for sale	<b>£16m</b>	£8m	
<b>Underlying Operating Profit</b>	<b>£448m</b>	£509m	23.1%
Depreciation & amortisation	<b>£35m</b>	£34m	
Share based payments	<b>£26m</b>	£5m	
<b>EBITDA</b>	<b>£509m</b>	£548m	26.3%

## Net Finance Cost

The statutory net finance cost for the period was £21m (FY18: £29m) and the underlying net finance cost was £23m (FY18: £29m), with minor differences between statutory and underlying net finance costs reflecting FX movements. Net underlying financing costs have reduced due to a reduction in the Group's average debt balance during the year.

## Taxation

The statutory income tax expense for FY19 was £95m (FY18: £103m), yielding a statutory tax rate of 26% (FY18: 26%). The underlying tax expense for FY19 was £116m (FY18: £123m), yielding an underlying tax rate of 27% (FY18: 26%).

The difference between the underlying and statutory rate in FY19 primarily reflects non-taxable accounting gains on the disposal of the US Payroll Processing business and the South African payments business, offset by the non-tax deductible impairment charge of the Brazilian business asset held for sale.

## Earnings per Share

	FY19	FY18	% change
<b>Statutory Basic EPS</b>	<b>24.49</b>	27.21	(10.0%)
Recurring items	<b>3.67</b>	4.73	
Non-recurring items	<b>0.24</b>	0.58	
Impact of foreign exchange	–	0.34	
<b>Underlying Basic EPS</b>	<b>28.40</b>	32.85	(13.5%)

Underlying basic earnings per share decreased by 14% to 28.40p (FY18: 32.85p), in line with the 12% decline in underlying operating profit, net of taxation.

Statutory basic earnings per share decreased by 10%. Recurring and non-recurring items arising from property restructuring and M&A cost are lower than prior year, contributing to a decrease in statutory basic EPS.

## Cash Flow

The Group remains highly cash generative with underlying cash flows from operating activities of £577m, which represents underlying cash conversion of 129%, increasing from 96% in FY18.

Cash Flow APMs	FY19	FY18 (as reported)
Underlying operating profit	<b>£448m</b>	£504m
Depreciation, amortisation and non-cash items in profit	<b>£33m</b>	£28m
Share based payments	<b>£26m</b>	£5m
Net changes in working capital	<b>£108m</b>	(£10m)
Net capital expenditure	<b>(£38m)</b>	(£45m)
Underlying Cash Flow from Operating Activities	<b>£577m</b>	£482m
Underlying cash conversion %	<b>129%</b>	96%
Non-recurring cash items	<b>(£24m)</b>	(£35m)
Net interest paid	<b>(£21m)</b>	(£26m)
Income tax paid	<b>(£88m)</b>	(£64m)
Profit and loss foreign exchange movements	<b>(£1m)</b>	(£1m)
Free Cash Flow	<b>£443m</b>	£356m
Statutory Reconciliation of Cash Flow from Operating Activities	FY19	FY18 (as reported)
Statutory cash flow from operating activities	<b>£586m</b>	£487m
Recurring and non-recurring items	<b>£29m</b>	£37m
Net capital expenditure	<b>(£38m)</b>	(£45m)
Other adjustment including foreign exchange translations	–	£3m
Underlying Cash Flow from Operating Activities	<b>£577m</b>	£482m

The improvement in underlying cash conversion to 129% and the £87m improvement in free cash flow to £443m largely reflects an improvement in the collection of trade receivables and lower levels of FY18 bonus payout in FY19.

Net debt was £393m at 30 September 2019 (30 September 2018: £668m). The decrease in the year is attributable to strong free cash flow of £443m and proceeds from the disposal of the US Payroll Processing business (£68m), offset by the full year dividend of £181m paid in the year.

## Debt Facilities

The Group's debt is sourced from a syndicated multi-currency Revolving Credit Facility ("RCF"), a syndicated Term Loan and US private placement ("USPP"). The Term Loan of £200m was put in place in September 2019 and expires in September 2021. The Group's RCF expires in February 2024 (with a one-year extension option to February 2025) with facility levels of £720m (split between US\$719m and £135m tranches). At 30 September 2019, £45m (FY18: £418m) of the multi-currency revolving debt facility was drawn and the Term Loan was fully drawn (FY18: nil).

The Group's total USPP loan notes at 30 September 2019 were £523m (US\$550m and EUR€85m) (FY18: £497m, US\$550m and EUR€85m). The USPP loan notes have a range of maturities between May 2020 and May 2025.

## Capital Allocation

Sage's primary capital allocation focus remains on organic investment in order to accelerate the execution of the strategy as outlined above.

The Group will consider bolt-on acquisitions of complementary technology and partnerships that will further accelerate the strategy and enhance Sage Business Cloud, and has made several small but strategically significant acquisitions in the year. In line with focusing on core competences within the business, management is also evaluating the disposal of certain non-core assets, as it has recently done with Sage Pay, which Sage has now reached an agreement to dispose of, and the Brazilian business, which is held for sale at the end of FY19. Acquisitions and disposals are always subject to stringent financial criteria.

Sage will continue to maintain the dividend in real terms going forward and the FY19 full year dividend has increased by 2.5% to 16.91p.

The Group is committed to maintaining good financial discipline and delivering strong shareholder returns and will consider additional capital returns to shareholders if appropriate. Sage announced on 20 November 2019 that it will make a capital return of £250m, reflecting expected proceeds on Sage Pay and strong cash generation. Further details will be announced on the completion of the Sage Pay disposal.

Group net debt as at 30 September 2019 was £393m and reported EBITDA over the last 12 months was £509m, resulting in a net debt to EBITDA ratio of 0.8x. Sage will adopt IFRS 16 Leases accounting standard with effect from 1 October 2019, which will result in the recognition of financial liabilities of £135m-145m. As a result, a 0.3x increase in the net debt to EBITDA ratio in FY20 is expected. However, IFRS 16 will have no material impact on our overall financial results.

Group return on capital employed (ROCE) for FY19 is 21% (FY18: 23%).

	FY19	FY18 (as reported)
Net debt	<b>£393m</b>	£668m
EBITDA (last twelve months)	<b>£509m</b>	£548m
<b>Net Debt/EBITDA Ratio</b>	<b>0.8x</b>	1.2x

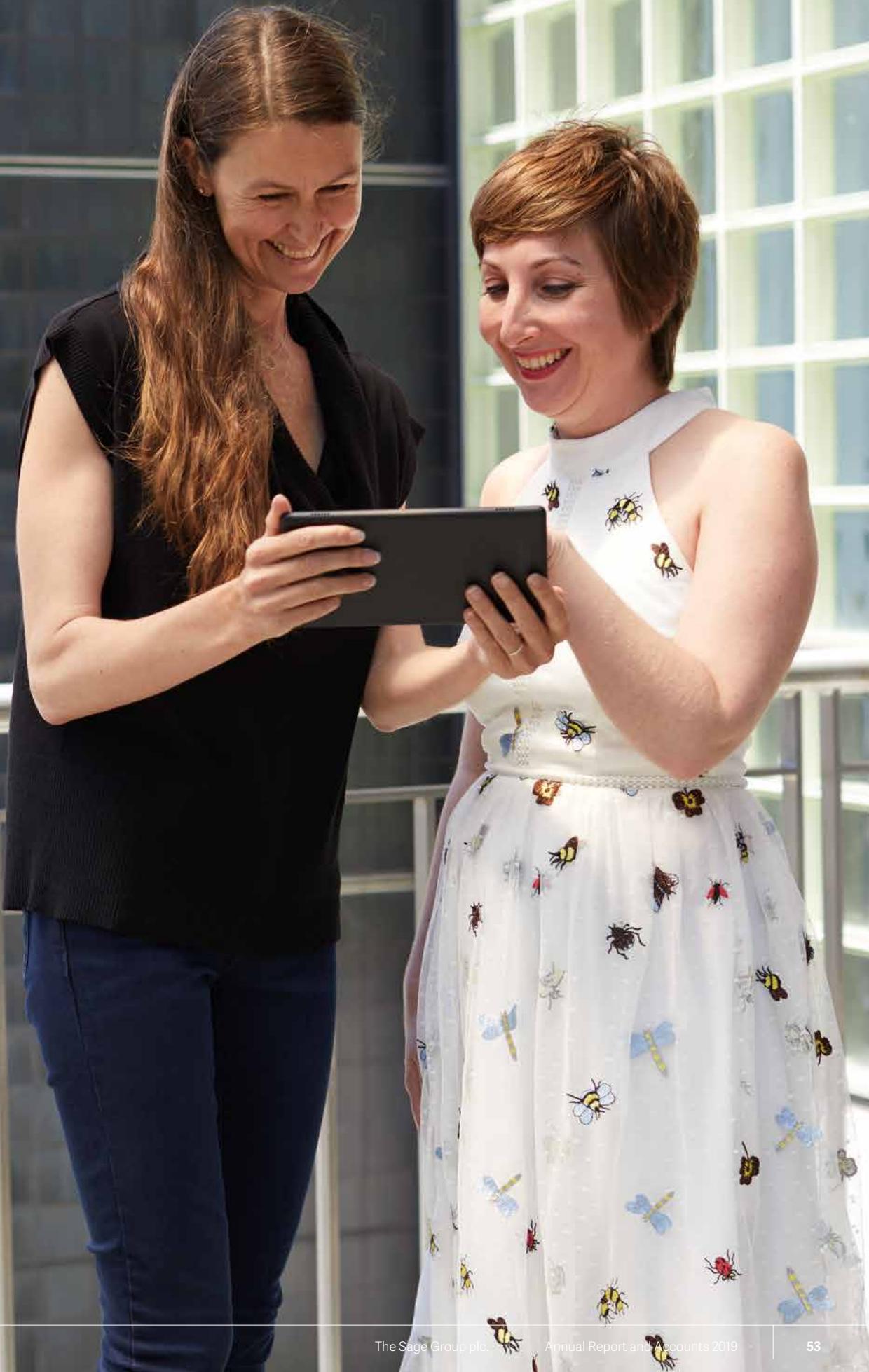
Sage plans to operate in a broad range of 1-2x net debt to EBITDA over the medium term, with flexibility to move slightly outside this range as the business needs require.

## Foreign Exchange

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

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

AVERAGE EXCHANGE RATES (EQUAL TO GBP)	FY19	FY18	Change
Euro (€)	<b>1.13</b>	1.13	0%
US Dollar (\$)	<b>1.28</b>	1.35	(5%)
South African Rand (ZAR)	<b>18.30</b>	17.56	4%
Australian Dollar (A\$)	<b>1.81</b>	1.77	3%
Brazilian Real (R\$)	<b>4.93</b>	4.72	5%



# RISK-INFORMED DECISION MAKING

Effectively managing our operational, financial, people and strategic risks helps us to drive forward our strategy, and simplify how we do business. The Board's role is to maintain and review the effectiveness of our risk management activities, and challenge our leaders to successfully deliver the business strategy in the most efficient way possible.

## How we identify risk

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

- principal risks that may impact our ability to achieve our objectives, with these strategic risks representing the risks that most threaten delivery of our strategy; and
- operational risks that occur at the functional, country and regional level. These risks most threaten local business activities, and may also feed into our principal risks.

Operational risks are escalated in line with the Risk Management Policy and via our Risk Governance Framework to the Regional and Global Risk Committees. This escalation process provides organisational visibility to emerging risks, as well as driving action and accountability for risk management.

## Our risk appetite

Our risk appetite reflects our ability or desire to accept a certain level of risk in order to achieve our strategy. We recognise that eliminating risk is often not feasible or desirable, so we use risk appetite statements to provide our leaders with the guidance they need to make decisions that fall within acceptable risk boundaries.

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

Each principal risk is monitored against defined appetite targets using supporting metrics. These targets and metrics are evaluated regularly throughout the year to ensure they remain aligned with our strategic objectives, and within an acceptable risk tolerance for the Group.

## How we manage risk

Our risk management framework enables us to identify, evaluate, analyse, manage and mitigate those risks which threaten the successful achievement of our business strategy and objectives. Risks are owned and managed within the business and functions, and are formally reviewed on a quarterly basis through the Global and Regional Risk Committees, which are described on pages 56 and 57. Building on the deployment of the Sage Governance, Risk and Compliance (GRC) tool in 2018, Sage Risk has developed "always-on, on-demand" risk dashboards for the regions and functions that provide leaders with ongoing visibility of their current risk exposure, and the status of their risk management activities. These dashboards also include information from the Sage Business Integrity dashboard, and our Learning Management System, to provide the business with a broad snapshot of their risk, compliance, and assurance position.

During the year Sage Risk also supported the business in a number of other key projects and reviews. In 2019, this included leading the creation and development of Sage's integrated assurance framework. This work has now transitioned to Sage Assurance, and, once fully implemented in 2020, will further empower our frontline colleagues to own their risks and help them to drive consistent application of their controls across our business processes.

During 2019, Sage Risk focused on developing the capability of regional and functional teams to own and manage their risks. The team has dedicated resources in Europe, Africa, Asia, North America and Latin America who support the business and functions to manage their operational and strategic risks.

## OUR THREE LINES OF DEFENCE

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

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



A natural outcome of our maturing model was the renaming of Sage Compliance as Sage Business Integrity during 2019. A strong corporate culture embraces ethics and compliance and leverages that rigour for strategic advantage. This transition helps to establish the foundations necessary to embed traits common to high-performing organisations. The role of the team is to fully empower our colleagues in line with our shared values and behaviours, and help create a true SaaS culture.



The team also started to evolve its structures to align with the revised organisational design, including the move to a two hubs model that can provide focused support to the Northern Europe and North American regions. The Sage Risk team also manages the organisation's corporate insurance programme, ensuring that global and local insurance placements are appropriate for the risk exposure and in line with the organisation's risk appetite.

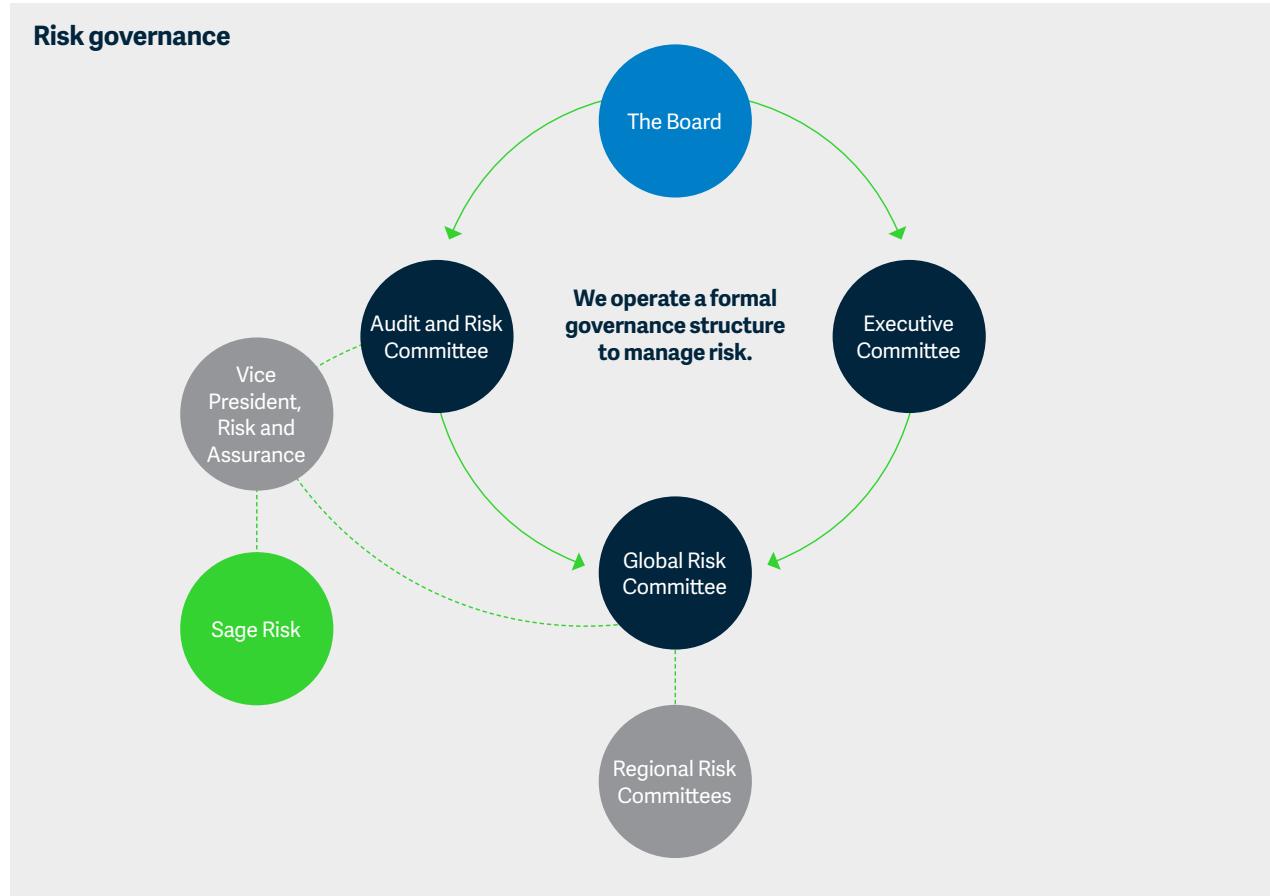
Sage Risk continued to roll out a single global incident reporting portal in 2019, with all regions now using a single, unified approach to reporting. The team also consolidated our Incident, Emergency and Crisis Management policies into a single document to help streamline our response capability, and ensure that all colleagues are able to identify and respond effectively to any events that impact the business.

## Values and behaviours

The Board recognises that values and behaviours underpin the effectiveness of Sage's risk management, and the operation of an effective control environment. Sage's values and behaviours set out how our strategy should be executed. Our Code of Conduct supports and reinforces these values and behaviours, and sets clear expectations across Sage for compliance with ethical standards. Behaviour forms a significant part of our colleague performance management process, and in FY19 continued to be managed as a principal risk.

As previously stated, our three lines of defence model also articulates clear roles and responsibilities for all colleagues, and establishes accountability for individual actions and decisions. It also describes how appropriate challenge and assurance is provided over business activities, including the ethical conduct of our operations. With the development of the integrated assurance framework, leaders will be able to build in relevant and specific values and behaviours measures into their own assurance self-assessments.

During 2019 we continued the transformation of our compliance training into innovative, engaging role-based education programmes. By adopting specialist pedagogical methods into our training, we can offer engaging training that meets the specific learning objectives of our stakeholder groups. By equipping colleagues with knowledge relevant to their role in a way that is consistent with Sage values and behaviours, we are able to support accountability and decision making in the business. In addition, the continued development of a standardised business control framework will provide additional guidance and direction on these expected ways of working.



## Risk governance

### Board

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

### Audit and Risk Committee

The Audit and Risk Committee supports the Board in setting the Group's risk appetite and ensuring that processes are in place to identify, manage and mitigate the Group's principal risks. At each meeting, the Committee reviews the principal risks and their associated appetite targets and metrics, to assess whether they continue to be relevant, effective and aligned to the achievement of Sage's strategic objectives, and within an acceptable tolerance for the Group. The Committee also monitors the effectiveness of the control environment through the review of Internal Audit reports and other assurance activity from Sage Assurance and consideration of relevant reporting from management, Sage Risk, Sage Business Integrity and the external auditor. Further information on the Committee's activity in 2019 is set out in the Audit and Risk Committee report on pages 89 to 95.

### Executive Committee

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

### Global Risk Committee

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

- Establish clear governance and accountability for risk, and any associated (remediation) activities;
- Provide direction to functions, regions and countries, including the creation and deployment of common methodologies and practices;
- Provide a point of escalation for critical or emerging risks;
- Drive the consideration of risk in decision making;
- Drive the inclusion of risk management into performance management;

- Oversee cultural change;
- Review and approve defined policies; and
- Provide the Board and Audit and Risk Committee with sufficient effective information to enable them to discharge their risk reporting requirements.

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

### **Regional Risk Committees**

Eight Regional Risk Committees were operational throughout FY19 in Africa-Middle East, Asia-Australia, North America, Latin America, Northern Europe, Central Europe, Southern Europe and Iberia. Each Committee met four times during FY19. During 2019, these Committees received updated risk management dashboards that outlined their key risks and activities, values and behaviours measures, as well as providing them with an overview of any incident trends.

The Regional Risk Committee meetings occur in advance of the Global Risk Committee. This allows regional or emerging risks to be elevated to the Global Risk Committee where necessary, and supports the management of principal and local risks within each region.

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

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

### **Sage Risk**

Sage Risk supports the effective operation of the Sage Risk Governance Structure, including the management of the principal risks, the Global Risk Committee and the Regional Risk Committees, providing guidance, support and challenge to the business and functions to effectively manage risk. Led by the Risk Director, the team continues to leverage local and global relationships to support business activities. Sage Risk also works closely with Sage Business Integrity as a second line partner to improve controls and behaviours across the business, and allow Sage to operate and grow within its risk appetite.

### **Sage Business Integrity**

Sage Business Integrity continues to transform the way colleagues think and work so that Sage can thrive through guiding, supporting and challenging the 1st line to 'do the right thing', through effective education, frameworks and technology enablers fit for a thriving SaaS business. The team, led by the Business Integrity Director, drive compliance with the Sage Governance Framework, the embedding of Sage values and behaviours, the development and embedding of sustainable processes and controls through the rollout and monitoring of the Sage Business Control Framework and also educate appropriate colleagues in the development and delivery of 'risk appropriate' monitoring and oversight to enhance the existing Sage due diligence framework.

### **Sage Assurance**

Sage Assurance is led by the VP Risk, Business Integrity and Assurance, and its purpose and activities are set out in the Internal Audit section of the Audit and Risk Committee report on page 94.

### **Risk management and internal controls**

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

In accordance with section C.2.3 of the UK Corporate Governance Code 2016 (the "Code"), the Board is responsible for reviewing their effectiveness and confirms that:

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

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

You can read more about our risk management and internal controls systems in our Strategic Report on pages 2 to 65 and the associated work of the Audit and Risk Committee on pages 89 to 95.

# LEVERAGING OUR RISK PROFILE

In FY19 we continued to accelerate into the cloud, with a clear focus on our three strategic lenses of Customer Success, Colleague Success and Innovation.

Our principal risks have also continued to evolve as we aligned the business with these strategic lenses, and continued to leverage our risks and opportunities in support of our strategic goals. We introduced “always-on, on-demand” risk reporting that provided real-time risk information to leaders across the organisation, which further enhances leaders’ ability to make risk informed decisions in a timely manner. We also continued to drive organisational engagement with the risk process to enhance informed decision making.

We leveraged the Sage Governance, Risk and Compliance tool to drive action on risks, values and behaviours across the business, supporting the organisation to continue to grow the right way. We supported risk owners across Sage to leverage, exploit and manage their risks through considered risk taking. We also worked to enhance our three lines of defence model through the development of an approach to integrated assurance, which will be further developed into a framework in FY20.

## Effect of Brexit

The uncertainty as to the status of the UK’s withdrawal from the European Union has continued throughout this year, with a hard Brexit remaining a real possibility as Brexit negotiations continue. We recognise that Brexit may have an adverse impact on the broader UK economy, which in turn may impact a portion of Sage’s UK customer base.

As we reported in FY18, the Group has adopted an approach that we believe will allow us to manage the risks that Brexit may bring, including:

- focusing on changes which may be required to our products;
- the impact for our colleagues both in the UK and Europe; and
- other legal, financial or tax implications which could arise from a “no deal” Brexit.

The Group does not currently foresee any adverse material impact on day-to-day operations due to the domestic nature of our UK business and customer needs. Additionally, we have low numbers of UK and EU colleagues based outside their home countries. Where this is the case, the risk has been mitigated due to protections put in place by the UK and certain EU governments to enable such citizens to continue to reside and work outside their home countries.

## Principal risks

The Board and the Audit and Risk Committee carried out a robust and ongoing assessment of the principal risks facing the Group throughout the year. This assessment considered those risks that would threaten Sage’s business model, future performance, solvency or liquidity, and ensured that the risks continued to align with our business strategy. We continued to simplify our risk reporting and align our risk metrics and appetite statements with our strategic goals. We also introduced reporting that increased our visibility of emerging risks.

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

Principal risks are formally reported to the Global Risk Committee, alongside escalated local risks and emerging risks. We manage risk in line with our risk management policy and approach, as set out in Risk Management on pages 54 to 57. In FY19 we monitored and reported against ten principal risks. As detailed in the following table, a range of measures are in place, or are being deployed or developed, to manage and mitigate our principal risks.

Principal risk	Risk background	Management and mitigation
<p><b>1 Understanding Customer Needs</b></p> <p>If we fail to understand the products and services our current and future customers need to be successful, they will find alternative solution providers.</p> <p><b>Strategic lens alignment:</b></p>  Customer Success	<p>Sage is the leader in key global markets, and we can use this position to gather valuable insights into what our current and future customers want and need. It can also help us to better understand the strengths and weaknesses of our products and services, and better position those products and services to meet the needs of our current and future customers.</p> <p>By understanding the specific needs of these customer groups in each country and region, we will be better positioned to efficiently manage our products, marketing efforts and support services. This in turn will allow us to maximise our return on investment, and retain a loyal customer and partner base over the long term.</p>	<p> Improving risk environment</p> <ul style="list-style-type: none"> <li>- Detailed customer segment and sector analysis was used to develop segment-specific playbooks that support customer-focused development</li> <li>- An Accountants Advisory Board was established to provide a feedback loop into the small business segment</li> <li>- Customer Advisory Boards, Customer Design Sessions and NPS detractor call-back channels are used to constantly gather information on customer needs</li> <li>- A Market and Competitive Intelligence team provides insights that Sage uses to win in the market</li> <li>- A product re-naming exercise was completed to simplify the purpose of each product, and assist with customer understanding, including the return to the X3 name based on customer feedback</li> <li>- Ongoing refinement and improvement of market data through feedback from the business and partners</li> <li>- Commenced the internationalisation of Sage Intacct with a product launch in Australia to meet the needs of the medium business segment</li> </ul> <p><b>In progress:</b></p> <ul style="list-style-type: none"> <li>- Making further investments in technology that can help us better identify which customers may not be utilising their software as fully as possible, allowing us to intervene early and support their success</li> <li>- Continue the internationalisation of Sage Intacct to meet the needs of the medium business segment</li> </ul>
<p><b>2 Product Strategy</b></p> <p>If we fail to develop and manage a prioritised strategy for our products that is aligned with our goals and delivers against customer needs, there is a significant financial risk that customers will go elsewhere.</p> <p><b>Strategic lens alignment:</b></p>  Customer Success  Innovation	<p>A key component of Sage's transition to a Software as a Service (SaaS) company is the delivery of cloud-connected and cloud-native products.</p> <p>To achieve this, we will need to execute on a prioritised product strategy that moves our product portfolio to cloud-native solutions. This may include a transitional period of cloud-connected products, with a clear path to the cloud-native products our current and future customers desire.</p>	<p> Improving risk environment</p> <ul style="list-style-type: none"> <li>- Following a product rationalisation and prioritisation exercise Sage's product strategy has been updated to focus strongly on the small and medium business segments, delivering against defined sectors within these segments in key territories</li> <li>- Acquisition and divestiture activities have been completed and are ongoing to align Sage's operating model with these segment and sector priorities</li> <li>- A licensing model transition strategy is in place, anchored on the Sage Business Cloud</li> <li>- Sage Business Cloud is available in United Kingdom and Ireland, North America, France and Spain</li> <li>- A Product Marketing team oversees competitive positioning and product development to align products with the needs of our customers</li> </ul> <p><b>In progress:</b></p> <ul style="list-style-type: none"> <li>- Embedding of the updated operating model for the business to reflect and support the segment model</li> <li>- The internationalisation of key cloud-native products (Sage Intacct and Sage People) will continue</li> </ul>

Principal risk	Risk background	Management and mitigation
<b>3 Innovation</b>	<p><b>Strategic lens alignment:</b></p>  Customer Success  Innovation	<p> Improving risk environment</p> <ul style="list-style-type: none"> <li>As Sage transitions into an SaaS business powered by a subscription licence model, we must be able to rapidly deploy new innovations to our customers and partners. This innovation could relate to new technologies, services, or new ways of working.</li> <li>Innovation will require us to address how we encourage innovation across our people, process and technology, and how we make this innovation sustainable. By building innovation into our collective DNA, we can empower our colleagues to improve the customer experience, and drive efficiencies in how we deliver our products and services.</li> <li>By strategically investing in platforms and relationships, we can also harness the innovation of our partners. By providing opportunities for our partners to interact with our products we can drive scalable growth and improve the customer experience.</li> </ul> <p><b>In progress:</b></p> <ul style="list-style-type: none"> <li>Integration of the Pegg chat bot across Sage's products and internal processes to enhance the customer and colleague experience using artificial intelligence</li> <li>Service Fabric is being implemented to support the rapid development and deployment of shared features in cloud products</li> <li>Prioritised product development based on the updated Product Strategy, focusing on delivery of key segment and sector capabilities</li> <li>Refinement of data principles to guide how data will be used and protected in innovation and product delivery activities</li> <li>Strategic acquisitions such as AutoEntry to complement and enable accelerated innovation</li> <li>Development of an incubation framework to guide how Sage interacts with its innovation partners</li> <li>Activities to drive colleague engagement such as hackathons and idea competitions</li> </ul>
<b>4 Route to Market</b>	<p><b>Strategic lens alignment:</b></p>  Customer Success	<p> Static risk environment</p> <ul style="list-style-type: none"> <li>If we fail to identify, develop and maintain a blend of channels to market, our ability to sell and support the right products and services to the right customers at the right time is reduced.</li> <li>By offering our current and potential customers the right information on the right products and services at the right time, we can maximise the value we can obtain from our marketing and customer engagement activities. This can shorten our sales cycle, and ensure that customer retention is improved. It can also use new products and services, such as payments and banking technologies, to draw new customers into the Sage family.</li> </ul> <p><b>In progress:</b></p> <ul style="list-style-type: none"> <li>The Go-To-Market function was re-organised to reflect the new segment-based operating model, with a strong focus on the UK and North America</li> <li>Market data and intelligence is disseminated internally to support decision makers in the best routes to market</li> <li>Dedicated colleagues are in place to support partners, and to help manage the growth of targeted channels</li> <li>The Sage Partner Programme has been moved into the Marketing organisation to drive increased alignment of the indirect channel to market</li> <li>New routes to market continue to be opened through our partnerships with payment and banking technology providers</li> </ul> <p><b>In progress:</b></p> <ul style="list-style-type: none"> <li>The internationalisation of key cloud-native products (Sage Intacct and Sage People) has continued through a partner-led approach</li> <li>Embedding of the updated operating model for the business to reflect and support the segment model, including the differentiation between direct and indirect channels</li> </ul>

## Principal risk

## Risk background

## Management and mitigation

5 Customer Success	In becoming a true SaaS business, we must maintain a sharp focus on the relationship we have with our customers, constantly focusing on delivering the products, services and experiences our customers need to be successful. If we do not do this, they will likely find another provider who does give them these things. Conversely, if we do these things well these customers will stay with Sage, increasing their lifetime value, becoming our greatest marketing advocates.	Battlecards are in place for key products in all countries, setting out the strengths and weaknesses of competitors and their products
<b>Strategic lens alignment:</b>  Customer Success  Colleague Success	While Sage is renowned for its quality customer support, a focus on Customer Success requires more proactive engagement as well. By proactively helping customers to recognise and fully realise the value of Sage's products we can help increase the value of these relationships over time, and reduce the likelihood of customer loss. By aligning our people, processes and technology with this focus in mind, all Sage colleagues can help support our customers to be successful and in turn drive increased financial performance.	<p><b>In progress:</b></p> <ul style="list-style-type: none"> <li>Consolidation of CRM systems continues to provide an efficient single view of the customer across all markets</li> <li>The Customer Success Framework is being rolled out in phases to other major markets to improve the customer experience</li> </ul>
<b>6 Third Party Reliance</b>	Sage has an increasing reliance on third-party providers that support the delivery of our products to our customers. Any interruption in these services or relationships could have a profound impact on Sage's reputation in the market and could result in significant financial liabilities and losses.  Equally, Sage has an extensive network of sales partners critical to our success in the market. Carefully selecting, managing and supporting these partners is critical to how we grow our business, as well as ensuring that we only engage with those people and organisations that share Sage's values and aspirations.  As Sage continues its transition into an SaaS business, this will likely split into two risks. The first of these will focus on our key supplier dependencies, while the second will consider the risks specifically associated with our partner relationships.	<p><b>In progress:</b></p> <ul style="list-style-type: none"> <li>Dedicated colleagues are in place to support partners, and to help manage the growth of targeted channels</li> <li>Standardised implementation plans for Sage products that facilitate efficient partner implementation</li> <li>A specialised Procurement function supports the business with the selection of strategic third-party suppliers and negotiation of contracts, and to support the ongoing management of key suppliers that are critical to product and service delivery</li> <li>Clear roles and responsibilities for colleagues are outlined in the Procurement Lifecycle Policy and Procedures, which includes delegated levels of authority for investment approval</li> <li>A Value-Added Reseller (VAR) programme was piloted in the UK, Canada, US and South Africa to enhance partner account manager capability</li> <li>An Independent Software Vendor (ISV) programme was launched in the UK and US to simplify how ISVs engage with Sage and provide them with a consistent partnership experience</li> </ul> <p><b>In progress:</b></p> <ul style="list-style-type: none"> <li>Rationalisation of targeted channels is continuing to focus on value-add activities</li> <li>Managed growth of the API estate, including enhanced product development that enables access by third-party API developers</li> </ul>

Principal risk	Risk background	Management and mitigation
<b>7 Sustainable Processes and Controls</b>		<p>Improving risk environment</p> <ul style="list-style-type: none"> <li>– Global and Regional Risk Committees oversee the risk and internal control environment, and set the tone-from-the-top</li> <li>– The Sage Governance, Risk and Compliance technology solution automates risk and compliance activity, and provides a consolidated view of risk, compliance and control environment</li> <li>– The Sage Compliance Hub provides a one stop repository and alert mechanism for the organisation, simplifying how Sage colleagues interact with and manage their compliance obligations</li> <li>– Shared Service Centres in Newcastle, Johannesburg and Atlanta enable the implementation of consistent and standardised systems and processes</li> <li>– Policy Approval Committee is in place to supervise and approve policies within the Sage-wide policy suite</li> <li>– Sage's business control framework, focused on 14 key processes, is starting to drive standardisation of practice and process across the business</li> </ul> <p><b>In progress:</b></p> <ul style="list-style-type: none"> <li>– The Business Control Framework continues to evolve as a way of supporting Sage's consistent approach to control</li> </ul>
<b>8 Colleague Success</b>		<p>Static risk environment</p> <ul style="list-style-type: none"> <li>– The Look, Evaluate, Assist, Deliver (L.E.A.D.) performance development programme was embedded across the business to support leaders and colleagues manage their career performance</li> <li>– Our Sage Business Cloud People solution is used across the business to enhance colleague experience</li> <li>– Conducted multiple activities throughout the year to give colleagues a voice on what helps their engagement, including regular colleague pulse surveys, and the Big Conversation</li> <li>– Fully embedded Sage Learning and deployed the Leading@Sage and Growing@Sage training programmes to support colleague and leader development competencies</li> <li>– Sage Save and Share scheme opened for a second year, with over 25% of colleagues now invested</li> <li>– Career frameworks were embedded within the Product and Services functions to support colleague growth, development and retention</li> </ul> <p><b>In progress:</b></p> <ul style="list-style-type: none"> <li>– Development of an executive development programme that helps develop our next generation of senior and executive leaders</li> <li>– Focused efforts continue to be developed to address regional and functional retention drivers</li> </ul>

Principal risk	Risk background	Management and mitigation
<b>9 Values and Behaviours</b>	<p>The development of a shared behavioural competency that encourages colleagues to think small and act big will be critical in Sage's successful transition to an SaaS business. Devolution of decision making, and the acceptance of accountability for these decisions, will need to go hand in hand as the organisation develops and sustains its shared values and behaviours, and develops a true SaaS culture.</p> <p><b>Strategic lens alignment:</b></p> <ul style="list-style-type: none"> <li> Customer Success</li> <li> Colleague Success</li> </ul>	<p> Improving risk environment</p> <ul style="list-style-type: none"> <li>- Code of Conduct communicated to all colleagues, and subject to annual certification</li> <li>- Refreshed and delivered Sage's values and behaviours, focusing on how we deliver against our three strategic lenses</li> <li>- The L.E.A.D. programme explicitly required colleagues to consider how their behaviours helped them meet their goals, alongside the actual performance delivered</li> <li>- Whistleblowing and Incident Reporting mechanisms are in place to allow issues to be formally reported, and investigated</li> <li>- All colleagues are empowered to take up to five paid Sage Foundation days each year, to support charities and provide philanthropic support to the community</li> <li>- Core eLearning modules have been rolled out across the enterprise, with annual refresher training</li> <li>- Compliance training has been transitioned into role-based education as a way of supporting colleagues to apply expected values and behaviours</li> <li>- A business integrity dashboard has been developed and delivered to all regions to provide leaders with metric-based data on colleague values and behaviours</li> <li>- In-person anti-bribery and corruption training has been delivered to all assessed higher risk regions</li> </ul> <p><b>In progress:</b></p> <ul style="list-style-type: none"> <li>- Embedding of the refreshed values and behaviours across the business</li> <li>- Ongoing enhancements to the delivery of mandatory training to help increase colleague engagement and retention</li> </ul>
<b>10 Information as an Asset</b>	<p>If we fail to manage, protect and maximise the value of our data, we will not be able to realise the full potential of our assets.</p> <p><b>Strategic lens alignment:</b></p> <ul style="list-style-type: none"> <li> Customer Success</li> <li> Innovation</li> </ul>	<p> Worsening risk environment</p> <ul style="list-style-type: none"> <li>- The IT and Product functions have been realigned under Executive leadership to deliver against Sage's strategy</li> <li>- A product data strategy, accompanied by data principles, is being refined to help guide and support the use of data internally, and in the ongoing development of new solutions and services</li> <li>- Accountability is established within both IT and Product for all internal and external data being processed by Sage. Sage Chief Information Security Officer oversees information security, with a network of Information Security Officers that directly support the business</li> <li>- The Chief Data Protection Officer oversees information protection and development for Sage</li> <li>- A network of country-level data champions support the business in embedding Sage practices across the organisation, with a particular focus on the requirements of the GDPR</li> <li>- Formal certification schemes are maintained, across appropriate parts of the business, and include internal and external validation of compliance</li> <li>- An incident management framework is in place, which includes rating of incidents and requirements for notification and escalation, and online incident reporting to Sage Risk</li> <li>- All colleagues are required to undertake awareness training for information management and data protection, with a focus on the GDPR requirements. Colleagues who frequently handle personal data also undertake role-based training</li> </ul> <p><b>In progress:</b></p> <ul style="list-style-type: none"> <li>- A review of how Sage can provide maximum value to its current and future customers, including through the use of enhanced AI/ML capabilities in its products, aligned with the data principles</li> </ul>

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

## Viability Statement

### Assessment of prospects and viability period

In accordance with provision C.2.2 of the 2016 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 assess the prospects of the Group and appropriateness of the period chosen by taking into account various factors including the Group's current position, the nature of its business, its business model and strategy, its principal risks, its liquidity analysis based on net debt and available debt facilities and its expected performance.

Items of note include:

- Strong recurring revenue growth through software subscription offering greater assurance in high-quality, long-term revenue;
- Delivery of consistently strong cash conversion; and
- A diverse product portfolio across 23 countries.

The Directors have reviewed the period used for the assessment and determined that a three-year period remained suitable. This period aligns our viability statement with our planning time horizon for our three-year strategic plan and is appropriate given the nature and investment cycle of a technology business. Cash flows over this period have a relatively high degree of predictability, particularly as the business continues its journey to be a great SaaS business.

Projections beyond this period become less reliable given the inherent uncertainty of technology and market developments although the Directors have no reason to believe the Company will not be viable over a longer period. However, due to this uncertainty, the Directors consider a three-year period to be appropriate in forming a reasonable expectation on the Group's longer-term viability.

### The assessment process

In forming a viability statement, the Directors are required to consider those principal risks that could impair the solvency and liquidity of the Group. This is based on the Group's current position, its strategy, and associated principal risks. These are reviewed by the Board and the Audit and Risk Committee quarterly, and are a foundation for the Group's strategic plan. The financial forecasts contained in the plan make certain assumptions about the uptake of subscription services and the acceptable performance of the core revenue streams and market segments. They assume that debt instalments are paid as they fall due, although the Group's main debt facilities are not due for renewal within the period of the assessment.

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

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.

## Description of scenario

### Malicious data breach impacting EU data

The deliberate targeting of data relating to EU data by malicious or criminal actors. This scenario considers the impacts on both customer data and Sage colleague data as it impacts data confidentiality, integrity and availability. It considers the direct financial and reputational impacts of the breach, along with the potential for regulatory fines and penalties.

### Two accidental data breaches in a major market

Two accidental releases of customer or colleague data within a major market within a short period of time. This scenario considers the impacts on both customer data and Sage colleague data as it impacts data confidentiality, integrity and availability. It considers the financial and reputational impact of the breaches, along with the potential for regulatory fines and penalties.

### Legal breaches by Sage or an associated third party

Sage or a third party, acting on Sage's behalf, fail to comply with legal obligations relating to sanctions, anti-money laundering, bribery and corruption or modern slavery, resulting in regulatory penalties and fines.

### Collapse in subscription new customer acquisition (NCA) in core markets impacting annualised recurring revenue (ARR) growth

A reduction in the perceived competitiveness of Sage's subscription products by potential new customers, resulting in an adverse impact on ARR growth.

### Entry of a new market disruptor

The entry of a new player in the financial and accounting management space with a free or very low cost offering in the small business space could significantly disrupt Sage's business model and ability to attract new customers.

## Principal risks involved

- ① Understanding Customer Needs
- ⑤ Customer Success
- ⑦ Sustainable Processes and Controls
- ⑧ Colleague Success
- ⑨ Values and Behaviours
- ⑩ Information as an Asset

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- ④ Route to Market
- ⑥ Third Party Reliance
- ⑦ Sustainable Processes and Controls
- ⑨ Values and Behaviours

- ① Understanding Customer Needs
- ② Product Strategy
- ③ Innovation
- ⑨ Values and Behaviours

- ① Understanding Customer Needs
- ② Product Strategy
- ③ Innovation
- ④ Route to Market
- ⑤ Customer Success
- ⑩ Information as an Asset

The monetary impact of each scenario was estimated by a cross functional group of senior leaders, including representatives from Finance, Risk, IT, Product Marketing and Legal, who evaluated the possible consequences, primarily through reducing revenues and net cash in-flows. These impacts were based on similar events in the public domain and internal estimates.

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

As set out in the Audit and Risk Committee's report on pages 89 to 95, 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 reduction in revenue that would be required to breach the Group's covenants or exhaust all available cash.

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

## Confirmation of longer-term viability

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

# CORPORATE GOVERNANCE



## Creating long-term sustainability

Dear shareholder

It is important that we all remember the Board is not a committee where individuals represent distinct interests but rather a risk managing and capital allocation body which, in addition to shaping the framework for strategic development, participates in and is accountable for the taking of appropriately calibrated risks.

The Board of the Company is committed to ensuring that it provides effective leadership and promotes uncompromising ethical standards. One of the ways in which the Board achieves this is by requiring that good governance principles and practices are adhered to throughout the Company.

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

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

One way in which the Board has sought to ensure the voices of stakeholders are heard is through our Board Associate role, introduced in FY17. This role continues to be a successful way of ensuring that the Board appropriately considers the interests of colleagues in its deliberations and creating greater understanding of the role of the Board amongst colleagues. This year we appointed a new Board Associate, Albert Sampietro, as a successor to Amy Lawson, our first appointee, who will serve for an 18-month term.

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

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

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

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

One of the consequences of both increasing the watchdog role of the Board and finding this balance between individuality and team behaviour is more Boards have fewer and fewer Executive Directors.

Notwithstanding the tensions created by many external expectations, which may be wholly or in part unrealistic, a successful Board should, ideally, be composed of a diverse group of respected, experienced and competent people who coalesce around a common purpose of promoting the long-term success of the Company, provide a unified vision of the definitions of success and appropriate risk, endeavour to support management (i.e. those who honestly criticise at times but encourage all the time) and who create confidence in all stakeholders in the integrity of the business.

A handwritten signature in black ink, appearing to read "Sir Donald Brydon".

**Sir Donald Brydon**  
Chairman

## BOARD OF DIRECTORS



### Sir Donald Brydon

Chairman of the Board

Chairman of the Nomination Committee

N



### Dr John Bates

Independent Non-executive Director

#### Date appointed to the Board

6 July 2012 and as Chairman on 1 September 2012

#### Key strengths and experience

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

Sir Donald has a wealth of experience gained as chairman and senior independent director of companies across a wide range of sectors including the London Stock Exchange Group plc, the Barclays Group, the AXA Group, Royal Mail plc, Smiths Group plc, the London Metal Exchange, Amersham plc, Taylor Nelson Sofres plc, Allied Domecq plc, Scottish Power plc, the ifs School of Finance, and EveryChild.

#### Key external commitments

Chair of the Government's Independent Review into the Quality and Effectiveness of Audit (the Brydon Review)



### Jonathan Bewes

Independent Non-executive Director

Chairman of the Audit and Risk Committee

A

#### Date appointed to the Board

1 April 2019

#### Key strengths and experience

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

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

#### Key external commitments

Non-executive Director & Chair of the Audit Committee of Next plc

Vice Chairman, Corporate and Institutional Banking at Standard Chartered Bank plc

#### Board Committees key

A Audit and Risk Committee  
See page 89

N Nomination Committee  
See page 86

R Remuneration Committee  
See page 96



### Annette Court

A R

Independent Non-executive Director

Chairman of the Remuneration Committee

#### Date appointed to the Board

1 April 2019

#### Key strengths and experience

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

Annette's prior roles include Senior Independent Director of Jardine Lloyd Thompson Group, CEO of Europe General Insurance for Zurich Financial Services, CEO of the Direct Line Group and director of the Board of the Association of British Insurers and Foxtons Group plc.

#### Key external commitments

Chairman of Admiral Group plc



### Blair Crump

Executive Director

#### Date appointed to the Board

1 January 2018

#### Key strengths and experience

- Significant leadership skills in the technology sector
- Strong background in sales, customer service and driving growth
- Plays an integral part in the leadership of the business and his commercial insights add further depth to Board discussions
- Brings strong US geographic experience to the Board

Blair joined Sage in the role of President in 2016, leading on sale and customer services across the Group. Blair's prior roles include Chief Operating Officer at PROS Holdings, leading Salesforce.com's Global Enterprise business, and Group President at Verizon (and with MCI Communications before its acquisition by Verizon).

#### Key external commitments

None



### Drummond Hall A N R

Senior Independent Director

**Date appointed to the Board**  
1 January 2014

#### Key strengths and experience

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

Previously Drummond was the Senior Independent Non-executive Director of FirstGroup, a Non-executive Director then Chairman of Mitchells & Butlers plc and Chief Executive of Dairy Crest Group plc, prior to which the majority of his career was spent with Procter and Gamble, Mars and PepsiCo.

**Key external commitments**  
Senior Independent Director of WHSmith plc



### Steve Hare

Chief Executive Officer

**Date appointed to the Board**

3 January 2014 as Chief Financial Officer (CFO),  
31 August 2018 as Chief Operating Officer, and as  
Chief Executive Officer (CEO) on 2 November 2018

#### Key strengths and experience

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

Steve joined Sage in January 2014, having previously been Operating Partner and Co-Head of the Portfolio Support Group at the private equity firm Apax Partners. Prior to this he held leading roles in the finance function for listed companies including Chief Financial Officer for Invensys plc, Spectris plc and Marconi plc.

**Key external commitments**  
None



### Jonathan Howell

Chief Financial Officer

**Date appointed to the Board**

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

#### Key strengths and experience

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

Prior to his appointment as CFO of Sage, Jonathan had been Group Finance Director of Close Brothers Group plc and the London Stock Exchange Group plc. He has also been a Non-executive Director of EMAP plc and Chairman of FTSE International.

**Key external commitments**  
None



### Soni Jiandani N

Independent Non-executive Director

**Date appointed to the Board**  
28 February 2017

#### Key strengths and experience

- 25 years' experience in the technology industry with a background of bringing innovative technologies to market
- Helped establish multi-billion-dollar revenue streams in the switching, storage networking and server markets
- Extensive experience in marketing and driving industry transformation through market disruption

Previously Soni was a marketing executive at UB Networks and Excelan (before it was taken over by Novell) and latterly she was SVP Marketing at Cisco Systems Inc.

**Key external commitments**  
None



### Cath Keers R

Independent Non-executive Director

**Date appointed to the Board**  
1 July 2017

#### Key strengths and experience

- Brings a wealth of digital and customer experience insights to the Board
- Deep understanding of leveraging sales and marketing activity to build successful brands
- Past experience in retail, after marketing and business development roles, holding a number of commercial roles, where she was in charge of refocusing the organisation's customer strategy

Cath is an experienced Non-executive Director, having served on the boards of TalkTalk Telecom Group plc, the Royal Mail group, Liverpool Victoria Friendly Society Limited (LV=), and the Home Retail Group Limited. She pursued her retail career with Thorn EMI and, after marketing and business development roles at Sky TV, Avon and Next, joined the BT Group, holding a number of commercial roles.

**Key external commitments**  
Non-executive Director of Funding Circle Holdings plc  
Non-executive Director of The British United Provident Association Limited

Full biographies can be found at sage.com

#### Gender (%)



■ Male ■ Female

#### Tenure

(Chairman and Non-executive Directors)



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

#### Experience (%)



■ Technology and innovation ■ Financial  
■ Sales & Marketing

#### Board composition



■ NEDs ■ EDs  
■ Chairman

## EXECUTIVE COMMITTEE

Steve Hare chairs the Executive Committee and Jonathan Howell and Blair Crump are also members. For their skills and experience, please see pages 67 to 68.



### Vicki Bradin

General Counsel and Company Secretary

#### **Key strengths and experience**

Having worked as a corporate lawyer in global and magic circle law firms, Vicki brought this experience in-house in large multi-nationals and UK listed companies, latterly at Misys (now Finastra) where she was responsible for M&A, litigation, risk, intellectual property and more.



### Amanda Cusdin

Chief People Officer

#### **Key strengths and experience**

Amanda has almost 20 years of HR experience across several global FTSE organisations in a variety of sectors where she focused on supporting executive leaders to drive change and transformation. Also, she has led in M&A, growth in new geographies and working across cultures and matrix organisations.



### Aaron Harris

Chief Technology Officer

#### **Key strengths and experience**

Aaron was CTO of Sage Intacct where he was part of the founding team establishing it as the innovation leader in cloud financial management solutions. As Sage's CTO, he leads the emerging technology and collective intelligence functions and supports the Service Fabric as a critical component in Sage's mission to become a great SaaS company.



### Rob Reid

Chairman Mid-Market Solutions

#### **Key strengths and experience**

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



### Lee Perkins

Chief Product Officer

#### **Key strengths and experience**

Lee has deep experience, understanding and relationships across the business to ensure progress in the product function. As CPO, Lee has responsibility for bringing together product marketing, management and engineering under customer-focused segments.



### Ron McMurtie

Chief Marketing and Business Enablement Officer

#### **Key strengths and experience**

Ron has over 20 years' experience in senior marketing roles. He is a multi-dimensional leader with budgetary and personnel responsibility spanning direct sales, marketing, enterprise consulting and professional services in private and public sector markets.



### Klaus-Michael Vogelberg

Chief Architect and Technology Advisor

#### **Key strengths and experience**

Klaus-Michael was a software entrepreneur who set up his own business while studying aeronautical engineering and national economics. He went on to work in research and development for a well-known German group before joining Sage in 1997, initially as R&D Director and later as Chief Technology Officer before moving to his current role.



### Keith Robinson

Chief Strategy Officer and Advisor to the Executive Committee

Keith has a wealth of SaaS experience from working in technology, including Lamond Capital Partners LLC, Arma Partners and Gartner.

## The following individuals were appointed to the Executive Committee after 30 September 2019



### Derk Bleeker

Chief Corporate Development Officer

#### **Key strengths and experience**

Derk joined Sage to build its Corporate Development function and subsequently took responsibility for Commercial Finance. Derk has experience as a leader of corporate development gained from working for a global industrial and medical technology leader, and prior to that he worked in private equity and as an M&A specialist in investment banking.



### Sue Goble

Chief Customer Officer

#### **Key strengths and experience**

Sue is accountable for Business Operations responsibilities, ensuring Sage lands major programmes successfully across the organisation. Sue has a distinguished career at a range of cloud companies including for a cloud consulting business and senior roles in customer relationship management.



### Marc Linden

EVP and General Manager, Medium Segment Native Cloud Solutions

#### **Key strengths and experience**

Marc has more than 30 years of finance, business strategy, and general management experience. Previously CFO of Sage Intacct, he now oversees Finance, Product Management, Engineering, Operations, Marketing and Business Operations.

# CORPORATE GOVERNANCE REPORT

## Compliance with the UK Corporate Governance Code 2016 (the Code) and implementation of the new UK Corporate Governance Code (the 2018 Code)

The Corporate Governance section of the Annual Report and Accounts describes how we have applied the main principles and complied with the provisions of the Code on pages 66 to 128. Sage has applied the 2018 Code since 1 October 2019 and will report on this fully in next year's report.

Sage complied with the provisions of the Code throughout the financial year ended 30 September 2019, except for a period of non-compliance between December 2018 and March 2019 in relation to provision C.3.1 (composition of the Audit and Risk Committee). The membership of the Audit and Risk Committee during the period fell below the recommended minimum of three independent Non-executive Directors (NEDs). This occurred when Jonathan Howell stepped down as Chairman of the Audit and Risk Committee on 3 December 2018, prior to the commencement of his executive role as CFO. The Board immediately initiated a process to appoint a successor which led to the appointment of Jonathan Bewes with effect from 1 April 2019. In the intervening period, Neil Berkett, who had served as an independent NED of Sage since 2013 and was an existing member of the Audit and Risk Committee, assumed the role of Chairman of the Audit and Risk Committee and Drummond Hall continued to serve as a member of the Committee. Further information is available on page 88.

### Steps taken to implement the 2018 Code

The Board took steps during FY19 to ensure it was well positioned to follow the 2018 Code from 1 October 2019. There are also a number of instances where the Company decided to comply with the 2018 Code earlier than required and these are set out below:

**Annual governance reviews:** The Board reviewed Matters Reserved for the Board, Board Committee terms of reference and other relevant corporate documents to ensure they are in line with the provisions of the 2018 Code.

**Board and Committee papers:** The Board reviewed its key stakeholders and the ways in which it engages with them. Some key examples of the action taken are set out below:

- a standing Board paper setting out Sage's stakeholders (as determined by the Board) and why they are important to us has been included in every Board pack;

- the executive summary of Board papers has been broadened to require authors to note stakeholders' interests in matters being considered by the paper and to clearly demonstrate how proposals put forward have taken those interests into account;
- a risk assessment has been devised relating to remuneration policy and practices to ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated;
- the Company Secretary ensures that minutes of Board discussions clearly record how stakeholder views have been considered as part of the decision-making process; and
- we have formalised the reports back to the Board of the matters considered by Board Committees and such reports address how stakeholder factors have been considered.

**Board Associate:** The Board considers that the Board Associate role, introduced in FY17, represents an appropriate method of engaging with colleagues as it provides a two way communication channel to create greater understanding of the role of the Board amongst colleagues. This enables the Board to hear more of colleagues' views thereby ensuring that the Board appropriately considers the interests of colleagues when making decisions.

During FY19 our first Board Associate stepped down at the end of her 18-month term of appointment and we appointed our second Board Associate. We also sought new ways to enhance the role's profile and to enable more direct communication and engagement with our colleagues. Our Board Associate continues to share blogs on his Board experiences with all Sage colleagues via the Your Sage intranet site and uses this forum to explain how key decisions impacting colleagues made by the Board during the year were reached. He also attends Board engagement days alongside our NEDs.

**Board engagement plan:** The Board has continued its engagement activities with stakeholders throughout the year and has reviewed these to ensure appropriate coverage across all stakeholder groups in line with the 2018 Code and to prepare for the requirement to make a detailed s. 172(1) statement in the annual report next year on how the Directors have discharged their duties and taken stakeholder concerns into account in their decision making. Please see pages 82 to 84 for more information on our stakeholders and how the Board engages with them.

The Code and the 2018 Code are publicly available at the website of the UK Financial Reporting Council on [www.frc.org.uk](http://www.frc.org.uk).

## Roles and responsibilities of the Board

Sage is headed by an effective Board which brings a wide range of commercial, technology and financial experience and is collectively responsible for the long-term success of the Company and overall leadership of the Group. As required by the Code, the division of responsibilities between the Chairman and the Chief Executive Officer are clearly established and agreed by the Board. These are summarised below. In addition, while both the Non-executive and Executive Directors have the same duties in law, they have different roles on the Board. These are also clarified below.

### Chairman

- Responsible for the leadership and effective operation of the Board in all aspects of its role
- Sets the agenda for Board meetings to ensure coverage of material topics
- Ensures that the views of stakeholders are understood and considered in Board discussions (please see pages 82 to 84 for more details)
- Promotes a culture of open debate in the Boardroom and encourages contribution by all Directors
- Responsible, with support from the Company Secretary, for overseeing Sage's corporate governance practices

### Chief Executive Officer (CEO)

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

### Senior Independent Director

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

### Non-executive Directors (NEDs)

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

### Other Executive Directors

- Support the CEO in the delivery of corporate strategy and the day-to-day management of the business
- Oversee and report on their distinct areas of responsibility
- Engage with Sage's stakeholder groups and lead on related activity within their scope of activity
- Provide insights into the Group's commercial and financial position from within the business

### Company Secretary

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

## Composition of the Board

At the date of this report, there are ten Directors on the Board. The Board currently comprises the Chairman, one Senior Independent Director, five Non-executive Directors and three Executive Directors. With the exception of the Chairman, whose independence is only determined on appointment, all Non-executive Directors remained independent throughout the year as defined in the Code. The Directors' terms of appointment are available for inspection at the Company's registered office and at each Annual General Meeting (AGM).

## Meeting attendance and support

The Board held six scheduled meetings during the financial year ended 30 September 2019, with an additional five unscheduled meetings held at short notice via telephone or written resolution. Directors are expected to attend every scheduled meeting and as many unscheduled meetings as possible. Their individual attendance during the year is set out below.

If a Director is unable to attend a meeting, they are encouraged to provide comments on the Board papers to the Chairman so that they may be shared with Directors at the meeting. Finalisation of meeting content is a collaborative process involving the Chairman, CEO and the Company Secretary, who assists in setting the agenda and ensures adequate time is allocated to support effective and constructive discussions.

Directors	Independent	Attendance/ scheduled meetings	Attendance/ additional meetings
<b>Chairman</b>			
Sir Donald Brydon	On appointment <sup>1</sup>	6/6	5/5
<b>Non-executive Directors</b>			
Dr John Bates <sup>2</sup>	Independent	2/2	-
Neil Berkett <sup>3</sup>	Independent	4/4	4/4
Jonathan Bewes <sup>4</sup>	Independent	3/3	1/1
Annette Court <sup>4</sup>	Independent	3/3	1/1
Drummond Hall	Senior Independent Director	6/6	5/5
Soni Jiandani <sup>5</sup>	Independent	4/6	5/5
Cath Keers	Independent	6/6	5/5
<b>Executive Directors</b>			
Blair Crump <sup>6</sup>	Executive Director	6/6	3/5
Steve Hare <sup>7</sup>	Executive Director	6/6	4/5
Jonathan Howell <sup>7</sup>	Executive Director <sup>8</sup>	6/6	4/5
<b>Company Secretary</b>			
Vicki Bradin		6/6	5/5

1. As required by the Code, the Chairman was independent on appointment.

2. Dr John Bates was appointed to the Board on 31 May 2019.

3. Neil Berkett stepped down from the Board on 1 April 2019.

4. Annette Court and Jonathan Bewes were appointed to the Board on 1 April 2019.

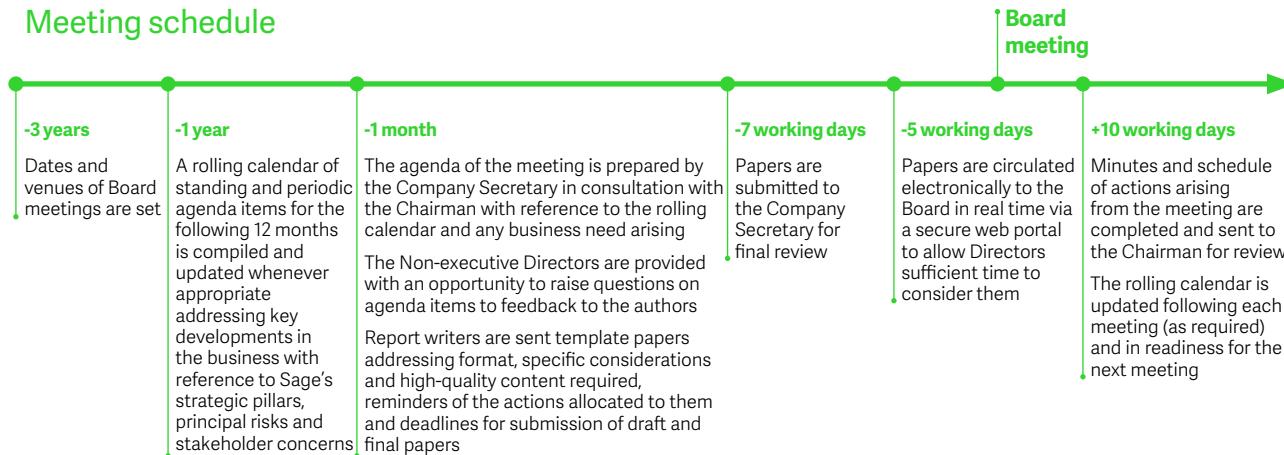
5. Soni Jiandani was unable to attend two scheduled Board meetings due to unforeseen circumstances.

6. Blair Crump was unable to attend two additional meetings called at short notice.

7. Steve Hare and Jonathan Howell recused themselves from meetings called to approve their appointments.

8. Jonathan Howell stepped down as the Chairman of the Audit and Risk Committee effective from 3 December 2018. He retained his position as a Non-executive Director (albeit no longer independent) until the commencement of his appointment as an Executive Director in the role of CFO on 10 December 2018.

## Meeting schedule



## Our Governance framework

### The Board

Provides entrepreneurial leadership and sets our purpose, strategy and values to foster the long-term success of the Company. The Board delegates powers to its Committees and the CEO, while retaining exclusive control over the key decisions set out in the Matters Reserved for the Board. These include having primary responsibility for risk appetite and systems of internal control, corporate governance policies, and for material changes to the Group's capital and corporate structure.

#### Audit and Risk Committee

Oversees the Group's financial reporting; risk management and internal control procedures; and the work of its internal and external auditors.

Please read Jonathan Bewes' Audit and Risk Committee report on pages 89 to 95

#### Remuneration Committee

Agrees Executive Director remuneration policy; sets remuneration for the Chairman, Executive Directors, the Company Secretary and other Executive Committee members; and reviews workforce remuneration and policies.

Please read Annette Court's Remuneration Committee report on pages 96 to 123

#### Nomination Committee

Reviews the composition of the Board and its Committees; plans for progressive refreshing of their membership; and considers succession plans for the Board and senior executives.

Please read Sir Donald Brydon's Nomination Committee report on pages 86 to 88

### Chief Executive Officer

#### Executive Committee

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

Please read pages 69 for the composition of the Executive Committee.

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



**The Matters Reserved to the Board and terms of reference of Board Committees may be found on our website at sage.com**

## Communication between Board Committees and cross membership

There is a standing invitation to Directors to attend any Board Committee meeting irrespective of whether they are a Committee member, subject only to recusal regarding matters concerning the individual(s) or conflicts of interests. Following each Board Committee meeting, the Committee Chairman reports back to the Board on the matters considered.

To further assist information flows between the Board and its Committees, there are cross memberships of the Committees.

Current Committee membership is shown in the table below.

	Audit and Risk Committee	Remuneration Committee	Nomination Committee
<b>Chairman</b>			
Sir Donald Brydon			Chairman
<b>Non-executive Directors</b>			
Dr John Bates			
Jonathan Bewes		Chairman	
Annette Court	X	Chairman	
Drummond Hall	X	X	X
Soni Jiandani			X
Cath Keers		X	
<b>Executive Directors</b>			
Blair Crump			
Steve Hare			
Jonathan Howell			

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

## Independence of Non-executive Directors (NEDs)

The independence of the NEDs is kept constantly under review by monitoring their behaviour, commitments and interests throughout the year. The Board also considers the Directors' independence against the specific independence criteria of the Code. As part of this process, the Board keeps the length of tenure of all Directors under review, particularly any who have given long service.

Having reviewed the independence of each Non-executive Director, the Board considers all our NEDs to be independent in character and judgement. Sir Donald Brydon was considered independent at the date of his appointment as provided by the Code.

## Conflicts of interest

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

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

## Diversity and inclusion

Sage embraces diversity in all forms. Our ambition is to reflect the diversity of our customers and partners in the communities where we operate – which will accelerate growth and innovation. We are creating a truly inclusive environment where everyone contributes to our vision, whilst being their true selves.

Our Board Directors come from broad industry and professional backgrounds, with varied experience and expertise aligned to the needs of our business. Diversity was a key consideration when assessing the candidates for the Board appointments made during the year and we are pleased to report that 30% of our Directors are female.

You can read more about how the Nomination Committee addresses diversity and results achieved during the reporting period on pages 86 and 88.

## Time commitment

The NEDs devote considerable time to the Group beyond the programme of Board and Board Committee meetings. Their activities necessarily include further investigation of reports submitted to them and discussion with the senior executives and other subject matter experts, and extend to induction and training to ensure they understand the business and are kept up to date with emerging technology, regulations, and other matters impacting the Group. Further information on these activities is set out on this page and page 76. All Directors also participate in site visits and undergo a formal engagement plan to meet colleagues and other stakeholders. Please refer to pages 77 and 79 for further details.

## Annual re-election of Directors

Dr John Bates, Annette Court and Jonathan Bewes will be subject to election by shareholders for the first time at the AGM on 25 February 2020. All of the current Directors will also submit themselves for re-election.

All Directors seeking election or re-election are subject to an annual effectiveness review. Details of the review undertaken in July 2019 are set out on page 76. The Board has considered the results of the evaluation and has separately assessed the independence and commitment of each individual. It concluded that the Directors' performance continues to be effective and that they demonstrate commitment to their roles. It was also confirmed the Directors have recent and relevant experience and the skills required for the Board to discharge its responsibilities. Further information on each Director's skills and contribution to the Board is on pages 67 to 68.

## Induction

Upon appointment to the Board, all Directors engage in a comprehensive induction programme which is tailored to their individual needs. The programme consists of meetings and events, designed to help the new Directors to get to grips with their role and responsibilities as swiftly as possible and help them to make a valuable contribution to the Board. The programme is organised around three themes: business familiarisation, corporate governance including Board duties, and Director development.

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

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

During the induction period, the individuals (this year, Annette Court, Jonathan Bewes and Dr John Bates) are asked for regular feedback, so that the programme can be adapted if needed. Please see pages 86 to 88 for more information about their appointments.

Steve Hare was appointed to the role of CEO in November 2018, having served on the Board as CFO since January 2014 and as Interim Chief Operating Officer from August 2018. Jonathan Howell was appointed as CFO in December 2018, having served on the Board as a NED and Chairman of the Audit and Risk Committee since May 2013. In view of their long-standing service on the Board, and in Jonathan Howell's case his prior experience as serving as Chairman of the Company's Audit and Risk Committee as well as chief financial officer on the boards of other listed companies, they did not undertake further inductions.

## Director training and development programme

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

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

- Market Abuse Regulation: update on market practice and enforcement trends;
- the 2018 Code and the new requirements for reporting in relation to s.172(1) of the Companies Act;
- external cyber threat overview; and
- an overview of the UK implementation of Salesforce as the Company's CRM system and the roll-out of the Perform sales improvement process, both being tools designed to help colleagues ensure Customer Success.

## Board effectiveness and evaluation

An effective Board is key to the establishment and delivery of a Company's strategy. This year, as recommended by the Code, an external evaluator, Independent Board Evaluation (IBE), was engaged to conduct the Board evaluation. IBE, an independent, external corporate governance consultancy with no other connection to the Group or any of the Directors, was chosen to facilitate the evaluation of the Board and its Committees and provide informative output.

IBE carried out a thorough review and views were gathered through a combination of interviews with the Directors, senior management and advisors to obtain feedback on the matters outlined below. IBE also attended Board and Board Committee meetings as an observer and issued their final report on their findings to the Board in July 2019.

The Chairman was provided with a report and feedback on the performance of each of the Directors, and the Senior Independent Director, along with the Non-executive Directors, received a report on the Chairman. Feedback was also provided on each Committee to the Committee chair and its members.

The evaluation sought views on a range of topics including:

- Stakeholder accountability, relationship and interface;
- Strategy and risk management;
- Governance and compliance;
- Board focus and decision-making;
- Succession planning, selection of new Board members, induction and Board composition;
- Performance evaluation;
- Board culture and relationship with senior management; and
- Meeting logistics: timing, preparation and content of Board packs.

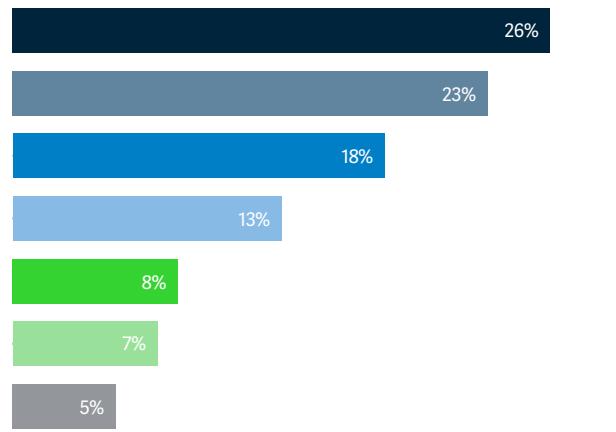
Based on the detailed reviews and interviews, the Board felt most positively about stakeholder relationships and accountability; governance and compliance; and Board culture. The degree of support and challenge demonstrated by the Directors was at the correct level, albeit there was acknowledgement of the fact that a number of new NEDs had joined during the year and that they would therefore take time to settle. There was a view that the Board should continue to focus on Board and Company succession planning, the development of induction activities for new Board members and high-level monitoring of execution against business objectives.

In September 2019, the Board agreed an action plan focusing on these key areas and based on best practice as described in the 2018 Code and related guidance.

## The Board's key areas of focus

The Board adopts a written set of objectives for each financial year, based on corporate strategy and the key responsibilities of its role. The time spent on the Board's key areas of focus is set out below with further details of its activities set out on pages 77 to 79.

### Key areas of focus



■ Finance and risk management  
■ Strategy  
■ Governance and reporting  
■ Culture

■ Other  
■ Acquisitions and disposals  
■ Leadership

## Activities of the Board

During the year, the Board focused on the matters summarised in the table below in line with the Group strategy and our ten principal risks.

### Key

Strategic lenses		Principal risks
Customer Success		Understanding customer needs ① Third party reliance ⑥
Colleague Success		Product strategy ② Sustainable processes & controls ⑦
Innovation		Innovation ③ Colleague success ⑧ Route to market ④ Values & behaviours ⑨ Customer success ⑤ Information as an asset ⑩

Key area of activity	Matters considered	Outcome	Strategic lenses	Principal risks
<b>Strategy</b>	Approval and execution of strategy	<p>The Board approved Sage's strategy for FY19 and beyond. It also routinely received updates in order to consider the current and future dynamics within Sage's markets, its position within this context, and the strengths Sage has that may serve as a foundation for its continued development. These included 'deep dives' regarding the strategic lenses to monitor progress in these areas.</p> <p>In addition, the Board also met with senior executives for a strategy day to consider in-depth presentations on key elements of Sage's strategy and to agree further developments to that strategy.</p>	  	① ⑥ ② ⑦ ③ ⑧ ④ ⑨ ⑤ ⑩
<b>Leadership</b>	Appointment of Board and Executive Committee members to fill vacancies and obtain additional skills, experience and diversity in our leadership	<p>During the year, Annette Court, Jonathan Bewes and Dr John Bates joined the Board. In addition, Steve Hare and Jonathan Howell moved from their previous roles to become CEO and CFO respectively.</p> <p>Aaron Harris, Lee Perkins and Robert Reid joined the Executive Committee during the course of the year. Keith Robinson was also appointed as Advisor to the Executive Committee.</p> <p>Derk Bleeker, Sue Goble and Marc Linden were subsequently appointed to the Executive Committee with effect from 1 October 2019.</p> <p>The biographies of all current Board and Executive Committee members are set out on pages 67 to 69.</p>	  	① ⑥ ② ⑦ ③ ⑧ ④ ⑨ ⑤ ⑩
<b>Culture</b>	Changes to organisational design and ways of working to drive more accountability and engagement	<p>The Board maintained a sustained focus on corporate culture during FY19 and it:</p> <ul style="list-style-type: none"> <li>– received regular updates throughout the year from the Chief People Officer;</li> <li>– maintained progress against the Colleague Success KPIs;</li> <li>– oversaw the realisation of the new operating model; and</li> <li>– participated in pairs in facilitated sessions with third party provider 'Walk the Talk' to input their thoughts into the fresh set of values and behaviours created during the year.</li> </ul> <p>This resulted in the development of refreshed corporate values and behaviours aligned with our strategy. Please see pages 81 for more information.</p> <p>The Board endorsed a drive to further develop members of the senior executive team to nurture a cohesive culture as part of the focus of creating a great SaaS business. Further information is provided in our culture case study on page 81.</p>		⑧ ⑨

Key area of activity	Matters considered	Outcome	Strategic lenses	Principal risks
<b>Customer</b>	Developing enduring subscription relationships and having a customer-centric approach in everything we do	<p>The Board discussed our strategy for Customer Success and participated in 'deep dive' sessions to understand how our operational priorities were ensuring delivery of our goals. These priorities included the roll-out of a number of initiatives:</p> <ul style="list-style-type: none"> <li>– repositioning Sage as a customer-centric business delivering business solutions across customers' lifecycles;</li> <li>– the roll-out of the single CRM system and digitisation of customer service functions to enhance our relationship with customers in the UK; and</li> <li>– the introduction of a globally consistent set of systems and processes to manage the customer journey seamlessly across all segments of the business.</li> </ul> <p>Please see how the Board engages with customers on pages 83 to 84.</p>	 	(1) (2) (3) (5) (7) (8) (9)
<b>Innovation</b>	Understanding the benefits of and threats posed by technological innovation	<p>The Board recognises that rapid advancements in technology offer new opportunities to deliver unique and differentiated customer value. By cultivating a culture of innovation and experimentation, Sage can continuously reinvent and bolster itself against unpredictable future market disruptors. During the year the Board discussed the following:</p> <ul style="list-style-type: none"> <li>– continued investment in cloud native and cloud connected solutions;</li> <li>– the deployment of Service Fabric, a cloud technology which allows the aggregation of microservices to be deployed in various combinations as distinct cloud services; and</li> <li>– the internationalisation of Sage Intacct in the UK and Australia and the integration of the existing Compass and the new Allocate.AI team to develop several advanced analytic capabilities powered by artificial intelligence.</li> </ul>	 	(1) (2) (3) (5) (10)
<b>Finance and risk management</b>	Financial reporting	<p>The Board closely monitored reports relating to the financial position of Sage and regularly reviewed its risk profile and emerging risk themes, as well as scrutinising regular updates on the internal controls and framework. It assessed the effectiveness of the whistleblowing hotline, and case management during the year. It also approved:</p> <ul style="list-style-type: none"> <li>– the FY19 Budget and business plans;</li> <li>– Sage's quarterly trading reports and interim and final results;</li> <li>– interim and final dividend payments; and</li> <li>– significant capital expenditure proposals.</li> </ul>	  	(7) (9)

Key area of activity	Matters considered	Outcome	Strategic lenses	Principal risks
<b>Group structure</b>	Acquisitions and disposals	<p>In January 2019, the Board approved the disposal of Sage Payroll Solutions, its US-based payroll outsourcing business. The sale was in line with Sage's strategy to enable the business to focus on solutions either in or with a clear pathway to the Sage Business Cloud.</p> <p>In September 2019, the Board also approved the acquisition of AutoEntry, an intelligent technology and an open ecosystem that allows data entry automation to help accountants and bookkeepers to focus on what matters most. This was a strategically significant acquisition to change cloud services for customers.</p> <p>In November 2019, the Board approved the disposal of Sage Pay, a leading provider of payment gateway services in the UK and Ireland. The divested business will remain an important payments partner for Sage after completion, which is expected to complete in early 2020.</p> <p>Also in November 2019, Sage announced that our Brazilian business has been classified as held for sale as at the year-end as it is deemed to be outside of Sage's core strategic focus.</p>	 	(1) (2) (3) (5)
<b>Governance and reporting</b>	Legal and regulatory developments	<p>During the year, the Board considered and established the necessary processes to ensure that Sage meets the requirements of the 2018 Code and is prepared for the Companies Act 2006 requirement to include a detailed s. 172(1) statement in future annual reports.</p> <p>The Board conducted its annual review of corporate policies and procedures to update them in accordance with legal and regulatory requirements, including the Matters Reserved for the Board and Board Committees' terms of reference.</p> <p>It undertook its annual review of the effectiveness of the Board as a whole, its Directors, and its main Committees, subsequently agreeing actions to aid development. The evaluation was externally facilitated this year, as described on page 76.</p>	  	(7) (8) (9)
<b>Cyber threat</b>	Resilience and reduction of risk	<p>The Board continued to receive regular updates at each Board meeting from the Chief Information Security Officer on improvements being made to reduce cyber risks across the corporate estate and customer-facing products. These included:</p> <ul style="list-style-type: none"> <li>– the creation of a 24x7 global monitoring and response capability;</li> <li>– creation of a specialist internal 'red team'; and</li> <li>– a bug bounty programme for cloud products and technologies to support rapid identification and remediation of security vulnerabilities.</li> </ul> <p>The Board also received an in-depth security review of all Sage Business Cloud products during the year to ensure they remain sufficiently resilient against cyber threats and attended an external briefing to bring Directors up-to-date with emerging cyber security risks.</p>	  	(1) (3) (5) (7) (8) (9) (10)

Regular reports are received at each meeting from the CEO, CFO (including Corporate Development and Investor Relations updates), General Counsel and Company Secretary, and the Chief Information Security Officer.

## Looking forward to 2020

In 2020, the Board intends to maintain its focus on Sage's transition to a leading SaaS company. In order to do so, the Board will continue to:

- monitor the implementation of the People plan which builds a high performance and nurturing culture in line with the Sage values and behaviours and delivers high levels of colleague engagement;
- monitor our talent identification, development and succession plans for key roles within Sage;
- continue our drive to be customer centric and develop deep and enduring customer and partner relationships;

- understand how the roadmaps for Sage Business Cloud solutions in our key geographies are delivering competitive edge and elevating the Sage Business Cloud product portfolio into a digital environment for customers;
- maintain focus on understanding defence against cyber attacks and keep abreast of cyber risks as an integral part of Sage's risk strategy; and
- continue to evolve our Board Associate role.

# ENSURING WE ARE HEARD ...



**Albert Sampietro**  
Board Associate

My role as Board Associate is focused on bringing our colleagues' voice into the Boardroom, as well as explaining the Board's responsibilities to colleagues in order to create greater two way communication between them and the Board.

There are many ways in which I can communicate with colleagues around the Group thanks to the various internal media available. These have proved very helpful in reaching out to colleagues to hear their views first-hand and to put me in a position to relay those views to the Board.

One of the biggest initiatives I was involved with was the decision to move our offices in Newcastle from our current premises at North Park to the Cobalt Business Park. The premises house circa 1,800 colleagues and is the central location for the engineering, sales and customer support teams in the UK. It was quite clear from the start that any decision would include analysis of the impact on our colleagues, but also the impact on the wider community including Sage operations in Newcastle and the environment.

The desire to transform the office environment meant that a simple refurbishment was not enough. We needed more space to reinvigorate the way we work, facilitating greater collaboration between colleagues to generate new ideas. It would also enable us to attract new talent.

It was important for the Board to be satisfied that colleagues would be happy about the move and that any impacts from the change, such as any increased travel to get to work, should be considered and taken into account.

The Board asked me to act as a champion for colleagues currently based in North Park. The Directors were keen to know how they felt about the move, including any wishes they had in relation to new premises and also their concerns. Please see the case study on page 85 for more information.

Being a Board Associate has already influenced how I operate in my work environment. I have changed my approach to meetings after observing how the Board operates and I now ensure meetings are focused with a clear agenda and I avoid detailed presentations to focus on what is important.

One of my key observations of the Board is that the Directors show a keen focus on product strategy and technological innovation, obviously motivated by the rapid changes in our sector, such as the introduction of machine learning, big data, blockchain and chatbots. The quality of debates around product strategy has been inspirational.

I have also seen some changes to the composition of our Board during the course of the year. The addition of new Non-executive Directors has enriched the Board with their experience in their areas of expertise.

The role has truly delivered to my expectations, and in fact exceeded them! The opportunity represents a great and unforgettable professional experience because I am a close witness of how a FTSE 100 company is managed from the top.

## Case study: Fostering a new culture

The Board recognises that our colleagues are central to creating a great SaaS company and understands the role it plays in fostering an inclusive culture to support them, and to evolve ways of working to create a winning team.

Throughout the year the Board placed a strong focus on culture and Colleague Success. A key step was helping shape the Sage values and behaviours which were created during the year. The Non-executive Directors were teamed up into pairs with each pair participating in a facilitated session with our external provider, Walk the Talk, to provide their own input on Sage culture and the development of the core values and behaviours. The final result set out on page 34 was shared with the Board and was approved.

The Board monitored culture across a number of its meetings. This spanned reviews of executive team development, updates on 'Look.Evaluate.Assist.Deliver' (L.E.A.D.), our new performance review programme, and the culture KPI reviews.

The CEO instigated and regularly reported on a rigorous self-development programme devised to build the individual and collective capability of our 40 most senior leaders to support the refined culture. The programme sought to do this by:

- developing people to meet both their career goals and the organisation's goals;
- holding themselves and others accountable to meet commitments;

- building strong-identity teams that apply their diverse skills and perspectives to achieve common goals; and
- seeing ahead to future possibilities and translating them into breakthrough strategies.

A further key activity in demonstrating commitment to colleagues was to show that Sage had taken their feedback into account. Sage undertook significant investment in advancing this agenda including the deployment of a new and best-in-class employee engagement pulse survey platform, the delivery of L.E.A.D., and the continued focus on Leading@Sage and Growing@Sage development modules.

The Board met with many colleagues throughout the year during engagement days and in participating in a Sage Foundation day. Group-wide engagement was stepped up, including The Big Conversation, a discussion on culture which helped to clarify our current culture and the future culture needed to deliver on our strategy. The Board also continued to identify the critical KPIs for desired behavioural change and to enable monitoring over the next two to three years.

The Board reviews the activities of the Sage Foundation and supports colleagues' participation in them. Directors also personally attend certain events.

Our latest colleague culture pulse check undertaken in FY19 Q3 received nearly 14,000 comments, with a response rate of 84% of the Sage colleague population. The survey showed an increase in employee NPS of 22 points since Q4 FY18, as well as increasing levels of positivity in Sage's major sites. Further information is provided in our People section on page 32.



## Engagement with shareholders

Communication with our shareholders is extremely important for the Board. By maintaining dialogue with our shareholders, we aim to ensure that their views are heard and that our objectives are understood. In addition to publishing quarterly trading updates, Executive Directors meet analysts invited to attend presentations following the announcement of Sage's interim and final results. They also participate in subsequent 'roadshows' presented in various of Sage's locations in order to meet our largest shareholders. With the introduction of a new remuneration policy for approval at the AGM in FY19, the Remuneration Committee Chairman undertook engagement with shareholders regarding its new terms. Please see page 83 for further information on how the Board engages with shareholders.

## Annual General Meeting

The AGM provides us with a valuable opportunity to engage with our shareholders. In 2019, all members of the Board attended the AGM to discuss the proposals and answer questions where necessary. Senior executives also attended.

All resolutions at the 2019 AGM were voted on a poll. This follows best practice and allows the Company to count all votes, including the votes of all shareholders who are unable to attend the meeting but who appointed a proxy to vote in their stead. We received voting instructions from over 70% of shares and all proposals were passed by over 95%.

## Engagement with stakeholders

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

The Board undertook an assessment during the year to map the current engagement activities between the Board and its stakeholders, the ways the Directors meet their obligations under the 2018 Code and their new reporting obligations under the Companies Act 2006.

The assessment demonstrated that the Board already engages with stakeholders by various means and addresses matters which concern them, both within the formal setting of the Boardroom through reports concerning stakeholders, and via the Non-executive Directors' engagement plan. This plan comprises engagement with our stakeholders on 'engagement days', which generally precede Board meetings, and other specific engagements.

Interaction with our colleagues has benefitted from the appointment of a Board Associate to bring the colleague voice into the Board room. The Board also considered proposed enhancements intended to ensure that the 'voice' and interests of Sage's stakeholders are brought to the fore during Board discussions. These included:

- weaving consideration of s.172(1) matters in Board papers including by encouraging authors to identify the interests of our key stakeholders in the topic under discussion;
- clearly demonstrating how recommendations for decisions put forward to the Board have taken stakeholder interests and other matters referred to in s. 172(1) Companies Act 2006 into account;
- adding success criteria for decisions which the Board is required to make and providing sufficient time for appropriate check points for review; and
- reports back from Committee Chairs regarding Committee decisions and strategic direction being formalised.

The Board reviewed and re-confirmed the Company's key stakeholder groups during the year. These are set out below along with details of the forms of engagement undertaken by the Board.

## Our investors

<b>Why they matter to us</b>	They are our providers of capital without whom we could not grow and invest for future success.
<b>What matters to them</b>	Our investors are concerned with a broad range of issues including, but not limited to, Sage's financial and operational performance, strategic execution, investment plans and capital allocation.
<b>Type of engagement</b>	<ul style="list-style-type: none"> <li>– regular reports from the Investor Relations teams regarding their programme of engagement</li> <li>– communications such as quarterly trading results, annual reports and notices of general meetings</li> <li>– Stock Exchange announcements and press releases</li> <li>– detailed information about Sage and matters of interest to investors at sage.com</li> </ul>
<b>How the Board engages</b>	<ul style="list-style-type: none"> <li>– Board attendance at the AGM to answer questions in their areas of responsibility</li> <li>– feedback on investor meetings held by the Chairman and Directors</li> <li>– engagement with proxy advisors and the top 20 shareholders regarding the remuneration policy</li> <li>– Executive Director meetings with investors in the UK, Canada and the US to discuss Sage's strategy</li> </ul>
<b>How they influenced the Board's decision-making</b>	Investors' opinions were taken into account in the shaping of Sage's strategy and operational performance, remuneration policy and capital structure.

## Our colleagues

<b>Why they matter to us</b>	They are a key resource, dedicated to creating, selling and supporting solutions that free our customers from administration so that their businesses can thrive.
<b>What matters to them</b>	Our colleagues are concerned with opportunities for personal development and career progression; a culture of inclusion and diversity; compensation and benefits; and the ability to make a difference within Sage.
<b>Type of engagement</b>	<ul style="list-style-type: none"> <li>– various activities and forums to foster participation in Group events, invite opinions, questions and ideas</li> <li>– regular colleague opinion surveys to canvas views</li> <li>– multimedia channels for sharing information and as a depository of in-house news items of interest</li> </ul>
<b>How the Board engages</b>	<ul style="list-style-type: none"> <li>– Sage TV broadcasts and presentations of strategy and quarterly performance updates by the CEO and CFO</li> <li>– representation at Board meetings through the Board Associate and further engagement as part of the Board meetings programme</li> <li>– NEDs attending a 'town hall' for all colleagues to participate in a Q&amp;A session in Atlanta</li> <li>– assessing results of 'The Big Conversation', an online three-day virtual conversation focusing on culture as reported on page 25</li> <li>– 'talent lunches' allowing Directors to meet promising individuals from the executive teams</li> <li>– keen focus on culture 'pulse checks' results and whistleblowing reports</li> <li>– Chief People Officer report on activities to enhance colleague engagement and senior leadership capability</li> </ul>
<b>How they influenced the Board's decision-making</b>	<p>A key initiative during the year was the creation of corporate values and behaviours and monitoring cultural change in the Boardroom. Further information is set out in our culture case study on page 81.</p> <p>The Board sought the views of the Board Associate to understand the impact to our colleagues of the move from the premises at North Park, Newcastle. Further information is set out in our case study on page 85.</p> <p>The Board continued to encourage leaders to search internally to fill open positions, proactively manage career development for high potential colleagues and enable them to drive their own career paths.</p> <p>The Board also endorsed the simplification of processes and investment in systems; the provision of greater support and clarity on career and development opportunities for colleagues; and improvements made to Sage's reward and recognition arrangements.</p>

## Our customers

<b>Why they matter to us</b>	They are the small and medium-sized businesses which are the growth engine of the economy, and the professionals who rely on us to help them deliver a great service to their clients, whatever their size.
<b>What matters to them</b>	Our customers are concerned with having products that keep their business compliant, improve their efficiency through the use of time-saving software, provide greater visibility into their business and actionable insights from their data, while being assured of great customer service and that the software can adapt with their business needs over time.
<b>Type of engagement</b>	<ul style="list-style-type: none"> <li>– Board sessions focused on customers' needs and the issues they face and regular reports on performance</li> <li>– direct engagement with customers as part of the Board engagement programme</li> </ul>

## Our customers *continued*

<b>How the Board engages</b>	<ul style="list-style-type: none"> <li>– reviews strategy and monitors performance during the year with the aim of meeting customers' needs more effectively</li> <li>– receives regular competitor updates to understand Sage's competitive performance and its strengths and weaknesses as regards meeting customer needs</li> <li>– benchmarks Sage's performance in relation to customers using research including net promoter scores</li> <li>– participates in sessions listening to customer service and sales calls</li> <li>– attends graduate and apprentice focused events to gain insights into the roles of marketing, sales and product interns and receive their views relating to our customers</li> </ul>
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<b>How they influenced the Board's decision-making</b>	The Board has sought to ensure that the customer's viewpoint is taken into account as part of its decision-making process. Please refer to page 78 for further information.
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## Our partners

<b>Why they matter to us:</b>	They are an extension of Sage, representing our brand in the market, allowing us to scale our business. They bring our solutions to life, serving our customers locally and creating an ecosystem of complementary solutions and services.
<b>What matters to them</b>	Our partners harness Sage's innovative technology to deliver customer success through creation of unique joint value propositions. They share insights into what our current and future customers want, ultimately impacting product strategy and roadmaps and accelerating business growth through Sage supported sales and marketing programmes, as well as technical training.
<b>Type of engagement</b>	<ul style="list-style-type: none"> <li>– Partner Code of Conduct defining expectations of responsible business and behaviour, underlining Sage's strategic focus on customer needs</li> <li>– Board reports, including updates on performance and key partner issues</li> <li>– direct engagement on Board engagement days</li> </ul>
<b>How the Board engages</b>	<ul style="list-style-type: none"> <li>– Board updates regarding partner relationships, development and engagement</li> <li>– consideration of key strategic partnerships and technology</li> <li>– understands our go-to-market approach with partners in relation to Sage Intacct in North America and Sage Intacct internationalisation in the UK and Australia</li> </ul>

<b>How they influenced the Board's decision-making</b>	The Board routinely considered the interests of our Partners in their decision-making and to ensure that they are aligned with Sage's practices, values and behaviours.
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## Our communities

<b>Why they matter to us</b>	We demonstrate Sage's culture and commitment to doing business the right way through the work of the Sage Foundation which combines charitable giving and supporting colleague engagement with non-profit organisations delivering change.
<b>What matters to them</b>	Freeing colleagues to volunteer in our communities, whether for favoured causes or in programmes sponsored by Sage focusing on helping to build a workforce fit for tomorrow by creating routes into education, work and entrepreneurship for marginalised young people, women and military veterans.
<b>Type of engagement</b>	<ul style="list-style-type: none"> <li>– regular Board updates regarding the Sage Foundation's activities and approval of charitable giving</li> <li>– direct involvement in Sage Foundation activities</li> </ul>
<b>How the Board engages</b>	<ul style="list-style-type: none"> <li>– endorses a culture of giving back time, skills and technology within the Sage ecosystem of colleagues, customers and partners</li> <li>– ensures the Sage Foundation's plans focus on what matters most to Sage's colleagues and communities</li> <li>– participation by the Board as a whole in a one-day Sage Foundation with Working Chance, helping female ex-offenders to get back to work</li> <li>– further individual participation by Directors in Sage Foundation activities of their choice to share colleagues' experience</li> </ul>
<b>How they influenced the Board's decision-making</b>	The Board oversaw enhancements made to Sage's software donation programme for FY19. These enhancements resulted in increases in product donations (23%) and licences (19%) received by non-profit organisations across 14 countries over the prior year. It also supported the Sage Foundation's activities, and received reports on these. See pages 38 to 41 for further information on the Sage Foundation.

## Case study: Relocation from North Park



### Background

The North Park property in Newcastle opened in 2003. Recently, the move to more agile ways of working and the need for greater collaboration have highlighted inadequacies in the use of the space. This, together with the age of the building, called for consideration of whether to undertake a substantial refurbishment project on North Park or adopt another approach.

### Board deliberations

The Board considered three options for suitable premises in Newcastle including remaining at North Park, involvement in building a new property, or relocation to an alternative site.

From the start of the process the Board was committed to retaining Sage's presence in the North East and respecting the Company's heritage. It is Sage's largest employment base and the Board committed to investing £40m in the hub over the next three years, creating jobs with a view to growing the business and improving its customer experience.

The primary requirement was to find the right space for our colleagues and to foster collaboration and a great environment for innovation. Newcastle as an operational location is extremely attractive because of the ability to attract resources and it has the potential to be a vital resource hub for future recruitment of individuals with key skills.

Remaining at North Park was discounted due to the unattractive commercial proposition it presented. North Park has an inefficient design with 40% of space allocated to non-office use. In addition, its age and condition requires significant investment in the mechanical and electrical systems and other building components in order to continue to operate effectively. Investment in a new build was also

quickly discounted.

Sage considered all of the local business parks before presenting a proposal to the Board to move to a site located at Cobalt Business Park (Cobalt), which offers the space and the modern, high-end fit-out required in a new world-class technology hub.

### Our colleagues

The Board noted that, at the time of the review, there were c. 1,800 colleagues at North Park and that this number was expected to increase by late 2020. For numbers of this scale, sufficient space for colleagues would only be effectively provided by the Cobalt premises.

In addition to the improvement in the office environment, the benefits to colleagues of moving to Cobalt included increased and environmentally-friendly travel options as well as parking facilities. The Board has also allocated funds from its overall investment to be spent on providing staff with training, as well as employing 150 apprentices and graduates.

The Board noted that Sage had undertaken a demographic study of the impact on our colleagues' journeys to work at Cobalt and was beginning a period of consultation with them, designed to ease their transition to the new premises. A range of support packages were being considered to address impacts arising from the move to the new site, including support around transport, working processes, flexible working, and other incentives.

### Our community

The news that Sage would retain a significant operational presence in Newcastle was welcomed by the community, particularly in view of its investment in the region, the Company's goal to further the UK's technology sector as a centre of excellence, and the consequent opportunities in terms of employment, innovation and increased skills.

Sage's move from North Park is not considered to greatly impact the local community given that it is a standalone building and particularly in view of the proximity of Cobalt. The future of North Park is yet to be determined, but use of the site will be influenced by planning regulation. Any potential development will be supported by a full environmental impact analysis which is a requirement of any application of this type.

### Conclusion

In view of the benefits offered to our stakeholders and to the business commercially, the Board concluded that relocating to the Cobalt Business Park offered the Company the best option.

# NOMINATION COMMITTEE REPORT



**Sir Donald Brydon**

Chairman of the  
Nomination Committee

Dear shareholder

This has been a busy year for the Nomination Committee ("the Committee") with the main focus on Board and Board Committee composition. Following a global search conducted by Egon Zehnder, and appropriate benchmarking, Steve Hare was promoted to CEO in November 2018 creating a vacancy for CFO. The Committee was fortunate that Jonathan Howell had announced he was leaving Close Brothers Group plc and was therefore available to take up the role of CFO shortly thereafter. His knowledge of the business and of the Finance function from his successful tenure as Chair of the Audit and Risk Committee meant that a smooth and effective transition could be achieved at pace. Subsequently, the Committee working with the whole Board has reviewed the Company's succession and talent management plans and been consulted on appointments to the Executive Committee.

During the year, Neil Berkett stepped down as a Board Director and Chairman of the Audit and Risk Committee and Drummond Hall stepped down as the Chairman of the Remuneration Committee whilst retaining his role as the Senior Independent Director. This created the opportunity for the Nomination Committee to review the skills and shape of the Board. The Committee decided to increase the size of the Board to ensure that more SaaS experience was brought into its deliberations. It also sought finance, remuneration and governance skills. Consequently the Board appointed three new NEDs during the year. Dr John Bates is a visionary technologist with substantial native cloud technology experience and CEO of Eggplant; Jonathan Bewes is an accountant with a career in finance advisory work; and Annette Court is Chair of Admiral Group and is very familiar with technology disruption. Given their experience in chairing board committees, Jonathan Bewes and Annette Court succeeded the prior chairs of the Audit and Risk and Remuneration Committees respectively. The Lygon Group was used to find and assess suitable candidates.

The Committee will continue to monitor the composition and balance of the Board to ensure that broad expertise is available from the existing members and will recommend further appointments as and when appropriate to assure the long-term success of the Company.

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

A handwritten signature in black ink, appearing to read "Sir Donald Brydon".

**Sir Donald Brydon**

Chairman

## Nomination Committee governance at a glance

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

Committee composition and meetings	Activities and effectiveness review	
<p>The Committee is composed of independent Non-executive Directors (NEDs), Drummond Hall and Soni Jiandani, and is chaired by Sir Donald Brydon. Details of the skills and experience of the Committee members can be found in their biographies on pages 67 to 68.</p> <p>During the year, there were two scheduled meetings and four additional meetings held at short notice to deal with specific matters. Details of individual attendance of meetings are set out below.</p>	<p>During the year, the Committee recommended the appointment of three NEDs and two Executive Directors. Fuller details of the Committee's activities are set out below.</p> <p>The Committee's performance was reviewed as part of the 2019 Board effectiveness review. Following consideration of the findings of the 2019 review of the Committee, the Directors were content that it was operating satisfactorily.</p>	<p>A pie chart illustrating the distribution of time spent on different areas of governance. The chart is divided into three segments: a large green segment representing 54% (labeled 'Succession planning*'), a dark blue segment representing 32% (labeled 'Board and Committee composition*'), and a smaller blue segment representing 14% (labeled 'Corporate governance').</p> <p>* Includes time spent on considering the diversity of the Board.</p>

## Meeting attendance

Directors	Independent	Attendance/ scheduled meetings	Attendance/ additional meetings
Sir Donald Brydon	On appointment <sup>1</sup>	2/2	4/4
Drummond Hall	Senior Independent Director	2/2	4/4
Soni Jiandani <sup>2</sup>	Independent	1/2	4/4
<b>Company Secretary</b>			
Vicki Bradin		2/2	4/4

1. As required by the Code, the Chairman was independent on appointment as Chairman of Sage.
2. Soni Jiandani was unable to attend a scheduled meeting due to unforeseen circumstances.

## Activities of the Committee

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

Key area of activity	Matters considered	Outcome
Board and Board Committee composition	<ul style="list-style-type: none"> <li>– Leading the selection process to identify a successor to the CEO</li> <li>– Identified a successor to the CFO</li> <li>– Reviewed the skills, experience, independence and knowledge on the Board and considered changes to bring increased SaaS and other knowledge areas to the Board</li> </ul>	<ul style="list-style-type: none"> <li>– Recommended to the Board the appointment of Steve Hare as CEO</li> <li>– The appointment of Jonathan Howell as CFO, as discussed further on page 88</li> <li>– Recommended to the Board the appointments of Dr John Bates, Jonathan Bewes and Annette Court</li> </ul>
Succession planning and talent	<ul style="list-style-type: none"> <li>– Succession planning for the Board and for the Executive Committee, having regard to diversity</li> <li>– Progress made in the development of a diverse senior management succession pipeline</li> </ul>	<ul style="list-style-type: none"> <li>– The Board as a whole discussed regular updates from the Chief People Officer on progress made across Sage</li> <li>– Consulted on Executive Committee appointments</li> <li>– Reviewed and approved talent strategy, development priorities and the programmes underpinning them</li> <li>– Conducted a post year-end talent review of senior executives across the Executive Committee and Executive team level</li> </ul>
Diversity and inclusion	<ul style="list-style-type: none"> <li>– Reviewing Sage's progress towards continuing to build a diverse and inclusive workforce and to further develop a diverse and gender-balanced workplace</li> </ul>	<ul style="list-style-type: none"> <li>– Received updates on the work done to understand gender diversity in Sage</li> </ul>
Corporate governance	<ul style="list-style-type: none"> <li>– Mapping 2018 Code principles to ensure the Committee will be fully compliant with its provisions in the next financial year</li> <li>– Considered the outcome of the annual evaluation of Directors</li> <li>– Reviewed the Committee's terms of reference to ensure they were fit for purpose and addressed legal and regulatory developments since the last review</li> </ul>	<ul style="list-style-type: none"> <li>– Early adoption of key principles of the 2018 Code relevant to the Committee</li> <li>– Approved revised terms of reference for consideration and adoption by the Board</li> </ul>

## Appointments

The Committee considers Board and Board Committee composition at each meeting. This includes the consideration of new appointments, both in respect of planned succession and as a result of the ongoing review of skills.

The selection and appointment procedure commences with the agreement of a role profile and selection of an executive search firm to help identify potential candidates for the role. During 2019, The Lygon Group was instructed to assist with the search for new NEDs with the skills and experience identified as necessary to assist Sage in its strategy to achieve its vision of becoming a great SaaS company. The Lygon Group has signed up to the Voluntary Code of Conduct and does not have any other connection to Sage or with any individual Directors, other than to provide recruitment services. Open advertising for Board positions was not used this year.

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

### Appointment of Non-executive Directors

The procedure outlined above was initiated for the appointments of the NEDs. A number of potential candidates were identified and Dr John Bates, Annette Court and Jonathan Bewes were selected as preferred candidates.

The Committee first satisfied itself that Jonathan, Annette and John met requirements for independence purposes and then considered their skills and experience. It noted that Jonathan has considerable financial experience and had acted as an audit committee chair for Next plc, Annette has the requisite experience of serving as a remuneration committee chair for Admiral Group plc and John brought considerable experience in the field of technology innovation to the Board. The Committee concluded that they were appropriate candidates for the roles of NEDs on Sage's Board and chairs of its Audit and Risk and Remuneration Committees and recommended them for appointment by the Board. They were subsequently appointed with effect from 1 April 2019 (in the case of Annette and Jonathan) and 31 May 2019 (in the case of John).

### Appointment of the Chief Financial Officer

Following Steve Hare's appointment as CEO on 2 November 2018, the Board acknowledged the need to find a new CFO in order to support Steve in his role as soon as possible.

It became immediately obvious that Jonathan Howell was exceptionally qualified to take over the role given his knowledge, skills and experience which include:

- his significant financial, accounting and operational experience as a public company chief financial officer, having most recently been Group Finance Director of Close Brothers Group plc for ten years, and prior to this, chief financial officer of the London Stock Exchange Group plc;
- an excellent understanding of the business and the Finance function, having joined the Board as a NED in May 2013 and as Chairman of the Audit and Risk Committee since November 2013; and

- good working relationships with the CEO and the wider executive team.

Jonathan consented to taking up the role and the Board agreed his appointment would take effect from 10 December 2018. It was further agreed that he would step down immediately as Chairman of the Audit and Risk Committee, on 3 December 2018, to ensure the independence of the Committee is maintained. It was also agreed that he should cease to be a NED on commencement of his executive role.

## Succession

The Board considers the length of service of the members of the Board as a whole and the need for it to refresh its membership progressively over time. Board succession planning remains a priority for the Committee in FY20 to ensure appropriate plans are in place for key Board positions.

Internal talent development and the ability to attract, retain and develop skilled, high potential individuals within Sage is an area that the Committee focuses on. The Committee recognises the importance of this and the benefits to Sage by developing a pipeline of internal talent as it continues to work with the executive to develop internal talent during the year. This approach was demonstrated most clearly by the appointment of several internal promotions to the Executive Committee during FY19. This will continue to be an area of focus during FY20 and beyond.

## Diversity

A diverse workforce brings a broader range of perspectives, and drives innovation which will support us in better understanding our customers and in creating innovative products and providing services which customers need. The Board and the executive play a key role in setting the tone on diversity and inclusion, and the Nomination Committee applies the principles of Sage's Diversity & Inclusion Policy when considering these appointments. Specifically, the policy states that we are committed to:

- ensuring that the wording and images used in adverts and job descriptions reflect and appeal to all sections of society, and are relevant and non-discriminatory;
- short-listing only those whose skills, qualifications and experience closely match the job requirements; and
- asking fair, objective and consistent questions during the selection process. We use selection criteria that do not discriminate in any direct or indirect way for all of our roles.

During FY19, the Committee has made two Executive and three NED appointments to the Board. Their inclusion on the Board further diversifies and strengthens the Board's overall skills and experience.

The Board and the Committee remain mindful of the targets set by the Hampton Alexander Review and the Parker Review respectively for FTSE 100 companies to have a minimum of 33% female representation on their boards, executive committees and reports to executive committee members by 2020 and at least one 'person of colour' on their board by 2021. At the time of publishing this report, female representation on the Board is 30%. Further information on gender diversity, including in our broader executive team, may be found on pages 33 to 34.

# AUDIT AND RISK COMMITTEE REPORT



**Jonathan Bewes**

Chairman of the Audit and Risk Committee

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

Dear shareholder

I am pleased to present the annual report of the Audit and Risk Committee ("the Committee") for 2019. This report explains the Committee's responsibilities and shows how it has delivered on these, whilst also considering and responding to how the business has evolved during the year. In particular, the Committee has continued to challenge and consider the suitability, assessment of and response to the principal risks.

2019 was a transitional year for the Committee, with the Chairmanship passing from Jonathan Howell upon the announcement of his appointment as the Group's Chief Financial Officer, to Neil Berkett, in an interim capacity, then onto myself. I would like to acknowledge and thank Jonathan and Neil for their leadership which enabled the Board to retain a strong focus on the Group's risks and controls throughout the year.

A handwritten signature in black ink, appearing to read "Jonathan Bewes".

**Jonathan Bewes**

Chairman of the Audit and Risk Committee

Committee composition and meetings	Activities and evaluation	Allocation of time														
<p>The Committee is composed solely of independent Non-executive Directors. The current members are Drummond Hall and Annette Court, with Committee Chairman Jonathan Bewes. Details of the skills and experience of the Committee members can be found in their biographies on pages 67 to 68.</p> <p>During the year, there were four scheduled meetings. Details of individual attendance of meetings are set out below.</p>	<p>During the year, the Committee oversaw the Group's financial reporting, risk management and internal control procedures and the work of its internal and external auditors. Fuller details of the Committee's activities are set out on pages 90 to 95.</p> <p>The Committee's performance was reviewed as part of the 2019 Board evaluation (see page 76). Following consideration of the findings of the 2019 review of the Committee, the Directors were satisfied that it was operating effectively.</p>	<table border="1"> <thead> <tr> <th>Activity</th> <th>Allocation (%)</th> </tr> </thead> <tbody> <tr> <td>Financial reporting</td> <td>38%</td> </tr> <tr> <td>Risk management and Internal control</td> <td>18%</td> </tr> <tr> <td>Internal Audit</td> <td>10%</td> </tr> <tr> <td>External audit</td> <td>18%</td> </tr> <tr> <td>Incident management and whistleblowing</td> <td>7%</td> </tr> <tr> <td>Other matters</td> <td>11%</td> </tr> </tbody> </table>	Activity	Allocation (%)	Financial reporting	38%	Risk management and Internal control	18%	Internal Audit	10%	External audit	18%	Incident management and whistleblowing	7%	Other matters	11%
Activity	Allocation (%)															
Financial reporting	38%															
Risk management and Internal control	18%															
Internal Audit	10%															
External audit	18%															
Incident management and whistleblowing	7%															
Other matters	11%															

Key activities during the year have included assessing the ongoing effectiveness of internal controls, monitoring the business's application of IFRS 15 and IFRS 9, and reviewing compliance with anti-bribery and corruption and sanctions legislation. In addition, the Committee has monitored progress on the implementation of IFRS 16 as well as the appropriateness of the Group's going concern, viability assessment, financial reporting and accounting judgements.

The Committee operated during the year in accordance with the principles of the Financial Reporting Council's ("FRC") UK Corporate Governance Code 2016 ("the Code") and the associated recommendations set out in the FRC's Guidance on Audit Committees, as revised in 2016. The Committee also considered the extent to which it already applied the requirements of the UK Corporate Governance Code 2018 as they affect audit committees, terms of reference and operating procedures, and took action to enhance existing risk reporting to reflect these new requirements. The Committee has applied the UK Corporate Governance Code 2018 since 1 October 2019.

### 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 for overseeing the Group's financial reporting, risk management and internal control procedures, and the work of Sage Assurance and the external auditor. These responsibilities are defined in the Committee's terms of reference, which were reviewed and approved by the Board and the Committee in September 2019.

### Composition

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

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

The membership of the Audit and Risk Committee changed during the year when Jonathan Howell stepped down as Chairman of the Audit and Risk Committee on acceptance of his executive role as CFO on 3 December 2018. The Board immediately initiated a process to appoint a successor which led to the appointment of Jonathan Bewes, who joined the Board and became Chairman of the Audit and Risk Committee with effect from 1 April 2019. In the intervening period, Neil Berkett, who was an existing member of the Audit and Risk Committee, assumed the role of Chairman of the Committee. Annette Court also joined the Board and the Committee on 1 April 2019. Neil Berkett who had served as an independent NED of Sage since 2013 stood down on that date. Drummond Hall continued to serve as a member of the Committee throughout the year.

### Activities during the year

The Committee had four scheduled meetings over the course of the year in line with its terms of reference. Attendance at the Audit and Risk Committee during the year to 30 September 2019 is shown in the table on page 91. The Chairman of the Board was present at all four of the scheduled meetings. Steve Hare in his capacity as either the Chief Operating Officer or later Chief Executive Officer, Jonathan Howell in his capacity as either the Chair of the Committee (one meeting) and later as the Chief Financial Officer (three meetings), the Vice President ("VP") Risk and Assurance and the General Counsel & Company Secretary were present at all four meetings. The Executive Vice President ("EVP") Finance Control and Operations was present at three of the four meetings.

Directors	Independent	Attendance/ scheduled meetings	% attendance	Attendance/ additional meetings
Neil Berkett <sup>1</sup>	Independent Non-executive Director	2/2	100%	n/a
Jonathan Bewes <sup>1</sup>	Independent Non-executive Director	2/2	100%	n/a
Annette Court <sup>1,2</sup>	Independent Non-executive Director	1/2	50%	n/a
Drummond Hall	Senior Independent Director	4/4	100%	n/a
Jonathan Howell <sup>1</sup>	Independent Non-executive Director	1/1	100%	n/a
<b>Company Secretary</b>				
Vicki Bradin		4/4	100%	n/a

1. Jonathan Howell stepped down from the Committee on 3 December 2018 prior to the commencement of his executive role. Neil Berkett retired from the Board on 1 April 2019. Annette Court and Jonathan Bewes joined the Committee with effect from 1 April 2019.
2. Annette Court was unable to attend the May meeting of the Committee due to travel issues arranged prior to appointment to the Board.

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

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

At each meeting, the Committee received and considered:

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

During the year the Committee also received updates on the legal and regulatory frameworks relevant to its areas of responsibility, including the GDPR, the UK Bribery Act 2010 and sanctions legislation.

### Financial reporting, including significant reporting and accounting matters

The agenda for every Committee meeting includes a formal finance update from the EVP Finance Control and Operations. This informs the Committee about developments in the Group’s reporting and accounting environment. During the year, the Committee considered how these developments were addressed in preparing the Group’s financial statements. 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 the work, judgements and conclusions of management and the Group finance team. The Committee also received reports from the external auditor setting out its view on the accounting treatments included in the financial statements, based on its review of the interim financial statements and its audit of the annual financial statements. The Committee’s review included assessing the appropriateness of the Group’s accounting policies and practices, confirming their compliance with financial reporting standards and relevant statutory requirements, and reviewing the adequacy of disclosures in the financial statements.

## Significant reporting and accounting matters

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

### Revenue recognition

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

As reported last year, during FY18 the Committee oversaw the in-depth review of revenue recognition policies carried out by management as part of the IFRS 15 impact assessment and implementation project. The conclusions from this work and the resultant adjustments recorded on IFRS 15 adoption, at 1 October 2018, were revisited by the Committee with both management and the external auditor as part of its review of the interim financial statements, including the transition disclosures.

The Committee has continued to monitor the application of the Group's revenue accounting policy in FY19, receiving reports on the work performed to confirm adherence to the updated Group policy. Specifically, the Committee sought to understand the impact of IFRS 15 on the Group's processes and systems for revenue accounting and obtained updates from management throughout the year on the progress made in implementing globally a suite of IFRS 15 related financial controls. The Committee obtained reports from, and discussed with, the external auditor the nature, extent and findings of its procedures over revenue recognition in the year.

The revenue recognition accounting policy is set out in note 3.1 to the financial statements and is referenced in the Group's significant accounting judgements.

### Goodwill impairment testing

Given the Group's goodwill balance of £2,098 million and the continuing evolution of Sage's business model, the annual assessment of the recoverability of goodwill is a significant area of focus for the Committee. The Committee reviewed and considered the methodology applied, and the key inputs to the impairment model including forecast cash flows, forecast timeframe, discount rates and long-term growth rates to determine the recoverable amounts on a value in use basis. Specifically, in respect of the North America Intacct CGU, the Committee enquired as to the drivers of the discount rate to understand the difference between management and the external auditor determined discount rates, whilst noting that this did not impact the conclusion on the recoverability of the goodwill.

Key to the Committee's challenge and evaluation of the recoverability of the goodwill for each CGU was the impact on headroom of downside sensitivity analyses performed separately by both management and the external auditor.

This enabled the Committee to evaluate if there are any reasonably possible changes in assumptions that would result in a material impairment and therefore require sensitivity disclosure in the financial statements.

The Committee agreed with management's conclusion that a sensitivity disclosure continues to be required for the Intacct CGU in relation to a reasonably possible change in a combination of revenue growth and discount rate, and that an additional sensitivity disclosure is required in respect of the Asia CGU in the current year.

### Office relocation

As described on page 85 and note 3.2 the Group announced the move from its UK headquarter location at North Park to a new site at Cobalt Business Park ('Cobalt'), both in Newcastle. This decision gave rise to a number of accounting judgements to be reflected in the FY19 and FY20 financial statements in relation to the carrying value of North Park, the accounting treatment for leasehold improvement at Cobalt and other associated costs incurred during the period up to completion of the move anticipated to be in September 2020. The Committee challenged each of the judgements and considered potential alternative accounting treatments and the views of the external auditor in reaching its own conclusion that the approach adopted by management was appropriate.

### New IFRS standards

In addition to IFRS 15 "Revenue from Contracts with Customers", IFRS 9 "Financial Instruments" has been adopted by the Group for the first time in the current financial year.

IFRS 9 has had only a limited impact on the Group's recognition of impairment provisions for trade receivables and the Committee reviewed and discussed the transition adjustments at 1 April 2019 as part of its consideration of the interim financial statements.

IFRS 16 "Leases" will be adopted by the Group in the financial year ending in 2020 and the Committee received updates on the progress of management's assessment of the expected impact of adoption for the purposes of disclosure in FY19. IFRS 16 will change the way the Group accounts for those leases where it is the lessee, and primarily relates to property contracts. Specific judgements considered by the Committee included the transition method to be followed and the determination of the incremental borrowing rate to be applied in calculating lease liabilities and right of use assets. The Committee was satisfied with the approach taken by management and with the results of the impact assessment and will continue to monitor the implementation process over the coming year.

The Committee considered management's financial statement disclosure of the effects of the new standards and its compliance with accounting standards and related best practice guidance. The Committee was satisfied that the approach taken by management is appropriate and that the disclosures show the impact that IFRS 15 and IFRS 9 have had in their first year of application, and the expected impact of IFRS 16 in 2020. These disclosures are contained in note 1 to the financial statements.

## Taxation

The Committee evaluated updates from management in respect of uncertain tax positions, related provisions and the deferred tax position. These reports included consideration of the impact on the Group of the significant reforms of taxation in the US which became effective from 1 January 2018 and which required further assessment in the current year, as well as developments with regards to the European Commission's State Aid ruling. The Committee was satisfied that management's approach to accounting for taxation was appropriate and took account of developments during the year. The Committee considered the conclusions of the external auditor and noted its use of tax specialist for certain key matters.

## Fair, balanced and understandable

Each year, the Committee advises the Board on whether the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess Sage's position and performance, business model and strategy. In reaching its conclusion, the Committee considered the results of management's assessment of going concern, reviewed the Annual Report and Accounts document as a whole, and assessed the results of processes undertaken by management to provide assurance that the Group's financial statements were fairly presented. These processes included an analysis of how the key events in the year had been described and presented in the Annual Report and Accounts, how alternative performance measures (APMs) had been defined and presented, and the outcome of representations received from country management teams on the application of a range of financial controls. The Committee also considered the perspective of the external auditor.

## Viability statement and going concern

The Committee reviewed management's process for assessing the Group's longer-term viability in order to allow the Directors to make the Group's viability statement. The Committee considered and challenged the determination of the period over which viability should be assessed, and which of the Group's principal risks should be reflected in the modelling of sensitivity analysis for liquidity and solvency. It reviewed the results of management's scenario modelling and the reverse stress testing of these models. The Committee's principal review was conducted at the September Committee meeting with all comments and recommendations addressed by management in advance of Committee approval of the viability statement.

At the November 2019 meeting the Committee reviewed management's going concern assessment and approved the continued application of the going concern basis.

The Group's going concern and viability statements can be found on page 124 and 64 to 65, respectively.

## Risk management and internal controls

The Committee assists the Board in its monitoring of the Company's internal control and risk management systems, and in its review of their effectiveness. This monitoring includes oversight of all material controls, including financial, operational, regulatory and compliance controls, and assessing whether the control systems are fit for purpose and whether any corrective action is necessary.

During the year, the Committee:

- reviewed the principal risks, their evolution during the year, and the associated risk appetites and metrics in light of business changes and performance, challenging and confirming their alignment to the achievement of Sage's strategic objectives. At each meeting, the Committee considered the ongoing overall assessment of each risk, their associated metrics and management actions and mitigations in place and planned. This review was supported through consideration of risk dashboards outlining both principal risks and any escalated or emerging local risks;
- received updates from meetings of the Global Risk Committee, including scrutinising its performance in managing risk, and the suitability of its composition; undertook detailed in-focus reviews on selected relevant and current issues (see in-focus reviews section);
- reviewed and considered an assessment of the effectiveness of risk management more broadly, and reviewed summary reports from Sage Business Integrity on Group adherence to policies, including Conflicts of Interest, Anti-Money Laundering and Delegation of Authority;
- received reports from Sage Assurance and management on internal control and monitored the implementation of management actions to remediate issues identified and make improvements. The Committee also satisfied itself that management's response to any financial reporting or internal financial control issues identified by the external auditor was appropriate;
- reviewed at each Committee meeting escalated incidents and instances of whistleblowing and management actions to remediate any issues identified (see Incident management, fraud and whistleblowing section); and
- considered individual incidents and associated actions to assess whether they demonstrated a significant failing or weaknesses in internal controls.

## In-focus reviews

The Committee uses in-depth reviews to consider relevant, current and important issues. During the year the Committee:

- undertook a review of the Group's approach to enhancing Sage's compliance culture;
- received briefings and updates on Sage's compliance with GDPR requirements, including post-implementation activities and monitoring;
- reviewed papers on Sage's obligations relating to conflicts of interest and Sage's framework for approving and keeping a record of actual and potential conflicts of interest in order to ensure effective management of those conflicts;
- reviewed papers on Sage's Bribery Act compliance; and
- received briefings on the findings of Sage's annual fraud risk assessment.

## Incident management, fraud and whistleblowing

The Committee considered the suitability and alignment of the Incident, Emergency and Crisis Management and Whistleblowing policies and confirmed the effectiveness of these policies in facilitating appropriate disclosure to senior executive management and the Committee.

At each meeting, the Committee received a summary report of any escalated incidents and instances of whistleblowing and, together with management, considered whether there were any thematic issues and identified remediating actions. As part of this reporting process, the Committee was notified of all whistleblowing matters raised, including any relating to financial reporting, the integrity of financial management or that included any allegations relating to fraud, bribery or corruption. The Committee was also notified of all non-whistleblowing incidents exceeding an agreed materiality threshold.

## Internal Audit

Internal Audit is delivered by the Sage Assurance function. The Internal Audit Charter outlines the objectives, authority, scope and responsibilities of Sage Assurance. The Charter, performance against it, and the effectiveness of Sage Assurance, is reviewed by the Committee on an annual basis. The review of the Charter was undertaken at the Committee's February meeting. The Committee also considers and evaluates the level of Sage Assurance resource and its quality, experience and expertise, supplemented as appropriate by third-party support and subject matter expertise, to ensure it is appropriate to provide the required level of assurance over the principal risks, processes and controls throughout the Group.

The Committee reviewed and approved the nature and scope of the work of Sage Assurance, and the Sage Assurance plan was approved by the Committee at the beginning of the financial year, along with any subsequent quarterly updates.

Progress against the plan and the results of Sage Assurance's activities, including the quality and timeliness of management responses, is monitored at each meeting, with the more significant issues identified within Sage Assurance reports considered by the Committee.

During the year, an assessment of Internal Audit was carried out by the VP Risk and Assurance, based upon the criteria and methodology set out in the 2018 KPMG assessment which evaluated Internal Audit against IIA standards. This review considered progress against recommended areas for improvement from this evaluation, along with continuing progress against the pillars of the Assurance Strategy. The assessment concluded that significant progress continued to be made and that Internal Audit remains effective and meets the needs of the Group. This report was presented to the Committee, its findings discussed, and the Committee endorsed this conclusion.

Following its review of the Company's internal control systems, the Committee considered whether any matter required disclosure as a significant failing or weakness in internal control during the year. No such matters were identified.

## External auditor EY

Each year, the Committee makes a recommendation to the Board with regard to whether the external auditor should be re-appointed. In making its recommendation, the Committee considers the auditor's effectiveness, including its independence, objectivity and scepticism. The Committee also reviews the application of, and compliance with, the Group's Auditor Independence Policy, in particular with regard to any non-audit services provided by EY. The Committee also considers business relationships between the Group and EY, which primarily relate to EY's procurement of Sage products and applications.

Further consideration is given to partner rotation and any other factors which may impact the Committee's judgement regarding the external auditor. EY has now been Sage's external auditor for five years since the formal tender process conducted in 2014. The lead partner with overall responsibility for the audit has been in the role for five years since FY15 and will rotate following completion of the FY19 audit. The new partner has been identified and approved by the Audit and Risk Committee.

The Committee confirms that Sage has complied with the requirements of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, which relates to the frequency and governance of tenders for the appointment of the external auditor and the role of the audit committee. Under these requirements and the terms of the order Sage must undertake a formal tendering process at least every ten years.

Following the rotation of the lead auditor, the Committee considers a full tender for the Group's external audit services, subject to its annual reviews, likely in the year ending October 2024. This allows for any potential new audit firm to take up the role for the year ending October 2025. The Committee believes this approach is in the best interest of shareholders, as over this period the Group will benefit from an efficient and effective audit, whilst receiving fresh challenge from a new lead auditor.

Consistent with the previous year, the Committee received feedback from the businesses evaluating the performance of each assigned audit team. Management's report to the Audit and Risk Committee included a summary of the findings of a survey of key Sage colleagues on the quality of the auditor's delivery, communication and interaction with the various finance teams across the Group. Management concluded that the working relationship between finance functions and auditors across the Group was effective and the audit had been carried out in an independent, professional, organised and constructive manner. The Committee's assessment of auditor effectiveness is provided at page 95.

The Committee holds private meetings with the external auditor after each Committee meeting to review key issues within their sphere of interest and responsibility and provide an opportunity for open dialogue and feedback from the external auditor without management being present. Also, the Chairman meets regularly with the external auditor outside the formal Committee meeting schedule to facilitate effective and timely communication. Further, the Committee received a report from EY evaluating its independence and a formal statement of EY's independence as the external auditor.

Having considered all of the above, the Committee has recommended to the Board that a resolution to reappoint EY be proposed at the 2020 AGM and the Board has accepted and endorsed this recommendation.

#### **Non-audit services**

The Committee is responsible for the development, implementation and monitoring of policies and procedures on the use of the external auditor for non-audit services, in accordance with professional and regulatory requirements. At Sage this is governed by the Auditor Independence Policy (the "Policy"). The Policy has been in place throughout the year. It specifies the role of the Committee in reviewing and approving non-audit services in order to ensure the ongoing independence of the external auditor. A summary of non-audit fees paid to the external auditor is provided to the Committee on a quarterly basis.

The Policy states that Sage will not use the external auditor for non-audit services, except in limited circumstances, and as permitted by the Ethical Standard, where non-audit services may be provided by the external auditor with pre-approval by the Committee unless clearly trivial. This is provided that the approval process set out in the Policy is adhered to and that potential threats to independence and objectivity have been assessed and safeguards applied to eliminate or reduce these threats to an appropriate level.

The Committee considered the application of the Policy with regard to non-audit services and confirms it was properly and consistently applied during the year. The Policy also requires that the ratio of audit fees to non-audit fees must be within Sage's pre-determined ratio, and non-audit fees for the year must not exceed 70% of the average of the external audit fees billed over the previous three years.

In 2019, the ratio of non-audit fees to audit fee was 8%, principally reflecting the fee paid for the half year interim review. A breakdown of total audit and non-audit fees charged by the external auditor for the year under review is shown in note 3.2 to the financial statements.

#### **Oversight and assessment of the external auditor**

To fulfil its responsibility for oversight of the external audit process, the Committee reviewed and agreed:

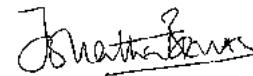
- the terms, areas of responsibility, associated duties and scope of the audit as set out in the external auditor's engagement letter;
- the overall work plan and fee proposal;
- the issues that arose during the course of the audit and their resolution;
- key accounting and audit judgements;
- the level of errors identified during the audit; and
- control recommendations made by the external auditor.

The Committee monitored the effectiveness, objectivity and independence of the external auditor during the year. The Committee based its assessment of EY on its own observations and interactions with the external auditor, and consideration of a number of aspects of the auditor's performance, including:

- the experience and expertise demonstrated by the auditor in its direct communication with, and support to, the Committee;
- the content, quality of insight and added value provided by the auditor's reports;
- the scope of the agreed external audit plan and the external auditor's execution and fulfilment of the plan;
- the robustness and perceptiveness of the auditor in its handling of key accounting and audit judgements; and
- the interaction between management and the auditor.

#### **Evaluation of the performance of the Committee**

The evaluation of the Audit and Risk Committee for 2018/19 was completed as part of the 2019 Board evaluation process. An explanation of how this process was conducted, the conclusions arising from it and the action items identified is set out on page 76. The Committee has considered this in the context of the matters that are applicable to the Committee.



**Jonathan Bewes**  
Chairman

# REMUNERATION COMMITTEE

**Annette Court**

Chairman of the Remuneration Committee

**Our remuneration policy rewards the achievement of clearly-defined goals at the heart of our business strategy and we consider it to be operating as intended.**

Dear shareholder

It is my pleasure to present the Directors' Remuneration Report for the year ended 30 September 2019.

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 2016 UK Corporate Governance Code (the Code) and the Listing Rules.

The report is in two sections:

- **A summary of the Directors' remuneration policy (pages 103 to 107).**
- **The Directors' Annual Remuneration Report (pages 108 to 123).** This section sets out details of how the 2019 Policy was implemented for the year ended 30 September 2019 and how we intend the policy to apply for the year ending 30 September 2020.

## Objectives and responsibilities

The Remuneration Committee's main objective is to determine the framework, broad policy and levels of remuneration for the Group's Chief Executive Officer, the Group's Chief Financial Officer, the Group's President, the Chairman of the Company and other executives as deemed appropriate, ensuring compliance with legal and regulatory requirements and striving to meet best practice guidance.

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 remuneration policy for Executive Directors;
- Determining remuneration for senior executives below Board level;
- Approving share awards; and
- Ensuring the remuneration policy promotes long-term shareholdings by Executive Directors by ensuring share awards granted are released on a phased basis and subject to total vesting and holding period of five years or more.

## FY20 remuneration priorities

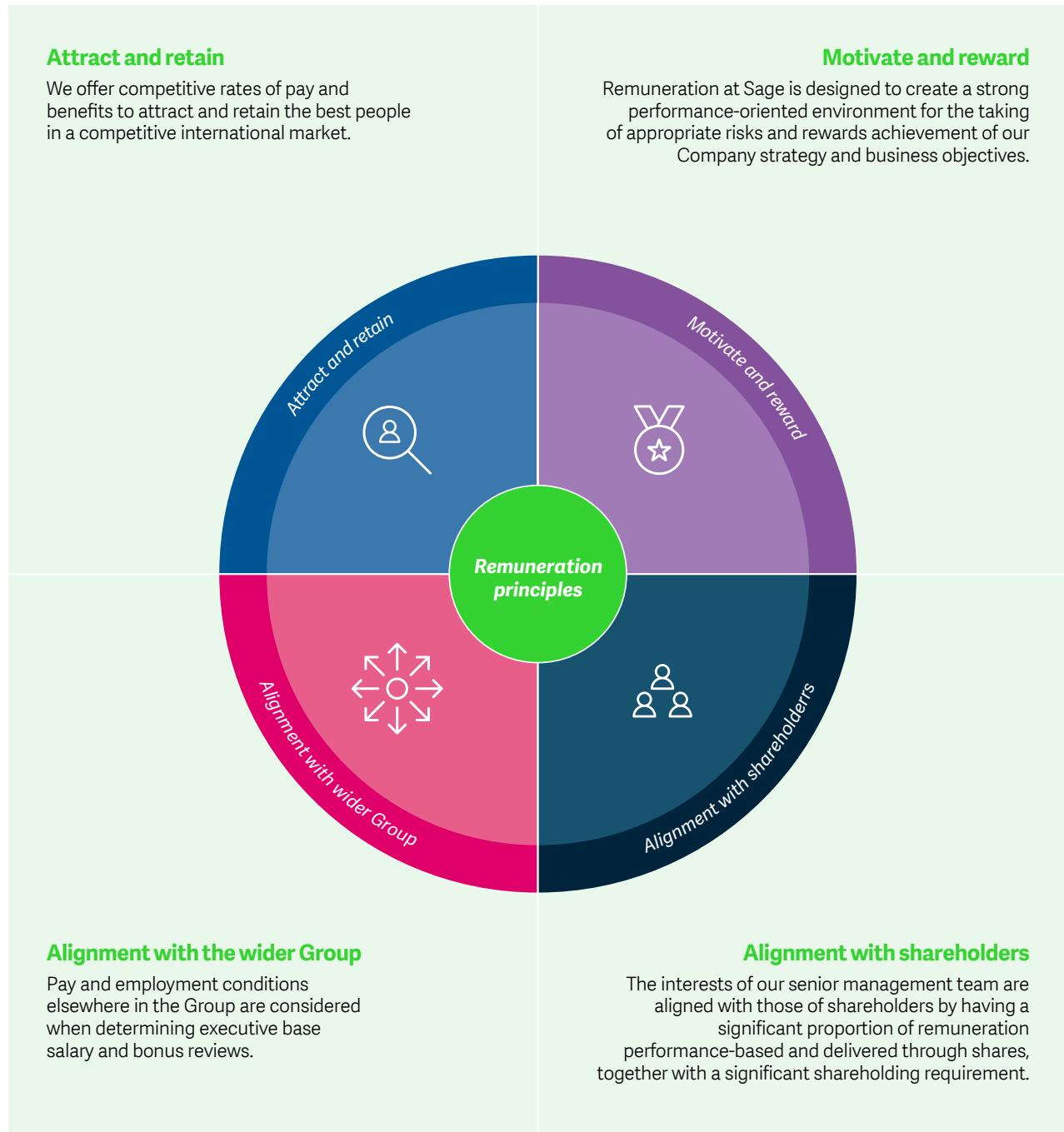
To further enhance Executive Directors' shareholding, we are introducing a post-employment shareholding guideline, requiring them to retain the number of shares worth 250% of salary or, if lower, their actual shareholding at leaving for one year post-cessation of employment as a Director, reducing to 50% of this requirement for the second year.

Salary increases for Executive Directors for 2020 range from 0% to 1.9%, which is below the average salary increase in the wider workforce.

There are no changes to incentive potentials or incentive plan measures. We have considered the Annualised Recurring Revenue growth measure and concluded that its integral role in the incentive plans remains appropriate and strategically aligned for FY20.

## Our remuneration principles

Our remuneration principles are designed to drive the behaviours and results required to support our short and longer-term business strategy as outlined in the Strategic Report.



# REMUNERATION AT A GLANCE

## Delivering our remuneration principles in FY20

The table below summarises the remuneration arrangements for our current Executive Directors in FY20 in accordance with the 2019 Policy approved by shareholders on 27 February 2019.

Element of policy	Purpose	Implementation in FY20
Base salary 	Enables Sage to attract and retain Executive Directors of the calibre required to deliver the Group's strategy. Salary increases are effective 1 January 2020.	Steve Hare £785,000 (1.9% increase) Jonathan Howell £545,000 (1.9% increase) Blair Crump \$700,000 (0% increase)
Pension 	Provides a competitive post-retirement benefit, in a way that manages the overall cost to the Company.	Steve Hare 15% of base salary Jonathan Howell 10% of base salary Blair Crump up to 3.5% of base salary
Benefits 	Provide a competitive and cost-effective benefits package to Executive Directors to assist them in carrying out their duties effectively.	Standard benefits package plus costs of travel, accommodation and subsistence for the Executive Directors and their partners on Sage-related business. Sage covers the cost of Steve Hare's travel and accommodation for days on which he attends to Sage matters in the London office. Sage tax equalises that portion of Blair Crump's remuneration that is subject to UK tax for days on which he attends to Sage matters in the UK.
Annual bonus 	Rewards and incentivises the achievement of annual financial and strategic targets. A minimum of one-third deferral into shares for three years is compulsory, with the remainder delivered in cash.	Maximum 175% of base salary 80% based on Annualised Recurring Revenue (ARR) growth (with underlying operating profit margin underpin) and 20% based on strategic goals.
Performance Share Plan (PSP) 	Supports achievement of our strategy by targeting performance under our key financial performance indicators. Vesting is after three years, and awards are subject on vesting to a holding period for two years before being released.	Face value of 200% of base salary 70% based on ARR growth (with ROCE underpin) and 30% based on relative Total Shareholder Return performance
All-employee share plans 	Provides an opportunity for Executive Directors to voluntarily invest in the Company.	Eligible to participate up to the tax-efficient limit of £500 per month or US Dollar equivalent.
Chairman and Non-executive Director fees 	Provide an appropriate reward to attract and retain high-calibre individuals.	See page 119 of this report for a list of Non-executive Director fees.
Shareholding guideline 	The shareholding guideline for Executive Directors is 250% of base salary and achievement of this is expected within a maximum of five years from the time the Executive Director became subject to the guideline. The post-employment shareholding guideline requires Executive Directors to retain shares following cessation of employment as a Director.	Shareholding at 30 September 2019 (inclusive of deferred shares held, net of tax at the current estimated marginal tax withholding rate). Steve Hare 316% of base salary Jonathan Howell 102% of base salary Blair Crump 52% of base salary See page 120 for more information on the shareholding guideline.

## FY19 single figure for total remuneration summary:

Director	2019 Total £'000	2018 (re-stated) Total £'000 <sup>7</sup>
<b>Executive Directors</b>		
S Hare	<b>2,515</b>	1,207
J Howell <sup>1</sup>	<b>1,642</b>	—
B Crump <sup>2</sup>	<b>1,702</b>	616
<b>Non-executive Directors</b>		
D Brydon	<b>434</b>	407
J Bates <sup>3</sup>	<b>20</b>	—
N Berkett <sup>4</sup>	<b>36</b>	60
J Bewes <sup>5</sup>	<b>39</b>	—
A Court <sup>6</sup>	<b>39</b>	—
D Hall	<b>82</b>	87
J Howell <sup>1</sup>	<b>14</b>	77
S Jiandani	<b>60</b>	60
C Keers	<b>60</b>	60

Notes:

1. Jonathan Howell was Non-executive Director and Chair of the Audit and Risk Committee to 3 December 2018, then Non-executive Director (albeit no longer independent) until 10 December 2018, when he was appointed as Chief Financial Officer for the Group.
2. Blair Crump is based in the USA and is paid in US dollars. The single figure value for his remuneration is converted into GBP from US Dollars using the average exchange rate for the year, consistent with the basis of the presentation of financial performance in the financial statements.
3. Dr John Bates was appointed as a Non-executive Director on 31 May 2019.
4. Neil Berkett stepped down from his role as a Non-executive Director on 1 April 2019.
5. Jonathan Bewes was appointed as a Non-executive Director on 1 April 2019.
6. Annette Court was appointed as a Non-executive Director on 1 April 2019.
7. 2018 values are re-stated. Full details are provided in the footnotes to the full single figure for total remuneration table on page 108

## Key remuneration outcomes for FY19

2019 bonus: 92% to 96% of potential payable

The 2019 bonus was aligned to our strategy of accelerating our move to a cloud business and 80% of bonus potential was based on Annualised Recurring Revenue (ARR) growth, with an underlying operating profit margin underpin. I am pleased to report that ARR in 2019 exceeded the level required to award the maximum amount for this element of the bonus and the Remuneration Committee determined that 80% would be payable, the underlying operating margin underpin was also met. The Remuneration Committee gave careful consideration as to whether the formulaic outcome of the ARR performance measure was appropriate in the context of Sage's overall business performance and the "stakeholder experience" in FY19. Particular factors taken into account by the Committee included:

- Delivery of strong financial performance in FY19 against a range of metrics in addition to ARR, including renewal by value of 101%, subscription penetration of 55% and Sage Business Cloud penetration of 48%;
- An above-market return to shareholders during FY19; and
- Substantial increase in Group colleague engagement scores during FY19.

The remaining 20% is determined by assessments of individual Executive Directors' performance against their goals.

In summary:

- For Steve Hare, 14% would be payable
- For Jonathan Howell, 16% would be payable
- For Blair Crump, 12% would be payable

Further detail is set out on page 110.

*2017 Performance Share Plan (PSP): 14.8% of the total shares under award vesting*

- PSP awards granted in December 2016 were based on recurring revenue growth and relative Total Shareholder Return (TSR) performance measured over the three-year period to 30 September 2019. Reflecting on shareholder experience over the period, the Remuneration Committee determined that 14.8% of the total number of shares under award will vest in December 2019. Further detail is set out on page 112.

## Board changes in FY19

During the past year, the Remuneration Committee has considered remuneration issues arising from Board changes as follows:

- The appointment of Steve Hare as Chief Executive Officer (CEO) with effect from 2 November 2018. Steve's remuneration on appointment was disclosed in the Directors' Remuneration report for 2018.
- Jonathan Howell was appointed as Chief Financial Officer (CFO) with effect from 10 December 2018. On appointment, his basic remuneration package comprised a basic annual salary of £535,000, a pension contribution of 10% of salary, plus bonus, long-term incentives and all other benefits in accordance with the 2019 Policy. The Remuneration Committee was satisfied that this was an appropriate package for a highly experienced CFO.
- Additionally, as communicated on appointment, Jonathan Howell was awarded a conditional award over 312,698 Sage shares on 11 December 2018 with a face value of £1,807,398 (based on the Sage share price of £5.78 on 10 December 2018) to replace share awards that he forfeited as a result of joining Sage, but which would have been preserved had he retired from Close Brothers and not accepted an Executive Director position (the Replacement Award). This Replacement Award was structured so as to mirror the forfeited award to the extent that the original Close Brothers performance conditions, vesting schedule, holding periods and malus and clawback provisions applied. Full details relating to this award are on page 113.

## Revised Corporate Governance Code

The 2018 Code comes into effect for Sage's financial year starting 1 October 2019 and we will be compliant with the revised principles and provisions relating to remuneration. In particular:

- PSP awards granted to Executive Directors will be subject to a minimum release period of five years from grant. This policy was applied for the first time to the PSP awards granted in December 2017.
- Pension provision for any future Executive Director will be aligned with the majority of Sage's workforce (currently this level is 10% of salary). This policy was applied for the first time to the appointment of Jonathan Howell as CFO in December 2018.
- Executive Directors will be required to build up and maintain a significant holding of Sage shares both whilst an Executive Director (250% of salary) and for a two-year period after stepping down from that position (the lesser of 250% of salary or the Executive Directors' actual shareholding at leaving this position in the first year and reducing to 50% of this requirement in the second year).
- The Remuneration Committee has discretion to override formulaic outcomes of either the annual bonus or the PSP in appropriate circumstances.
- The Remuneration Committee will undertake in 2020 a review of remuneration and related policies for the wider workforce.
- The Remuneration Committee's terms of reference have been updated to comply with the 2018 Code.

Additionally, I am pleased to present our CEO pay ratio on page 115. I believe that shareholders will benefit from early disclosure.

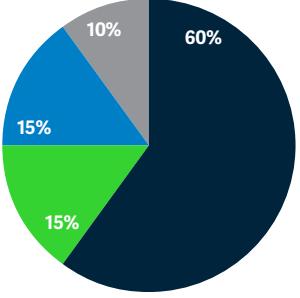
The Remuneration Committee reviewed the implementation of the remuneration policy over 2019 and judged it to be operating as intended.

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 2020 annual general meeting (AGM). As ever, the Remuneration Committee welcomes any questions or comments from shareholders.



**Annette Court**  
Chairman of the Remuneration Committee

## Remuneration Committee governance

Committee composition and meetings	Activities and evaluation	Allocation of time								
<p>The Remuneration Committee is composed solely of independent Non-executive Directors, Drummond Hall and Cath Keers, 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 67 to 68.</p> <p>During the year, there were five scheduled meetings and three additional meetings held at short notice to deal with specific matters. Details of individual attendance of meetings are set out below.</p>	<p>Details of the Remuneration Committee's activities are set out on page 102.</p> <p>The Remuneration Committee's performance was reviewed as part of the 2019 Board evaluation (see page 76). Following consideration of the findings of the 2019 review of the Remuneration Committee, the Directors were satisfied that it was operating satisfactorily.</p>	 <table border="1"> <tr> <td>Determining remuneration policy and its implementation</td> <td>60%</td> </tr> <tr> <td>Reviewing the effectiveness of the remuneration policy</td> <td>15%</td> </tr> <tr> <td>Considering the views on remuneration of our shareholders and reviewing trends in executive remuneration</td> <td>15%</td> </tr> <tr> <td>Other</td> <td>10%</td> </tr> </table>	Determining remuneration policy and its implementation	60%	Reviewing the effectiveness of the remuneration policy	15%	Considering the views on remuneration of our shareholders and reviewing trends in executive remuneration	15%	Other	10%
Determining remuneration policy and its implementation	60%									
Reviewing the effectiveness of the remuneration policy	15%									
Considering the views on remuneration of our shareholders and reviewing trends in executive remuneration	15%									
Other	10%									

## Meeting attendance

Directors	Independent	Attendance/ scheduled meetings	% attendance	Attendance/ additional meetings
Annette Court (Chairman from 1 April 2019)	Independent	3/3	100%	1/1
Drummond Hall (Chairman to 1 April 2019)	Senior Independent Director	5/5	100%	3/3
Cath Keers	Independent	5/5	100%	3/3
Neil Berkett (to 1 April 2019)	Independent	1/2	-	2/2
Jonathan Howell (to 10 December 2018) <sup>1</sup>	Independent (to 3 December 2018)	2/2	-	1/2
<b>Company Secretary</b>				
Vicki Bradin		5/5	3	3/3

Note:

1. Jonathan Howell stepped down as the Chairman of the Audit and Risk Committee effective on 3 Dec 2018. He retained his position as a Non-executive Director (albeit no longer independent) until the commencement of his appointment as an Executive Director in the role of a CFO on 10 December 2018.

## Activities of the Committee

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

Key area of activity	Matters considered	Outcome
Determining remuneration policy and its implementation	<ul style="list-style-type: none"> <li>– Determined the remuneration for Steve Hare's appointment as CEO.</li> <li>– Determined the remuneration for Jonathan Howell's appointment as CFO.</li> <li>– Determined the remuneration for five new appointments to the Executive Committee.</li> <li>– Determined bonus targets and outcomes for 2018 and PSP outcomes for the 2016 award.</li> <li>– The introduction of a post-employment shareholding guideline to comply with the 2018 Corporate Governance Code (the Code).</li> </ul>	<ul style="list-style-type: none"> <li>– CEO's remuneration as disclosed via Regulatory News Service on 2 November 2018.</li> <li>– CFO's remuneration as disclosed via Regulatory News Service on 4 December 2018.</li> <li>– 2018 bonus determined at 5% to 12% of potential; Executive Directors elected to waive their resulting bonus, as disclosed in last year's Directors' Remuneration Report.</li> <li>– 2016 PSP determined at 28.5% of the overall award for vesting, as disclosed in last year's Directors' Remuneration Report.</li> <li>– Introduced a post-employment shareholding guideline for Executive Directors.</li> </ul>
Reviewing the effectiveness of the remuneration policy	<ul style="list-style-type: none"> <li>– Reviewed performance against in-flight incentive plans and the forecast single figure of remuneration for Executive Directors.</li> <li>– Reviewed remuneration-related risks.</li> <li>– Reviewed the structure of remuneration.</li> <li>– Discussed the bonus and PSP structure for 2020.</li> </ul>	<ul style="list-style-type: none"> <li>– Determined that the remuneration policy was operating as intended.</li> <li>– Introduced a remuneration risk review procedure to identify risks, their controls and effectiveness.</li> </ul>
Considering the views on remuneration of our shareholders and reviewing trends in executive remuneration	<ul style="list-style-type: none"> <li>– Consulted with over 50% of our investors by market capitalisation on the proposed 2019 remuneration policy.</li> <li>– Introduced the 2019 Sage Group plc. Restricted Share Plan and amended 2010 Sage Group plc. Restricted Share Plan.</li> <li>– At least quarterly the Committee's advisors present on market trends, legislative changes and corporate governance requirements in executive remuneration.</li> </ul>	<ul style="list-style-type: none"> <li>– The 2019 remuneration policy was approved by shareholders, with 96% votes cast in favour.</li> </ul>
Other	<ul style="list-style-type: none"> <li>– Considered the format and content of the Directors' Remuneration Report for 2018.</li> <li>– Reviewed the Code and The Companies (Miscellaneous Reporting) Regulations 2018 and determined the appropriate level of disclosure for the 2019 Directors' Remuneration Report.</li> <li>– Reviewed the Committee's terms of reference in light of the Corporate Governance Code 2018.</li> </ul>	<ul style="list-style-type: none"> <li>– 2018 Directors' Remuneration Report approved November 2018.</li> <li>– Approved the early disclosure of certain items within this report that were believed to be of interest to shareholders.</li> <li>– Refreshed the terms of reference to incorporate Code-compliant terms.</li> </ul>

# REMUNERATION POLICY

## Purpose of this section:

- Provides detail of the key elements of our remuneration policy

The current policy report was approved by shareholders at the 2019 AGM and can be found on our website ([www.sage.com](http://www.sage.com)).

The table below sets out a summary of key elements of the Company's remuneration policy.

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
<b>Base salary</b>  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"> <li>Pay increases for other employees in major operating businesses of the Group;</li> <li>The individual's skills and responsibilities;</li> <li>Pay at companies of a similar size and international scope to Sage, in particular those within the FTSE 100 (excluding the top 30);</li> <li>Corporate and individual performance.</li> </ul>	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"> <li>Increase in scope and responsibility;</li> <li>Increase to reflect the individual's development and performance in role; (e.g. for a new appointment where base salary may be increased over time rather than set directly at the level of the previous incumbent or market level);</li> <li>Alignment to market level.</li> </ul> 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.
<b>Pension</b>  Provides a competitive post-retirement benefit, in a way that manages the overall cost to the Company.	Defined contribution plan (with Company contributions set as a percentage of base salary).  An individual may elect to receive some or all of their pension contribution as a cash allowance.	Maximum pension provision of 15% of salary. None.  No element other than base salary is pensionable.	

## Remuneration policy table continued

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
<b>Benefits</b>	<p>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.</p> <p>Additional benefits may also be provided in certain circumstances which may include relocation expenses, housing allowance and school fees.</p> <p>Other benefits may be offered if considered appropriate and reasonable by the Remuneration Committee.</p>	<p>Set at a level which the Remuneration Committee considers:</p> <ul style="list-style-type: none"> <li>– Appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market;</li> <li>– Provides a sufficient level of benefit based on the role and individual circumstances, such as relocation.</li> </ul> <p>As the costs of providing benefits will depend on the Director's individual circumstances, the Remuneration Committee has not set a monetary maximum.</p>	None.
<b>Annual bonus</b>	<p>Rewards and incentivises the achievement of annual financial and strategic targets.</p> <p>An element of compulsory deferral provides a link to the creation of sustainable long-term value creation.</p>	<p>Measures and targets are set annually and payout levels are determined by the Remuneration Committee after the year-end based on performance against those targets.</p> <p>The Remuneration Committee may, in exceptional circumstances, amend the bonus payout should this not, in the view of the Remuneration Committee, reflect overall business performance or individual contribution.</p> <p>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.</p>	<p>175% of salary.</p> <p>Up to 50% of the bonus can be paid for delivering a target level of performance.</p> <ul style="list-style-type: none"> <li>– At least 70% of the bonus will be determined by measure(s) of Group financial performance;</li> <li>– No more than 30% of the bonus will be based on pre-determined financial, strategic or operational measures appropriate to the individual Director.</li> </ul> <p>The measures that will apply for the financial year 2020 are described in the Directors' Annual Remuneration Report.</p>

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
<b>Performance Share Plan (PSP)</b>	<p>Motivates and rewards the achievement of long-term business goals.</p> <p>Supports the creation of shareholder value through the delivery of strong market performance aligned with the long-term business strategy.</p> <p>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.</p> <p>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.</p> <p>The Remuneration Committee has discretion to decide whether and to what extent the performance conditions have been met, and if an event occurs that causes the Remuneration Committee to consider that an amended or substituted performance condition would be more appropriate and not materially less difficult to satisfy, the Remuneration Committee may amend or substitute any performance condition.</p>	<p>Awards vest on the following basis:</p> <ul style="list-style-type: none"> <li>- Target performance: 20% of the maximum shares awarded;</li> <li>- Stretch performance: 80% of the maximum shares awarded;</li> <li>- Exceptional performance: 100% of the shares awarded with straight-line vesting between each level of performance;</li> <li>- Current annual award levels (in respect of a financial year of the Company) are 200% of salary for the Executive Directors. Overall individual limit of 300% of base salary under the rules of the plan.</li> </ul> <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>At its discretion, the Remuneration Committee may elect to add additional underpin performance conditions.</p> <p>Details of the targets that will apply for awards granted in 2020 are set out in the Directors' Annual Remuneration Report.</p>
<b>All-employee share plans</b>	<p>Provide an opportunity for Directors to voluntarily invest in the Company.</p>	<p>UK-based Executive Directors are entitled to participate in the Save and Share Plan, under which they make monthly savings over a period of three or five years linked to the grant of an option over Sage shares with an option price which can be at a discount of up to 20% of the market value of shares on grant.</p> <p>Options may be adjusted to reflect the impact of any variation of share capital.</p> <p>Overseas-based Executive Directors are entitled to participate in any similar all-employee scheme operated by Sage in their jurisdiction.</p>	<p>UK participation limits are those set by the UK tax authorities from time to time. Currently this is £500 per month (or US Dollar equivalent).</p> <p>Limits for participants in overseas schemes are determined in line with any local legislation.</p>

## Remuneration policy table continued

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
<b>Chairman and Non-executive Director fees</b>  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"><li>- The Chairman is paid a single, consolidated fee;</li><li>- The Non-executive Directors are paid a basic fee, plus additional fees for chairmanship (and, where appropriate, membership) of Board Committees and to the Senior Independent Director;</li><li>- Fees are currently paid in cash but the Company may choose to provide some of the fees in shares.</li></ul> The Chairman has the use of a car and driver.  Non-executive Directors may be eligible for benefits such as company car, use of secretarial support, healthcare or other benefits that may be appropriate including where travel to the Company's registered office is recognised as a taxable benefit in which case a Non-executive may receive the grossed-up costs of travel as a benefit.	Set at a level which: <ul style="list-style-type: none"><li>- Reflects the commitment and contribution that is expected from the Chairman and Non-executive Directors;</li><li>- Is appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market, particularly companies of a similar size and international scope to Sage, in particular those within the FTSE 100 (excluding the top 30).</li></ul> Overall fees paid to Directors will remain within the limit stated in our articles of association, currently £1m. Actual fee levels are disclosed in the Directors' Annual Remuneration Report for the relevant financial year.	None.
<b>Shareholding guideline</b>  Aligns the interests of Executive Directors and shareholders and encourages a focus on long-term performance.	The shareholding guideline is expected to be built up over five years from the Director's becoming subject to the guideline.  The Remuneration Committee will review progress towards the guideline on an annual basis, and has the discretion to adjust the guideline in what it feels are appropriate circumstances.	The guideline for Executive Directors is a minimum shareholding worth 250% of salary.	None.

## Notes:

- Annual bonus and PSP performance measures and targets are selected each year so as to align with key financial and operational objectives.
- Awards granted under the deferred bonus plan and the PSP may:
  - (a) be made in the form of conditional awards or nil-cost options and may be settled in cash;
  - (b) incorporate the right to receive an amount (in cash or shares) equal to the dividends which would have been paid or payable on the shares that vest in the period up to vesting (or, where PSP awards are made subject to a holding period, the end of the holding period). This amount may be calculated assuming the dividends were reinvested in the Company's shares on a cumulative basis; and
  - (c) be adjusted in the event of any variation of the Company's share capital, demerger, delisting, special dividend, rights issue or other event which may, in the opinion of the Remuneration Committee, affect the current or future value of the Company's shares.

Provisions to withhold (malus) or recover (clawback) sums paid under the annual bonus and PSP in the event of material negative circumstances, such as a material misstatement in the Company's audited results, serious reputational damage or significant financial loss to the Company (as a result of the participant's conduct), an error in assessing the performance metrics relating to the award or the participant's gross misconduct are incorporated into both the PSP and deferred bonus plan. These provisions may apply up to three years from the release date of a PSP award or three years from the date a cash bonus is paid or a deferred share award is granted. Details of the proposed implementation of those provisions in the forthcoming year are set out in the Directors' 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 date the Company's first remuneration policy approved by shareholders in accordance with section 439A of the Companies Act came into effect; (ii) before the policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved remuneration policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Remuneration Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes "payments" includes the Remuneration Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

The Remuneration Committee may make minor amendments to the policy (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

# DIRECTORS' ANNUAL REMUNERATION REPORT

## Purpose of this section:

- Provides remuneration disclosures for Executive and Non-executive Directors
- Details financial measures for bonus and PSP
- Illustrates Company performance and how this compares to the pay of Executive Directors
- Outlines proposed implementation of the 2019 Policy for Executive and Non-executive Directors for 2020

## 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 2018 and 2019.

Director	(a) Salary/fees <sup>10</sup> £'000		(b) Benefits <sup>11</sup> £'000		(c) Bonus <sup>12</sup> £'000		(d) Pension <sup>13</sup> £'000		(e) PSP awards <sup>14</sup> £'000		(f) Other <sup>15</sup> £'000		Total <sup>16</sup> £'000	
	2019	2018	2019	2018 (re-stated)	2019	2018	2019	2018	2019	2018 (re-stated)	2019	2018	2019	2018 (re-stated)
<b>Executive Directors</b>														
S Hare <sup>1</sup>	<b>765</b>	538	<b>130</b>	107	<b>1,258</b>	–	<b>117</b>	130	<b>241</b>	432	<b>4</b>	–	<b>2,515</b>	1,207
J Howell <sup>2</sup>	<b>435</b>	–	<b>5</b>	–	<b>726</b>	–	<b>38</b>	–	<b>438</b>	–	–	–	<b>1,642</b>	–
B Crump <sup>3</sup>	<b>549</b>	390	<b>115</b>	123	<b>883</b>	–	<b>7</b>	7	<b>148</b>	96	–	–	<b>1,702</b>	616
S Kelly <sup>17</sup>	–	743	–	205	–	–	–	186	–	556	–	–	–	1,690
<b>Non-executive Directors</b>														
D Brydon <sup>4</sup>	<b>400</b>	369	<b>34</b>	38	–	–	–	–	–	–	–	–	<b>434</b>	407
J Bates <sup>5</sup>	<b>20</b>	–	–	–	–	–	–	–	–	–	–	–	<b>20</b>	–
N Berkett <sup>6</sup>	<b>36</b>	60	–	–	–	–	–	–	–	–	–	–	<b>36</b>	60
J Bewes <sup>7</sup>	<b>39</b>	–	–	–	–	–	–	–	–	–	–	–	<b>39</b>	–
A Court <sup>8</sup>	<b>39</b>	–	–	–	–	–	–	–	–	–	–	–	<b>39</b>	–
D Hall <sup>9</sup>	<b>82</b>	87	–	–	–	–	–	–	–	–	–	–	<b>82</b>	87
J Howell	<b>14</b>	77	–	–	–	–	–	–	–	–	–	–	<b>14</b>	77
S Jiandani	<b>60</b>	60	–	–	–	–	–	–	–	–	–	–	<b>60</b>	60
C Keers	<b>60</b>	60	–	–	–	–	–	–	–	–	–	–	<b>60</b>	60

## Notes:

1. Steve Hare was appointed Group Chief Executive Officer on 2 November 2018 on a salary of £770,000 Prior to this, he was paid a step-up allowance of £186,750 from 1 September 2018, providing an interim annual salary of £708,750. This step-up allowance ceased on appointment as CEO.
2. Jonathan Howell was appointed as an Executive Director on 10 December 2018. Previously, he was a Non-executive Director and, to 3 December 2018, Chairman of the Audit and Risk Committee.
3. Blair Crump is based in the USA and is paid in US dollars. His remuneration has been converted into GBP at the average exchange rate for the relevant year, consistent with the basis of the presentation of financial performance in the financial statements. He was appointed to the Board on 1 January 2018 and his remuneration for 2018 was reported from this date.
4. Sir Donald Brydon's fee increased from £360,000 to £400,000 on 6 July 2018, as previously reported on page 125 of the 2018 annual report. The increase in total remuneration is reflective of the timing of the fee increase towards the end of the financial year 2018.
5. Dr John Bates was appointed as a Non-executive Director on 31 May 2019.
6. Neil Berkett stepped down from his role as a Non-executive Director on 1 April 2019.
7. Jonathan Bewes was appointed as a Non-executive Director on 1 April 2019.
8. Annette Court was appointed as a Non-executive Director on 1 April 2019.
9. Drummond Hall stepped down as Chairman of the Remuneration Committee on 31 March 2019 and from this date he no longer received the Remuneration Committee Chairman fee. He remains a Senior Independent Director and his fee for this role increased to £17,000 from 1 April 2019.
10. Details of salary progression since 2017 for the current Executive Directors are summarised in the "Statement of implementation of the remuneration policy in the following financial year" on page 118 of this report. The 2019 and 2018 values for Steve Hare include the step-up allowance for the period he was interim COO and CFO.
11. 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.  
A portion of Steve Hare's benefits related to the grossed-up cost of his travel to Sage's London office which, since 1 April 2015, has been deemed a taxable benefit as a result of the enhanced amount of time he has been required to spend in London attending to Sage matters. In addition, £33,648 of Steve Hare's benefits value related to the grossed-up cost of travel, accommodation and subsistence for his hosting Platinum Elite, a major internal event for high-performing colleagues, which is deemed by HMRC to be a taxable benefit. A portion of Blair Crump's benefits related to the payment of UK tax on his US income, which is payable under UK tax law for the days on which he is attending to Sage matters in the UK. Blair's permanent workplace is in the US. He receives assistance in the preparation of his tax returns. Additionally, £55,347 of Blair's benefits value related to the grossed-up cost of travel, accommodation and subsistence for his hosting Platinum Elite, which is deemed by HMRC to be a taxable benefit. Sir Donald Brydon receives a company car benefit. The 2018 benefit value for Blair Crump has been updated for values that previously were estimated as a result of the timing of the US tax year in relation to Sage's financial reporting year. The 2019 value also contains estimates that may be updated, where applicable, in next year's directors' remuneration report (to the extent that such a disclosure would be required).
12. Steve Hare's 2019 bonus value was based on his salary inclusive of his step-up allowance for the period he was interim COO and CFO. Further information about how the level of FY19 bonus award was determined is provided in the additional disclosures below.
13. Pension emoluments for Steve Hare from his appointment as CEO on 2 November 2018 were equal to 15% of base salary; prior to this they were equal to 25% of base salary, excluding the step-up allowance. Pension emoluments for Jonathan Howell were equal to 10% of base salary (less a deduction for Employer National Insurance Contributions). Both elected to receive them as a cash allowance. Pension emoluments for Blair Crump were 1.4% of base salary, which were paid into a 401 (k) retirement account. Maximum pension contribution levels for the wider workforce in the UK is 10% of salary and the US 3.5% of salary, subject to contributions from the colleagues themselves in both regions.
14. The 2019 PSP value for Steve Hare and Blair Crump is based on the PSP award granted in financial year 2017 which is due to vest in December 2019. The performance conditions applicable to the awards are outlined on page 112 of this report. The value is based on the number of shares vesting under the 2017 PSP award multiplied by the average price of a Sage share between 1 July and 30 September 2019, which was £7,286, plus dividend equivalents accrued. For Steve Hare, £33,755 of the value is attributable to movement in the share price between grant and vesting and for Blair Crump £20,692 of the value is attributable to movement in the share price between grant and vesting. No discretion has been exercised by the Remuneration Committee in respect of share price appreciation. Further detail is set out below in the notes to the table.
- The 2019 PSP value for Jonathan Howell is based on elements of his Replacement Award that are vesting in respect of the year ended 30 September 2019, plus dividend equivalents accrued. £59,357 of the value is attributable to movement in the share price between grant and vesting. Further detail is set out below in the notes to the table.
- The value of Steve Hare and Blair Crump's 2016 PSP for 2018 has been updated. The change in value is as a result of changes in the share price reported in 2018 in line with the methodology set out in the 2013 Reporting Regulations (£6,211) and the share price actually achieved at vesting (£6,677).
15. 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 (14 June 2019) between the share price £7.55 and the option price £6.04. Further details are set out on page 121.
16. Total remuneration for Directors in 2019 was £6,643,000 compared to £4,264,000 in 2018 (updated from the 2018 Directors' Remuneration Report).
17. Stephen Kelly ceased to be a Director on 31 August 2018. Certain of his 2018 benefits have been restated, which relate to items which predated his stepping down as CEO but whose tax status has been reviewed subsequent to the publication of the 2018 Directors' Remuneration Report and been deemed to be taxable. For completeness and consistency, an updated PSP value on the same basis as noted in footnote 14 to this table is shown.

## Additional disclosures for single figure for total remuneration table (audited information)

### Annual bonus 2019

The bonus targets for FY19 were set by reference to the strategy for FY19, in particular the achievement of Annualised Recurring Revenue growth, taking into account the Company's annual budget and historical performance in determining the payout curve.

Bonus measure	% weighting	Threshold performance	Target performance	Stretch performance	Actual performance (at Budget FX rates)	% of maximum bonus payable
ARR growth	80%	6.7% (24% of bonus payable)	8.6% (40% of bonus payable)	10.0% (80% of bonus payable)	12.7%	80%
Strategic measures	20%	The assessment of strategic measures is set out below this table (between 0% and 20% of bonus payable)			Steve Hare (CEO): 14% of maximum Jonathan Howell (CFO): 16% of maximum Blair Crump (President of Sage): 12% of maximum	
<b>Total</b>					Steve Hare: 94% of maximum bonus (164.5% of salary) Jonathan Howell: 96% of maximum bonus (168% of salary, pro-rated for time in post) Blair Crump: 92% of maximum bonus (161% of salary)	

Notes:

- Payout is on a straight line between the points (threshold, target and stretch performance).
- Payment of a bonus for ARR growth was subject to the achievement of an underpin condition of Group underlying operating profit margin. Group underlying operating profit margin was 23.2%, which exceeded the underpin target of 22%.
- ARR growth and underlying operating profit margin are defined on pages 9 and 47. Actuals have been retranslated at budgeted foreign currency exchange rates consistent with the basis on which the targets were set. The Remuneration Committee considered the movement of foreign currency exchange rates over the year and determined that the effect was immaterial and that the use of like-for-like exchange rates was appropriate.
- The Remuneration Committee determined, after careful consideration of business performance and the interests of Sage's stakeholders such as shareholders, customers and employees, that the formulaic outcome on the financial portion of bonus and the judgement exercised in respect of Executive Directors' performance against their personal strategic objectives was appropriate.
- One-third of bonus is deferred into Sage shares for three years.

## Executive Directors' personal strategic objectives

Executive Directors' personal strategic objectives were set by the Remuneration Committee at the beginning of the financial year, consistent with the key deliverables within the annual budget. Targets for strategic objectives are considered to be commercially sensitive and are not disclosed. However, details of performance achievements that were taken into account by the Remuneration Committee in coming to its assessment of this measure are set out below:

### **Steve Hare, CEO**

Steve Hare was new to role in 2019 and was set a range of goals under four key headings linked to the execution of the 2019 plan. These were: 1. Overall performance of the Group; 2. Colleague Success; 3. Customer Success; 4. Innovation.

The Remuneration Committee took into account the performance against those goals as follows:

1. Overall performance of the Group: the achievement of 12.6% ARR growth (at actual FX rates) within operating margin guidance and strong underlying free cash flow, which exceeded the target set and a value retention rate of 101%, which exceeded the target set;
2. Colleague Success: achieved a material improvement of 22 points in the Group colleague engagement score and over 30,000 Sage Foundation volunteer days logged across the Group, which exceeded the targets set; achieved a Group-wide internal fill rate of 29%, which was slightly below targeted levels of positions to be filled through internal appointments;
3. Customer Success: Customer Core was launched in the UK and in parts of the US, South Africa and Australia, some of Sage's most significant markets, which met the target set, contributing to improved customer experience. However, ambitious customer satisfaction scores were not achieved;
4. Innovation: this was based on the execution of the Sage Business Cloud product roadmap and involved the launch of Sage Intacct in one country, with Service Fabric available and capable of delivering at least one service; this was delivered in respect of Australia and now five services are available, thus the target was deemed to have been met.

Consequently, the Remuneration Committee determined that a bonus of 14% of the maximum 20% for this element was an appropriate award.

### **Jonathan Howell, CFO**

Jonathan Howell was new to role in 2019 and was set a range of goals under five key headings and linked to the execution of the 2019 plan. These were: 1. Overall performance of the Group; 2. Financial processes and controls; 3. Balance sheet management and debt strategy; 4. Relationship with the market; and 5. Colleague Success.

The Remuneration Committee took into account the performance against those goals as follows:

1. Overall performance of the Group: the achievement of 12.6% ARR growth (at actual FX rates) within operating margin guidance and strong underlying free cash flow, which exceeded the target set and a value retention rate of 101%, which exceeded the target set;
2. Financial processes and controls: a number of optimisation projects were launched and executed to drive the move to an SaaS business. This included a balance sheet review which led to smooth and clean financial close at reporting periods and improvements in debtor collections leading to an increase in operating cash conversion to 129% at year end. In total this met the requirement to enhance financial processes and controls;
3. Balance sheet management and debt strategy: a revised balance sheet and debt strategy was developed and approved by the Board. Optimal working capital thresholds were identified and met, and balance sheet risk associated with counterparty limits was mitigated by tighter control and disposal activity. In addition, debt capacity was increased through a £200m term loan raise, enhancing available liquidity, thereby meeting the target;
4. Relationship with the market: a revised financial reporting format was launched to enhance and simplify reporting to the market and reflect the changing areas of focus / relevant metrics. This was positively received by both internal and external stakeholders, therefore meeting the objective;
5. Colleague Success: contributed to a material improvement of 22 points in the Group colleague engagement score, which exceeded the target set; internal fill rates within the Finance function of 37%, which met targeted levels of positions to be filled through internal appointments.

Consequently, the Remuneration Committee determined that a bonus of 16% of the maximum 20% for this element was an appropriate award.

## Blair Crump, President of Sage

Blair Crump was set a range of goals under three key headings linked to the execution of the 2019 plan. These were: 1. Overall performance of the Group and Enterprise division; 2. Colleague Success; and 3. Customer Success.

The Committee took into account the performance against those goals as follows:

1. Overall performance of the Group and Enterprise division: the achievement of 12.6% ARR growth (at actual FX rates) within operating margin guidance and strong underlying cash flow, a value retention rate of 101%, which exceeded the targets set, and Enterprise Management recurring revenue growth, which did not meet the target set;
2. Colleague Success: contributed to a material improvement of 22 points in the Group colleague engagement score and over 30,000 Sage Foundation volunteer days logged across the Group, which exceeded the targets set; achieved a Group-wide internal fill rate of 29%, which was slightly below targeted levels of positions to be filled through internal appointments;
3. Customer Success: Customer Core was launched in the UK and in parts of the US, South Africa and Australia, some of Sage's most significant markets, which met the target set, contributing to improved customer experience. However, ambitious customer satisfaction scores were not achieved.

Consequently, the Remuneration Committee determined that a bonus of 12% of the maximum 20% for this element was an appropriate award.

## PSP awards

Awards granted under the PSP to Steve Hare and Blair Crump in December 2016 vest depending on performance against two equally weighted measures, measured over three years, from 1 October 2016 to 30 September 2019:

- 50% recurring revenue growth with underpins for earnings per share (EPS) growth and organic revenue growth.
- 50% relative TSR performance against the FTSE 100 (excluding financial services and extracting companies).

For each measure, three levels of performance are defined below, with straight-line vesting between each level of performance: target, stretch and exceptional.

Measure	Between target (20% vests) and stretch (80% vests)	Between stretch (80% vests) and exceptional (100% vests)
Recurring revenue growth (Compound Annual Growth Rate ("CAGR"))	Between 8.7% and 10.7% (with EPS growth CAGR of 8% p.a. and organic revenue growth CAGR of 6.7% p.a.)	Between 10.7% and 12.7% (or above) (with EPS growth CAGR of 8% p.a. and organic revenue growth CAGR of 6.7% p.a.)
Relative TSR	Between median and upper quartile	Between upper quartile and upper decile (or above)

Measure	Achieved	Vesting
Recurring revenue growth (CAGR)	8.6%	0%
Relative TSR	54 <sup>th</sup> percentile	14.8%
<b>Total</b>		14.8%

The definition of organic revenue was updated for FY18, part-way through the performance cycle as outlined on page 95 of the 2017 Annual Report. Consequently, the recurring revenue growth target and the organic revenue growth underpin were adjusted to reflect the updated definition of organic revenue which from FY18 included Intacct and Fairsail (Sage People). The impact of the acquisitions was pro-rated across the FY17 PSP to reflect the proportionate contribution of the acquired businesses over the performance period (an increase of 0.7% p.a. respectively). The EPS underpin was not changed, aligning to the Company's commitment to maintain margin following the acquisitions. For the purposes of assessing performance under the 2017 PSP, recurring revenue includes "processing revenue". Processing revenue is defined on page 155 of this report.

The organic revenue growth was 6.3% p.a. (compared to 6.7% p.a.) and EPS was 2.6% p.a. (compared to 8.0% p.a.), meaning that the underpin condition was not achieved.

The Remuneration Committee determined, after careful consideration of business performance and the interests of Sage's stakeholders such as shareholders, customers and employees, that the formulaic outcome was appropriate. Consequently, 14.8% of the total award will vest.

Awards are scheduled to vest and be released on 14 December 2019.

### **Jonathan Howell PSP award**

As outlined in the Remuneration Committee Chairman's statement, Jonathan Howell was awarded a conditional award over 312,698 Sage shares on 11 December 2018 with a face value of £1,807,398 (based on the Sage share price of £5.78 on 10 December 2018) to replace share awards that he forfeited at Close Brothers. This Replacement Award was structured so as to mirror the forfeited award to the extent that the original Close Brothers performance conditions, vesting schedule, holding periods and malus and clawback provisions applied. Other terms of the Replacement Award, principally relating to dividend equivalents and treatment upon ceasing employment or on a change of control, are consistent with the Sage PSP rules.

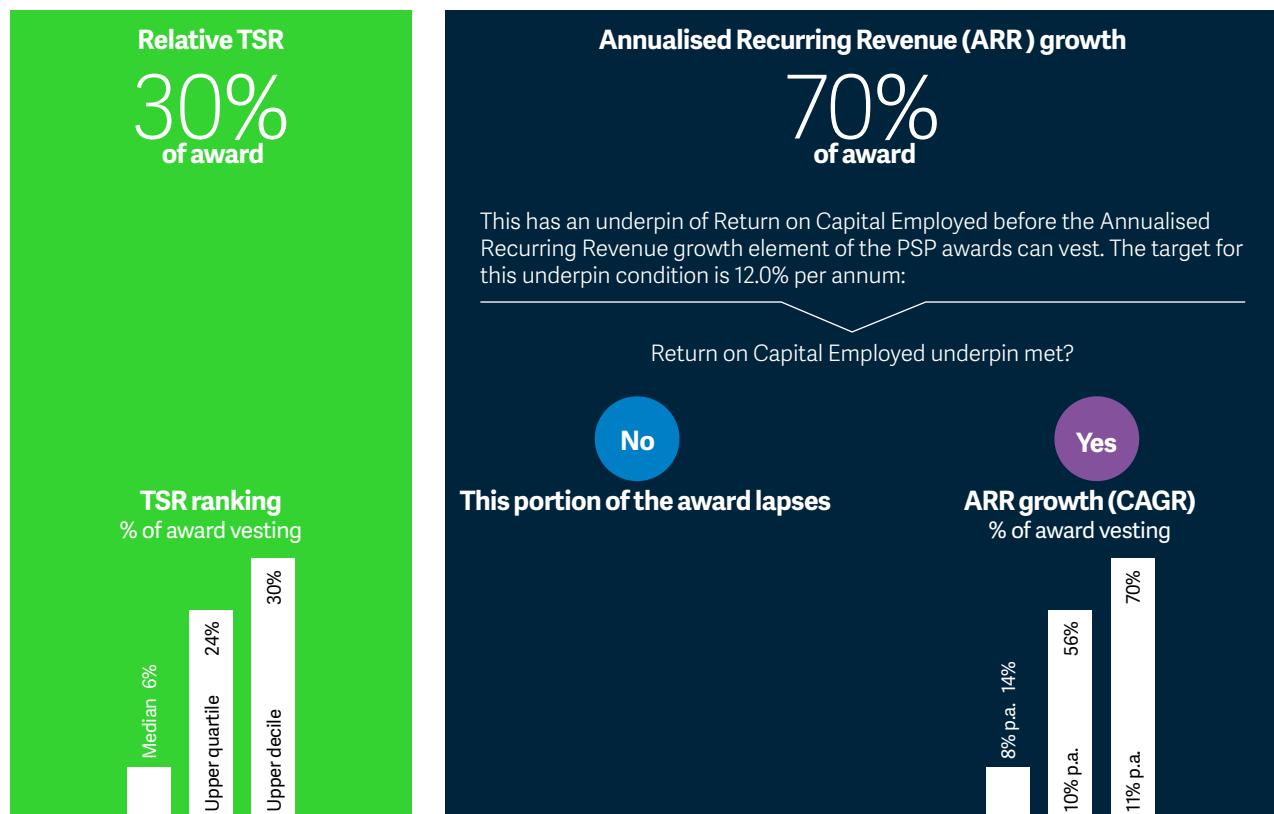
Up to 213,779 shares of the Replacement Award (plus dividend equivalent shares) could have vested and been released on 4 October 2019 based on the vesting of the performance condition applying to Close Brothers' LTIP and Share Matching Plan over the three-year period to July 2019. As disclosed on page 88 of the Close Brothers Group 2019 Annual Report, the performance conditions vested at 29.9%. Accordingly, 63,919 shares (plus 1,596 dividend equivalent shares) vested on 4 October 2019. Due to dealing restrictions in place at the time of vest, these will be released to Jonathan Howell once the dealing restrictions have been lifted (anticipated to be 20 November 2019). Those vested shares are included in the single figure table on page 108 at a value of £438,033, based on the share price at vesting of £6.686.

The Remuneration Committee determined, after careful consideration of business performance and the interests of Sage's stakeholders such as shareholders, customers and employees, that vesting the award in line with the formulaic outcome was appropriate.

98,919 shares of the Replacement Award (plus dividend equivalent shares) could vest on 3 October 2020 and be released on 3 October 2022 based on the vesting of the performance condition applying to Close Brothers' LTIP over the three-year period to July 2020 (details of which are outlined on page 96 of the Close Brothers Group 2018 Annual Report).

## PSP awards granted in FY19 (audited information)

Awards were granted under the PSP on 4 December 2018 at a market value of £5.79 to selected senior employees in the form of conditional share awards. A separate grant took place on 28 February 2019 for Executive Directors, following the approval the 2019 Policy at the 2019 AGM. In alignment with our business strategy for FY19, performance conditions for awards granted in FY19 are:



Vesting is on a straight line between the points. The following key areas are highlighted in relation to the performance measures:

- Annualised Recurring Revenue growth as a medium-term performance condition provides close alignment with our medium-term strategic priorities to grow our subscription-based services and acquire new customers.
- Continued focus on overall Group growth and delivery of shareholder value is achieved by:
  - Requiring the achievement of a Return on Capital Employed (ROCE) underpin before the Annualised Recurring Revenue growth element of the PSP awards can vest. The target for this underpin condition is 12.0% p.a. The Remuneration Committee will exclude from the ROCE calculation, where appropriate, any write down that arises from an asset that was acquired prior to the appointment of the current Executive Directors.
  - 30% of the awards being determined by relative TSR performance;

Awards will vest, subject to satisfaction of those performance conditions, in December 2021. 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 (£) <sup>1</sup>	Face value (% of salary)	Threshold vesting (% of award)	End of performance period
Steve Hare	265,975	1,540,000	200%	20%	30 September 2021
Jonathan Howell	184,801	1,070,000	200%	20%	30 September 2021
Blair Crump	190,027	1,100,260	200%	20%	30 September 2021

Note:

1. The face value of the PSP awards has been calculated using the market value (middle market quotation) of a Sage share on 3 December 2018 (the day prior to the main grant for all eligible employees) of £5.79. The FX rate used to calculate Blair Crump's award was 1 GBP = 1.27 USD.

## Change in remuneration of Chief Executive Officer compared to Group employees

The table below shows the percentage change in total remuneration of the Chief Executive Officer with a comparator group of all UK employees over the same time period. Sage has employees based all around the world, some of whom work in countries with comparatively higher inflation than the UK; therefore, a comparison to Sage's UK-based Group employees is more appropriate than to all employees.

	CEO	All UK employees
Salary <sup>1</sup>	-5.0%	9.1%
Taxable benefits <sup>2</sup>	12.0%	16.6%
Annual incentive <sup>3</sup>	N/A	189.0%

Notes:

1. The CEO's salary in 2019 includes that portion of the year where Steve Hare was paid a "step-up" allowance for the period he was Interim COO & CFO. The prior-year comparative is the sum of Stephen Kelly's salary to his cessation as CEO and Steve Hare's salary including his "step-up" allowance from the date of his appointment as Interim COO & CFO. The percentage change for UK colleagues shown is the 2018 annual pay review and promotions/market adjustments during 2019 (excluding leavers and joiners). This is consistent with the basis of the disclosure in previous reports.
2. Steve Hare's taxable benefits as set out on page 108 of this report compared to an amalgamated 2018 figure comprising Stephen Kelly's taxable benefits to his cessation as CEO and Steve Hare's taxable benefits from the date of his appointment as Interim COO and CFO as reported.
3. Annual incentive is shown as N/A as no bonus was paid for Stephen Kelly in 2018 and Steve Hare waived his entitlement to a 2018 bonus. The annual incentive value is inclusive of bonus and commission for all UK employees.

## Ratio of the pay of the Chief Executive Officer to that of the UK lower quartile, median and upper quartile employees

The table below shows the ratio of the pay of the Chief Executive Officer to that of the UK lower quartile, median and upper quartile employees in 2019, consistent with The Companies (Miscellaneous Reporting) Regulations 2018.

Year	Method	Pay ratio			Remuneration values			
		25 <sup>th</sup> percentile (lower quartile)	50 <sup>th</sup> percentile (median)	75 <sup>th</sup> percentile (upper quartile)	Y25 (25 <sup>th</sup> percentile)	Y50 (50 <sup>th</sup> percentile)	Y75 (75 <sup>th</sup> percentile)	
2019	A	95 : 1	62 : 1	38 : 1	Total remuneration	£26,463	£40,385	£66,095
					Salary only	£20,281	£34,184	£51,087

Notes

- Under method A, employee data is based on full-time equivalent pay for UK colleagues as at 30 September 2019. Pay for each colleague is calculated in accordance with the single figure of remuneration. All components of remuneration except long-term incentives are presented on a full-time equivalent basis by dividing sums by the average working hours divided by full-time equivalent hours for the portion of the year worked. Colleagues who worked no hours during the year are excluded from the dataset.
- Method A has been selected as the basis of the disclosure as it is the best reflection of the underlying colleague data required by The Companies (Miscellaneous Reporting) Regulations 2018.
- Certain benefits have been omitted from the remuneration of colleagues except the CEO. These principally comprise sums paid by way of expenses allowance chargeable to UK income tax and not paid through the payroll. Such expenses are typically irregular and generally immaterial to remuneration and are excluded to enable more meaningful comparison of the ratio of underlying colleague remuneration over time.
- The CEO's pay is based on the single figure of remuneration set out on page 108 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 FY19 is set out on page 110-113 of this report.

## Historical executive pay and Company performance

The table below summarises the Chief Executive Officer 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.

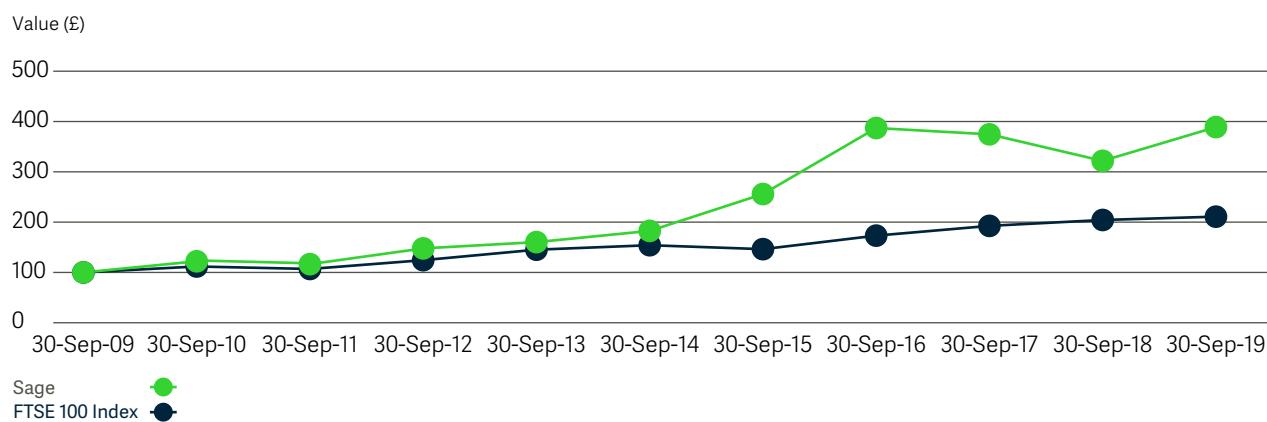
	CEO	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
CEO single figure of remuneration (in £'000)	Steve Hare <sup>1</sup>	—	—	—	—	—	—	—	—	98	<b>2,515</b>
	Stephen Kelly <sup>2</sup>	—	—	—	—	—	1,521	1,723	3,547	1,690	—
	Guy Berruyer <sup>3</sup>	—	2,935	1,196	1,670	1,616	108	—	—	—	—
	Paul Walker <sup>4</sup>	2,196	—	—	—	—	—	—	—	—	—
Annual bonus payout (as % maximum opportunity)	Steve Hare	—	—	—	—	—	—	—	—	0% <sup>5</sup>	<b>94%</b>
	Stephen Kelly	—	—	—	—	—	67%	69%	19%	0%	—
	Guy Berruyer	—	66%	21%	72%	55%	0%	—	—	—	—
	Paul Walker	83%	—	—	—	—	—	—	—	—	—
PSP vesting (as % of maximum opportunity)	Steve Hare	—	—	—	—	—	—	—	—	29%	<b>15%</b>
	Stephen Kelly	—	—	—	—	—	—	—	66%	29%	—
	Guy Berruyer	—	61%	0%	0%	0%	64%	—	—	—	—
	Paul Walker	26%	—	—	—	—	—	—	—	—	—

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 Chief Operating Officer & Chief Financial Officer, not Chief Executive Officer, he is regarded as being the equivalent of Chief Executive Officer 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. Paul Walker resigned as CEO on 1 October 2010.
5. Steve Hare waived his entitlement to a bonus in respect of 2018.

## Historical Group performance against FTSE 100

The graph below shows the Total Shareholder Return of the Group and the FTSE 100 over the last ten years. The FTSE 100 index is the index against which the TSR of the Group should be measured because of the comparable size of the companies which comprise that index.



Note:

- This graph shows the value, by 30 September 2019, of £100 invested in The Sage Group plc on 30 September 2009 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 noted in the RNS announcement on 31 August 2018, Stephen Kelly stepped down as CEO on 31 August 2018 and remained employed until 31 May 2019. During FY19 until his departure date, Stephen continued to be paid on a monthly basis, his base salary of £810,000 p.a. and benefits (including car allowance, pension contributions, private medical insurance, permanent health insurance and life assurance). Following cessation he received, in lieu of the remaining three months of his notice period, his base salary, pension contributions and car allowance. These payments were made in monthly instalments and subject to mitigation for any remuneration received at an alternative employment over the 12-month period that began on 31 August 2018 (which was not required to be applied). Following cessation, Stephen was paid £84,000 in respect of accrued, unused holiday entitlement at cessation of employment, a portion of which relates to qualifying services as a Director prior to his cessation as CEO. He did not accrue holiday entitlement during the period for which he was paid in lieu of notice.

Stephen Kelly retains interests in the Company's PSP and Deferred Bonus Plan (DBP). PSP awards will vest on their normal vesting dates, to the extent that the performance conditions are satisfied and the number of shares under award will be pro-rated by reference to the proportion of the applicable period that elapsed by 31 May 2019. The performance conditions for Stephen Kelly's PSP awards are set out in the Annual Report for the year of grant.

His shares in the DBP will vest on their normal vesting dates and not be subject to time pro-rating.

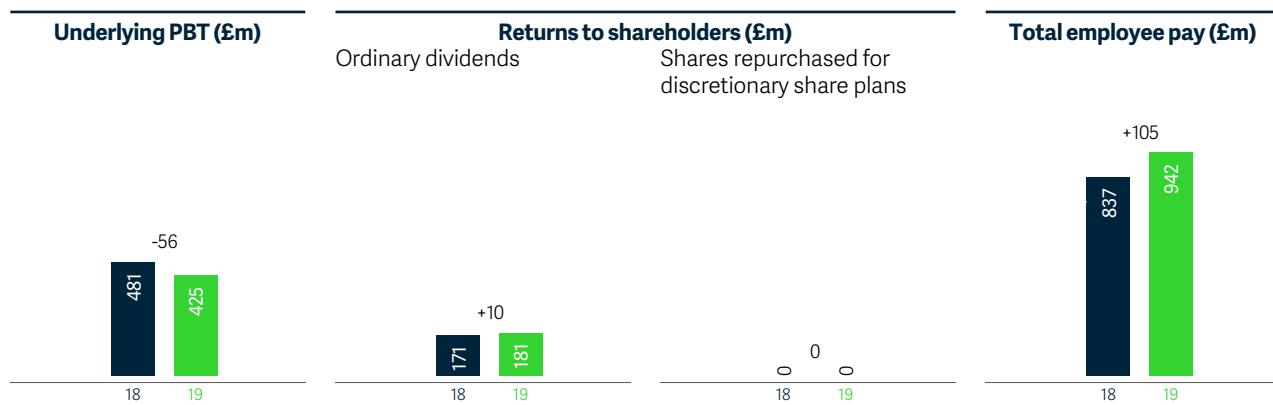
In FY19, Stephen Kelly's PSP award granted on 2 March 2016 vested; values are noted in the single figure of remuneration for 2018 (as updated in this report at page 108). Additionally, his Deferred Bonus Share Plan award granted on 14 December 2016 vested on 14 December 2018.

## Relative importance of spend on pay

The charts below show the all-employee pay cost (as stated in the notes to the accounts), profit before tax (PBT) and returns to shareholders by way of dividends and share buybacks for 2018 and 2019.

The information shown in this chart is based on the following:

- Underlying PBT – Underlying profit before income tax taken from the consolidated income statement on page 140. Underlying PBT has been chosen as a measure of our operational profitability;
- Returns to shareholders – Total dividends taken from note 14.5 on page 193; share buyback taken from consolidated statement of changes in equity on page 143;
- Total employee pay – Total staff costs from note 3.3 on page 158, including wages and salaries, social security costs, pension and share-based payments.



## Statement of implementation of remuneration policy in the following financial year

This section provides an overview of how the Remuneration Committee is proposing to implement our remuneration policy in 2020.

### Base salary

An annual salary review was carried out by the Remuneration Committee in November 2019. Following that review, the Remuneration Committee approved the following:

	Salary 1 January 2020	Salary 1 January 2019	Salary 1 January 2018	Salary 1 January 2017
Steve Hare <sup>1</sup>	£785,000 (1.9% increase)	£770,000 (appointed CEO 2 Nov 2018)	£522,000 (0% increase)	£522,000 (2.5% increase)
Jonathan Howell <sup>2</sup>	£545,000 (1.9% increase)	£535,000 (appointed CFO 10 Dec 2018)	N/A	N/A
Blair Crump	\$700,000 (0% increase)	\$700,000 (0% increase)	\$700,000	N/A

Notes:

1. Steve Hare was appointed CEO on 2 November 2018. His 2017 and 2018 salary reflected his prior role as CFO.
2. Jonathan Howell was appointed CFO on 10 December 2018.

2020 salary increases for Executive Directors are lower than the equivalent average increases for colleagues eligible for an annual pay award, which are 3% (in respect of employees based in the United Kingdom) and 3.25% (in respect of employees based in the United States).

### Pension and benefits

The Chief Executive Officer and Chief Financial Officer will continue to receive a pension provision worth 15% of salary and 10% of salary respectively, as a contribution to a defined contribution plan and/or as a cash allowance. Blair Crump will receive a pension provision in line with our US benefits policy, currently up to 3.5% 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 FY19. In addition, the Company will continue to cover the cost of Steve Hare's travel and accommodation for days on which he attends to Sage matters in the Company's London offices. Sage will also continue to tax equalise that portion of Blair Crump's remuneration that is subject to UK tax for days on which he attends to Sage matters in the UK.

### Annual bonus

Key features of the Executive Directors' annual bonus plan for 2020 are as follows:

- The maximum annual bonus potential is 175% of salary;
- One-third of any bonus earned will be deferred into shares for three years under The Sage Group Deferred Bonus Plan;
- Annual bonuses awarded in respect of performance in 2020 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 2020 for Executive Directors will be determined as detailed below:

As a percentage of maximum bonus opportunity:

Measure	
Annualised Recurring Revenue (ARR) growth <sup>1</sup>	80%
Strategic goals	20%

Note:

1. Payout is dependent upon the satisfaction of the underpin condition of underlying operating profit margin.

The selection of measures and targets takes into account the Company's strategic priorities, its internal budgeting and, where relevant, consensus. The Annualised Recurring Revenue growth measure is based on the definition of Annualised Recurring Revenue set out on page 201. Targets are not disclosed because they are considered by the Board to be commercially sensitive. Many of the Company's competitors are unlisted companies and not required to disclose their targets; the Company's disclosure could provide its competitors with a considerable advantage. It is intended for retrospective disclosure to be made in next year's Directors' Remuneration Report.

## Performance Share Plan (PSP)

The Chief Executive Officer, Chief Financial Officer and President of Sage will be amongst the participants in the PSP award to be granted in December 2019. Awards will be of shares worth 200% of salary at the date of grant.

Vesting of these awards will be subject to satisfaction of the following performance conditions measured over the three financial years to 30 September 2022. A holding period to the PSPs granted for the financial year FY20 will apply for two years from the vesting date. No further performance conditions attach to the awards during the holding period.

### Annualised Recurring Revenue growth ("ARR") performance condition (70% of award)

	ARR growth (CAGR)	% of award vesting <sup>1</sup>
Below target	Less than 8.0% p.a.	0%
Target	8.0% p.a.	14%
Stretch	10.0% p.a.	56%
Exceptional	11.0% p.a.	70%

Note:

- For any of this portion of the PSP awards to vest, an underpin condition must be met: Return on Capital Employed (ROCE) of 12.0% p.a. ROCE is defined on page 215. Vesting is on a straight line between the points.

### Relative TSR performance condition (30% of award)

	TSR ranking	% of award vesting
Below target	Below median	0%
Target	Median	6%
Stretch	Upper quartile	24%
Exceptional	Upper decile	30%

TSR performance comprises share price growth and dividends paid. Vesting is on a straight line between the points.

Sage's TSR performance will be measured relative to the TSR of the constituents of the FTSE 100, excluding financial services and extracting companies. PSP awards granted in 2020 will be subject to potential withholding (malus) or recovery (clawback) if specified trigger events occur prior to the third anniversary of the release date of an award. "Trigger events" in respect of PSP awards will comprise a material misstatement of the audited results, error in calculation of the extent of PSP vesting, serious reputational damage or significant financial loss as a result of an individual's conduct or gross misconduct which could have warranted an individual's summary dismissal or a material failure of risk management.

## Non-executive Director remuneration

The table below shows the fee structure for Non-executive Directors for 2020. Non-executive fees are determined by the full Board except for the fee for the Chairman of the Board which is determined by the Remuneration Committee. Non-executive fees will next be reviewed by the Remuneration Committee in 2020.

	2020 fees
Chairman of the Board all-inclusive fee	£400,000
Basic Non-executive Director fee	£60,000
Senior Independent Director additional fee	£17,000 <sup>1</sup>
Audit and Risk Committee Chairman additional fee	£17,000
Remuneration Committee Chairman additional fee	£17,000

Notes:

- Drummond Hall stepped down from his role as Chairman of the Remuneration Committee on 31 March 2019. While in his role as Chairman of the Remuneration Committee and Senior Independent Director, he received a reduced Senior Independent Director fee of £10,000. From 1 April 2019 the Senior Independent Director fee Drummond Hall received was aligned to the Audit and Risk Committee Chairman and the Remuneration Committee Chairman fee of £17,000.

## Directors' shareholdings and share interests (audited information)

The shareholding guideline for Executive Directors was increased from the date of the 2019 AGM to 250% of salary. Executive Directors are expected to build up the required shareholding within a five-year period of an Executive Director's becoming subject to the guideline. As at 30 September 2019, Steve Hare held shares worth 316% of salary, Jonathan Howell held shares worth 102% of salary and Blair Crump held shares worth 52% of salary. Values include unvested deferred shares net of tax at the estimated marginal withholding rates. The values for Executive Directors are derived from interests in shares valued using the average market price of a share in the three months to 30 September 2019 (the last trading day of the financial year), which was £7.286, and the executive's basic salary over the same period, translated into GBP using the average middle foreign currency exchange rate for the same period used to calculate the share price.

Additionally, from 11 September 2019 the Remuneration Committee has introduced a requirement for Directors to hold Sage shares for a two-year period after stepping down from that position, being in the first year the lesser of 250% of salary (the shareholding guideline prior to cessation as an Executive Director) or the Executive Directors' actual shareholding at leaving this position and reducing to 50% of this requirement in the second year. The Executive Directors' actual shareholding will include any shares acquired through the vesting or release of shares from share incentive plans (net of tax, where applicable) after the date the policy was adopted and unvested shares granted under the Deferred Bonus Plan (net of tax) but excludes shares acquired through purchase and the release of shares under share incentive plans where the release occurred prior to the Remuneration Committee's adoption of the policy. Additionally, Performance Share Plan shares vesting after cessation are subject to a two-year holding period at vesting.

### Interests in shares

The interests as at 30 September 2019 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 2019 number	Ordinary shares at 30 September 2018 number
J Bates <sup>1</sup>	<b>0</b>	n/a
N Berkett <sup>2</sup>	<b>50,661</b>	50,661
J Bewes <sup>3</sup>	<b>10,000</b>	n/a
D Brydon	<b>100,024</b>	78,024
A Court <sup>4</sup>	<b>1,350</b>	n/a
B Crump	<b>35,692</b>	15,000
D Hall	<b>10,000</b>	10,000
S Hare	<b>331,206</b>	260,019
J Howell	<b>75,000</b>	31,000
S Jiandani	<b>0</b>	0
C Keers	<b>0</b>	0
<b>Total</b>	<b>613,933</b>	444,704

Notes:

1. Dr John Bates was appointed as a Non-executive Director on 31 May 2019.
  2. Neil Berkett stepped down from his role as Non-executive Director on 1 April 2019. His shareholding is shown to that date.
  3. Jonathan Bewes was appointed as a Non-executive Director on 1 April 2019
  4. Annette Court was appointed as a Non-executive Director on 1 April 2019.
- 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 2019 and the date of this report.
  - Details of the Executive Directors' interests in outstanding share awards under the PSP, Deferred Bonus and all-employee share option plans are set out below.

## All-employee share options (audited information)

UK-based Executive Directors were entitled to participate in the Sage Group Savings-Related Share Option Plan (SRSOP), which closed to new invitations on 1 June 2017. In addition, all Executive Directors are eligible to join the all-employee share plan, the Sage Save and Share Plan, on the same terms as all employees based in their respective local jurisdiction. See note 14.2 on page 191 for more detail of this plan. In the year under review, Steve Hare participated in this scheme. Blair Crump was a participant in the 2017 Save and Share Plan and did not participate in the 2019 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 2018 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	Shares under option at 30 September 2019 number	Date exercisable
S Hare	317p	9,463	–	(9,463)	–	–	1 August 2019– 31 January 2020
	604p	–	2,980	–	–	2,980	1 August 2022– 31 January 2023
B Crump	610p	1,964	–	(1,964)	–	–	1 August 2019– 1 September 2019
<b>Total</b>		<b>11,427</b>	<b>–</b>	<b>(11,427)</b>	<b>–</b>	<b>2,980</b>	

Notes:

- No performance conditions apply to options granted under the SRSOP and Save and Share Plans. For the 2014 SRSOP, the exercise price was set at £3.17, a 20% discount to the average share price on 15, 16 and 19 May 2014 of £3.9625.
- Blair Crump participated in the 2017 Save and Share Plan. Under the US Save and Share plan rules, the scheme has a two-year saving period. No performance conditions apply to options granted under this Plan. For the 2017 US Save and Share grant, the exercise price was set at £6.10, a 15% discount on the average share price on the three dealing days prior to grant which was on 1 June 2017. Blair exercised 1,964 options during 2019 at a fair market value per share of £6.97; this resulted in a gain of £1,709.
- Steve Hare participated in the 2019 Save and Share plan. Under the UK Save and Share plan rules, the scheme has a three-year saving period. No performance conditions apply to options granted under this plan. For the 2019 UK Save and Share grant, the exercise price was set at £6.04, a 20% discount on the average share price on 20, 21 and 22 May 2019 of £7.546. Steve exercised 9,463 options during 2019 at a fair market value per share of £6.9782; this resulted in a gain of £36,037.
- Jonathan Howell did not participate in the 2019 Save and Share Plan.
- The market price of a share of the Company at 30 September 2019 (the last trading day of the financial year) was £6.914 (mid-market average) and the lowest and highest market prices during the year were £5.256 and £8.204 respectively.

## Performance Share Plan (audited information)

The outstanding awards granted to each Executive Director of the Company under the Performance Share Plan are as follows:

Director	Grant date	Under award 1 October 2018 number	Awarded during the year number	Vested during the year number	Lapsed during the year number	Under award 30 September 2019 number	Vesting date
S Hare	28 February 2019	–	265,975	–	–	265,975	4 December 2021
	7 December 2017	171,597	–	–	–	171,597	7 December 2020
	14 December 2016	208,300	–	–	–	208,300	14 December 2019
	2 March 2016	211,356	–	(60,236)	(151,120)	–	2 March 2019
		<b>591,253</b>	<b>265,975</b>	<b>(60,236)</b>	<b>(151,120)</b>	<b>645,872</b>	
J Howell	28 February 2019	–	184,801	–	–	184,801	4 December 2021
	11 December 2018	–	98,919	–	–	98,919	3 October 2020
	11 December 2018	–	213,779	–	–	213,779	4 October 2019
			<b>497,499</b>	–	–	<b>497,499</b>	
B Crump	28 February 2019	–	190,027	–	–	190,027	4 December 2021
	7 December 2017	171,814	–	–	–	171,814	7 December 2020
	14 December 2016	196,379	–	–	–	196,379	14 December 2019
	22 September 2016	98,993	–	(28,213)	(70,780)	–	2 March 2019
		<b>467,186</b>	<b>190,027</b>	<b>(28,213)</b>	<b>(70,780)</b>	<b>558,220</b>	
<b>Total</b>		<b>1,058,439</b>	<b>953,501</b>	<b>(88,449)</b>	<b>(221,900)</b>	<b>1,701,591</b>	

Notes:

- No variations were made in the terms of the awards in the year.
- PSP awards for 2019 were granted to Executive Directors on 28 February 2019, following the approval of the 2019 Policy at the 2019 Annual General Meeting. The market price of the award was £5.79 aligned to the market price of 2019 awards granted on 4 December 2018 to senior colleagues except Executive Directors.
- The performance conditions for awards granted in March 2016, September 2016, December 2016 and December 2017 are set out in the respective Annual Reports for the year of grant and for awards granted in February 2019 on page 114.
- The performance conditions for Steve Hare's and Blair Crump's awards that vested during 2019 are set out on page 118 of the 2018 Annual Report.
- Awards for Steve Hare granted in December 2017 and after are subject to a holding period of two years on vesting. Awards for Jonathan Howell vesting in 2020 and after are subject to a holding period of two years on vesting. Awards for Blair Crump granted in February 2019 are subject to a holding period of two years on vesting.
- The performance conditions for awards granted in December 2018 and February 2019 are on page 114.

## 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 2018 number	Awarded during the year number	Vested during the year number	Lapsed during the year number	Under award at 30 September 2019 number	Vesting date
S Hare	7 December 2017	5,491	–	–	–	5,491	7 December 2019
	14 December 2016	23,528	–	(23,528)	–	–	14 December 2018
	9 December 2015	13,673	–	(13,673)	–	–	9 December 2018
B Crump	7 December 2017	8,488	–	–	–	8,488	7 December 2019
<b>Total</b>		<b>51,180</b>	<b>–</b>	<b>(37,201)</b>	<b>–</b>	<b>13,979</b>	

Notes:

- No bonus payments were made to Executive Directors in the year ended 30 September 2019, therefore no deferred share awards were made in this timeframe.

There are limits on the number of newly issued and treasury shares that can be used to satisfy awards under the Group's employee share schemes in any 10-year period. The limits and the Group's current position against those limits as at 30 September 2019 (the last practicable date prior to publication of this document) are set out below:

Limit	Current position
5% of Group's share capital can be used for discretionary share schemes	2.94%
10% of Group's share capital can be used for all share schemes	3.68%

The Company has previously satisfied all awards under the Performance Share Plan through the market purchase of shares or transfer of treasury shares and will continue to consider the most appropriate approach, based on the relevant factors at the time.

## External appointments

Executive Directors are permitted, where appropriate and with Board approval, to take Non-executive Directorships with other organisations in order to broaden their knowledge and experience in other markets and countries. Fees received by the Directors in their capacity as Directors of these companies are retained, reflecting the personal responsibility they undertake in these roles. The Board recognises the significant demands that are made on Executive and Non-executive Directors and has therefore adopted a policy that no Executive Director should hold more than one directorship of other listed companies. Except in exceptional circumstances, where approved in advance by the Chairman of the Remuneration Committee, if an Executive Director holds Non-executive positions at more than one listed company then only the fees from one such company will be retained by the Director. The Executive Directors do not currently hold any appointments of this nature.

No formal limit on other board appointments applies to Non-executive Directors under the 2019 Policy but prior approval (not to be unreasonably withheld) from the Chairman on behalf of the Board is required in the case of any new appointment. In the case of the Chairman, prior approval of the Nomination Committee is required on behalf of the Board.

## Unexpired term of contract table

Director	Date of contract	Unexpired term of contract on 30 September 2019, or on date of contract if later	Notice period under contract
<b>Executive Directors</b>			
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
B Crump	1 January 2018	12 months	12 months from the Company and/or individual
<b>Non-executive Directors</b>			
J Bates	31 May 2019	2 years 8 months	1 month from the Company or 1 month from the individual
J Bewes	1 April 2019	2 years 6 months	1 month from the Company or 1 month from the individual
D Brydon	6 July 2017	8 months	6 months from the Company and/or individual
A Court	1 April 2019	2 years 6 months	1 month from the Company or 1 month from the individual
D Hall	1 January 2017	3 months	1 month from the Company or 1 month from the individual
S Jiandani	28 February 2017	5 months	1 month from the Company or 1 month from the individual
C Keers	1 July 2017	9 months	1 month from the Company or 1 month from the individual

## Consideration by the Directors of matters relating to Directors' remuneration

The following Directors were members of the Remuneration Committee when matters relating to the Directors' remuneration for the year were being considered:

- Annette Court (Chair from 1 April 2019);
- Neil Berkett (to 1 April 2019);
- Drummond Hall (Chair to 1 April 2019);
- Jonathan Howell (prior to his appointment as CFO on 10 December 2018);
- Cath Keers.

The Remuneration Committee received assistance from Amanda Cusdin (Chief People Officer), Tina Clayton (Executive Vice President, Reward & Recognition) and Vicki Bradin (General Counsel and Company Secretary) and other members of management (including the CEO and CFO), who may attend meetings by invitation, except when matters relating to their own remuneration are being discussed.

## External advisors

The Remuneration Committee continues to receive advice from Deloitte LLP, an independent firm of remuneration consultants appointed by the Remuneration Committee after consultation with the Board. During the year, Deloitte's executive compensation advisory practice advised the Remuneration Committee on developments in market practice, corporate governance, institutional investor views, the development of the Company's incentive arrangements and the review of the 2019 Policy. Total fees for advice provided to the Remuneration Committee during the year were £88,510.

The Remuneration Committee is satisfied that the advice it has received has been objective and independent.

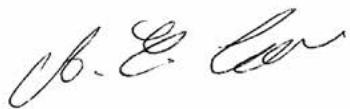
Deloitte is a founding member of the Remuneration Consultants Group and adheres to its code in relation to executive remuneration consulting in the UK. Other parts of Deloitte have provided tax advice, specific corporate finance support in the context of merger and acquisition activity and unrelated corporate advisory services.

Stitch, a Deloitte business, provided the Sage reward team with communication support on employee reward and share plan communications during 2019.

## Statement of shareholding voting

The table below sets out the results of the vote on the 2019 Policy and report at the 2019 AGM:

	Votes for		Votes against		Votes cast	Votes withheld
	Number	%	Number	%		
Remuneration policy	747,391,904	96.23	29,250,695	3.77	776,642,599	97,632,667
Remuneration report	842,860,938	98.74	10,713,722	1.26	853,574,660	20,700,606



**Annette Court**  
Chairman of the Remuneration Committee

19 November 2019

# DIRECTORS' REPORT

The Directors present their report together with the audited consolidated financial statements for the year ended 30 September 2019. The Annual Report and Accounts contains statements that are not based on current or historical fact and are forward-looking in nature. Please refer to the "Disclaimer" on page 127.

## Information included in the Strategic Report

This Directors' Report, together with the Strategic Report, on pages 2 to 65, represent the management report for the purpose of compliance with DTR 4.1.R.

The information that fulfils the reporting requirements relating to the following matters can be found on the following pages of the Strategic Report:

Subject matter	Page
Future developments	12-15 – In conversation with Steve Hare
	79 Corporate Governance Report
Greenhouse gas emissions	42-45 – Environment section
Important events since the financial year end	Page 205 Note 19 to the Group financial statements

## Corporate Governance Report

The Disclosure Guidance and Transparency Rules ("DTR") 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 70 to 128, 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

Information on allotments of shares for cash pursuant to the Group employee share schemes can be found on page 188 within the notes to the Group financial statements.

## Results and dividends

The results for the year are set out from page 129. Full details of the proposed final dividend payment for the year ended 30 September 2019 are set out on page 193. The Board is proposing a final dividend of 11.12p per share following the payment of an interim dividend of 5.79p per share on 14 June 2019. The proposed total dividend for the year is therefore 16.91p per share.

## Going concern

After making enquiries, the Directors have a reasonable expectation that Sage has adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. In reaching this conclusion, the Directors have had due regard to the following:

- The cash generated from operations, available cash resources and committed bank facilities and their maturities, which, taken together, provide confidence that Sage will be able to meet its obligations as they fall due. Further information on the available cash resources and committed bank facilities is provided in note 13 to the financial statements;
- The financial position of Sage, its cash flows, financial risk management policies and available debt facilities, which are described in the financial statements, and Sage's business activities, together with the factors likely to impact its future growth and operating performance, which are set out in the Strategic Report on pages 46 to 53;
- Consideration of downside sensitivities, including a range of conservative cash flow scenarios applying more moderate growth drivers throughout the period. This resulted in current cash balances reducing over time but maintaining ample liquidity; and
- Mitigating actions that would be available to the Directors to alleviate the impact of any extreme scenario should it occur.

## Viability statement

The full viability statement and the associated explanations made in accordance with provision C.2.2 of the Code can be found on page 64.

## Research and development

During the year, we incurred a cost of £220m (2018: £192m) in respect of research and development. Please see page 157 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 the Company, their interests in its long-term Performance Share Plan and details of their options over the ordinary share capital of the Company are given in the Directors' Remuneration Report on page 108. No Director had a material interest in any significant contract, other than a service contract or contract for services, with the Company 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 the Company can be found on pages 67 to 68. Neil Berkett also served as a Director during the year, and stepped down from the Board on 1 April 2019.

As at the date of this report, indemnities (which are qualifying third-party indemnity provisions under the Companies Act 2006) are in place under which the Company has agreed to indemnify the Directors of the Company to the extent permitted by law and by the Company's articles of association, in respect of all liabilities incurred in connection with the performance of their duties as a Director of the Company or its subsidiaries. Copies of these indemnities are available for review at the Company's registered office.

## Employment policy

The Group continues to give full and fair consideration to applications for employment made by disabled persons, having regard to their respective aptitudes and abilities. The policy includes, where practicable, the continued employment of those who may become disabled during their employment and the provision of training and career development and promotion, where appropriate.

The Group has continued its policy of employee involvement by making information available and consulting, where appropriate, with employees on matters of concern to them. Colleagues regularly receive updates on the financial and economic factors affecting the Group. Many colleagues are stakeholders in the Company through participation in share option schemes and a long-term Performance Share Plan. Further details of colleague engagement are given on pages 34, 70, 80 and 83.

## Major shareholdings

At 30 September 2019, the Company had been notified, in accordance with the DTRs, of the following interests in its ordinary share capital:

Name	Ordinary shares	% of capital <sup>1</sup>	Nature of holding
Blackrock, Inc.	64,021,267	5.90	Direct and Indirect
Lindsell Train Limited	54,140,022	5.01	Direct
Fundsmith LLP	53,635,451	5.00	Direct
Aviva Investors	43,314,672	3.98 <sup>2</sup>	Direct and Indirect

Notes:

1. % as at date of notification. The DTRs require notification when the % voting rights (through shares and financial instruments) held by a person reaches, exceeds or falls below an applicable threshold specified in the DTRs.
2. In the period from 30 September 2019 to the date of this report, we received the following further notification:

Name	Ordinary shares	% of capital <sup>1</sup>	Nature of holding
Aviva Investors	45,686,129	4.19	Direct and Indirect

- Information provided to the Company under the DTRs is publicly available via the regulatory information service and on the Company website.

## Share capital

The Company's share capital is as set out on page 188. The Company has a single class of share capital which is divided into ordinary shares of 1 4/7p each.

## Rights and obligations attaching to shares

### Voting

In a general meeting of the Company, 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 the Company (of which there are none):

- On a show of hands, a qualifying person (being an individual who is a member of the Company, a person authorised to act as the representative of a corporation or a person appointed as a proxy of a member) shall have one vote, except that a proxy has one vote for and one vote against a resolution if the proxy has been appointed by more than one member and has been given conflicting voting instructions by those members, or has been given discretion as to how to vote; and
- On a poll, every member who is present in person or by proxy shall have one vote for every share of which he or she is the holder.

No member shall be entitled to vote at any general meeting or class meeting in respect of any shares held by them if any call or other sum then payable by them in respect of that share remains unpaid. Currently, all issued shares are fully paid.

### Deadlines for voting rights

Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the Annual General Meeting to be held on 25 February 2020 will be set out in the Notice of Annual General Meeting.

## Dividends and distributions

Subject to the provisions of the Companies Act 2006, the Company may, by ordinary resolution, declare a dividend to be paid to the members, but no dividend shall exceed the amount recommended by the Board.

The Board may pay interim dividends, and also any fixed rate dividend, whenever the financial position of the Company, 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 the Company is in liquidation, the liquidator may, with the authority of a special resolution of the Company 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 the Company; or
- Vest the whole or any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit.

## Transfer of shares

Subject to the articles of association, any member may transfer all or any of his or her certificated shares by an instrument of transfer in any usual form or in any other form which the Board may approve. The Board may, in its absolute discretion, decline to register any instrument of transfer of a certificated share which is not a fully paid share (although not so as to prevent dealings in shares taking place on an open and proper basis) or on which the Company 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 the 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 the Company 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

The Company obtained shareholder authority at the last Annual General Meeting on 27 February 2019 to buy back up to 108,569,466 ordinary shares. The minimum price which must be paid for each ordinary share is its nominal value and the maximum price set out in the resolution is the higher of an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately before the purchase is made and an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for ordinary shares on the trading venue where the purchase is carried out (in each case exclusive of expenses). Share repurchases are used from time to time as a method to control the Group's leverage and decisions are made against strict price, volume and returns criteria that are agreed by the Board and regularly reviewed.

The Company made no share repurchases during the year under review.

## Amendment of the Company's articles of association

Any amendments to the Company's articles of association may be made in accordance with the provisions of the Companies Act 2006 by way of special resolution.

## Appointment and replacement of Directors

Directors shall be not less than two and no more than 15 in number. Directors may be appointed by the Company by ordinary resolution or by the Board. A Director appointed by the Board holds office only until the next Annual General Meeting and is then eligible for election by the shareholders.

The Board may from time to time appoint one or more Directors to hold employment or executive office for such period (subject to the Companies Act 2006) and on such terms as they may determine and may revoke or terminate any such appointment.

Under the articles of association, at every Annual General Meeting of the Company, every Director shall retire from office (but shall be eligible for election or re-election by the shareholders). The Company 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 the Company will be managed by the Board which may exercise all the powers of the Company, subject to the provisions of the Company's articles of association, the Companies Act 2006 and any ordinary resolution of the Company.

## Shares held in the Employee Benefit Trust

The trustee of The Sage Group plc Employee Benefit Trust has agreed not to vote any shares held in the Employee Benefit Trust at any general meeting. If any offer is made to shareholders to acquire their shares the trustee will not be obliged to accept or reject the offer in respect of any shares which are at that time subject to subsisting awards, but will have regard to the interests of the award holders and will have power to consult them to obtain their views on the offer. Subject to the above the trustee may take action with respect to the offer it thinks fair.

## 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 the Company:

- Under a note purchase agreement dated 20 May 2013 relating to US\$150 million senior notes, Series E, due 20 May 2020, US\$150 million senior notes, Series F, due 20 May 2023 and US\$50 million senior notes, Series G, due 20 May 2025 between Sage Treasury Company Limited and the note holders and guaranteed by the Company, on a change of control of the Company, the Company will not take any action that consummates or finalises a change of control unless at least 15 business days prior to such action it shall have given to each holder of notes written notice containing and constituting an offer to prepay all notes on a date specified in such offer which shall be a business day occurring subsequent to the effective date of the change of

control which is not less than 30 days or more than 60 days after the date of the notice of prepayments. Where a holder of notes accepts the offer to prepay, the prepayment shall be 100% of the principal amount of the notes together with accrued and unpaid interest thereon and shall be made on the proposed prepayment date. No prepayment under a change of control shall include any premium of any kind;

- Under a note purchase agreement dated 26 January 2015 relating to €55 million senior notes, Series H, due 26 January 2022, €30 million senior notes, Series I, due 26 January 2023 and US\$200 million senior notes, Series J, due 26 January 2025 between Sage Treasury Company Limited and the note holders and guaranteed by the Company, on a change of control of the Company, the Company will not take any action that consummates or finalises a change of control unless at least 15 business days prior to such action it shall have given to each holder of notes written notice containing and constituting an offer to prepay all notes on the date specified in such offer which shall be a business day occurring subsequent to the effective date of the change of control which is not less than 30 days or more than 60 days after the date of notice of prepayments. Where a holder of notes accepts the offer to prepay, the prepayment shall be 100% of the principal amount of the notes together with accrued and unpaid interest thereon and any applicable net loss and, in each case, including the deduction of any applicable net gain and shall still be made on the proposed payment date. No prepayment under a change of control shall include any premium of any kind;
- Under the terms of the purchase agreements above, “control” is defined as per section 450 of the Corporation Tax Act 2010, and a “change of control” occurs if any person or group of persons acting in concert gains control of the Company.
- Under a dual tranche US\$719 million and £135 million five-year multi-currency revolving credit facility agreement dated 7 February 2018 between, amongst others, Sage Treasury Company Limited and the facility agent and guaranteed by the Company, on a change of control, if any individual lender so requires and after having consulted with Sage Treasury Company Limited in good faith for not less than 30 days following the change of control, the facility agent shall, by not less than 10 business days’ notice to Sage Treasury Company Limited, cancel the commitment of that lender and declare the participation of that lender in all outstanding loans, together with accrued interest and all other amounts accrued under the finance documents, immediately due and payable, whereupon the commitment of that lender will be cancelled and all such outstanding amounts will become immediately due and payable;
- Under a £200 million two-year term loan credit facility agreement dated 10 September 2019 between, amongst others, Sage Treasury Company Limited and Lloyds Bank plc (as facility agent) and guaranteed by the Company, on a change of control, if any individual lender so requires and after having consulted with Sage Treasury Company Limited in good faith for not less than 30 days following the change of control, the facility agent shall, by not less than 10 business days’ notice to Sage Treasury Company Limited, cancel the commitment of that lender and declare the participation of that lender in all outstanding loans,

together with accrued interest and all other amounts accrued under the finance documents, immediately due and payable, whereupon the commitment of that lender will be cancelled and all such outstanding amounts will become immediately due and payable;

- Under the terms of the bank debt facilities above, “control” is defined as per section 840 of the Income and Corporation Taxes Act 1998;
- The platform reseller agreement dated 31 January 2015 relating to the Company’s strategic arrangements with Salesforce.com EMEA Limited contains a change of control right enabling Salesforce to terminate the agreement in the event there is a change of control in favour of a direct competitor of Salesforce.com EMEA Limited. The agreement contains post termination requirements upon Salesforce to support a transition for up to a specified period; and
- 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.

## Financial risk management

The Group’s exposure to and management of capital, liquidity, credit, interest rate and foreign currency risk are shown in note 13.6 to the financial statements. Our approach to risk management generally and our principal risks can be found in note 13.6 on pages 58 to 65.

## Disclaimer

The purpose of this Annual Report and Accounts is to provide information to the members of the Company. The Annual Report and Accounts has been prepared for, and only for, the members of the Company, as a body, and no other persons. The Company, 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 the Company 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 Group and parent Company financial statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group 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 IFRS as adopted by the EU and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent Company financial statements respectively; and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group's financial statements, Article 4 of the International Accounting Standards Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Directors' statement

The Directors as at the date of this report, whose names and functions are listed in the Board of Directors on pages 67 to 68, confirm that:

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

Each Director as at the date of this report further confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- The Director has taken all the steps that he or she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the 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 and performance, business model and strategy.

By Order of the Board



**Vicki Bradin**  
Company Secretary

19 November 2019

The Sage Group plc.  
Company number 02231246

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## 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 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

## Separate opinion in relation to IFRS as issued by the International Accounting Standards Board

As explained in note 1 to the consolidated financial statements, the Group, in addition to applying IFRS as adopted by the European Union, has also applied IFRS as issued by the International Accounting Standards Board (IASB). In our opinion, the consolidated financial statements also comply with IFRS as issued by the IASB.

We have audited the financial statements of The Sage Group plc which comprise:

Group	Parent Company
Consolidated balance sheet as at 30 September 2019	Parent Company balance sheet as at 30 September 2019
Consolidated income statement for the year then ended	Parent Company statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Related notes 1 to 7 to the financial statements including a summary of significant accounting policies
Consolidated statement of changes in equity for the year then ended	
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 19 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on pages 58 to 63 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 58 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 124 in the Directors' Report about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements

- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on pages 64 to 65 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

## Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> <li>– Revenue recognition</li> <li>– First time application of IFRS 15</li> <li>– Recoverability of goodwill and other intangible assets allocated to the Intacct cash generating unit ('CGU')</li> </ul>
Audit scope	<ul style="list-style-type: none"> <li>– We performed an audit of the complete financial information of 6 components and audit procedures on specific balances for a further 5 components.</li> <li>– The components where we performed full or specific audit procedures accounted for 95% of adjusted Profit before tax* and 89% of Revenue.</li> </ul>
Materiality	<ul style="list-style-type: none"> <li>– Overall group materiality of £18.8m which represents 5% of adjusted Profit before tax*.</li> </ul>

\* Profit before tax and non-recurring items as defined in the 'Our application of materiality' section of this report.

## Key audit matters

Key audit matters are those matters that, in our professional 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 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.

### Key audit matter

#### Revenue recognition

The Group has reported revenues of £1,936m (FY18: £1,846m) with deferred revenue at 30 September 2019 of £645m (FY18: £626m).

We assessed revenue recognition as a fraud risk as revenue forms the basis for certain of the Group's key performance indicators, both in external communications and for management incentives.

We identified two specific risks of fraud and error in respect of inappropriate revenue recognition given the nature of the Group's products and services as follows:

- Inappropriate timing of revenue recognition, including cut-off and deferral; and;
- Inappropriate measurement of revenue attributed to products and services provided when sold together as a bundle.

Our judgment is that the level of risk in this area remains consistent with the prior year.

We have not made significant changes to our audit response compared to the prior year other than the extension of the use of data analysis at certain component locations.

Refer to the Audit and Risk Committee Report (page 89). Revenue recognition is disclosed in notes 2.1 and 3.1 of the consolidated financial statements and relevant accounting policies in note 3.1.

### Our audit response

We performed full or specific scope audit procedures over this risk area in 8 components with significant revenue streams, which covered 89% of the Group's revenue.

## Revenue recognition continued

Area of audit focus	Audit Response
Walkthroughs and controls	<ul style="list-style-type: none"> <li>– We performed walkthroughs of each significant class of revenue transactions and assessed the design effectiveness of key controls.</li> <li>– For 2 components, we tested the operating effectiveness of certain internal controls as this was identified as the most efficient audit approach.</li> </ul>
Timing of revenue recognition, including cut-off and deferral	<ul style="list-style-type: none"> <li>– We evaluated management's determination of whether the nature of the Group's products and services results in the provision of a good or service at a point in time or over a contractual term. This included the assessment of new or one-off transactions.</li> <li>– For products and services where revenue is earned over a contractual term, we: <ul style="list-style-type: none"> <li>– tested a sample of transactions to ensure the amount of revenue recognised in the year and the amount deferred at the balance sheet date were accurately calculated based on progress of the contract, and/or</li> <li>– at certain components, with support from EY IT team members, we utilised bespoke data analysis to facilitate independent reperformance of certain management calculations, including deferred revenue.</li> </ul> </li> <li>– We performed cut-off testing around the year-end.</li> <li>– Where practicable, at certain components we extended the use of data analysis in the current year. Our procedures involved testing full populations of transactions, including correlation analysis between invoiced revenue, receivables and cash, as well as analysis of credit notes.</li> <li>– We performed tests of details and analytical procedures to validate the recognition of revenue throughout the year.</li> <li>– We performed a search for revenue recorded through journal entries outside of normal business processes. We investigated any unusual items to establish whether a service had been provided or a sale had occurred in the financial year to support the revenue recognised.</li> </ul>
Measurement of revenue attributed to products and services provided	<ul style="list-style-type: none"> <li>– For bundled products, we tested on a sample basis, that (1) the calculation of the fair value attributed to each element of the bundle was reasonable, and (2) that the allocation of any discount was consistent with the relative fair value of each element of the bundle.</li> <li>– We performed other tests of details and analytical procedures to validate the measurement of revenue throughout the year.</li> </ul>
Management override	<ul style="list-style-type: none"> <li>– Audit teams at full and specific scope components with significant revenue streams performed certain specific procedures to address the risk of management override, including testing to identify unusual, new or significant transactions or contractual terms.</li> </ul>
Disclosures	<ul style="list-style-type: none"> <li>– We also considered the adequacy of the Group's disclosures relating to revenue recognition in notes 1 (critical accounting estimates and judgments) and note 3.1 (Revenue).</li> </ul>

## Key observations communicated to the Audit and Risk Committee

Based on procedures performed, we did not identify any evidence of material misstatement in the revenue recognised in the year.

## Key audit matter

### First time application of IFRS 15

The Group adopted IFRS 15 *Revenue from Contracts with Customers* ('IFRS 15') from 1 October 2018 and applied the modified retrospective method to recognise the effect of the transition in equity at this date. The transition adjustment as at 1 October 2018 resulted in an increase to the Group's net assets of £24 million, as described in note 17 to the consolidated financial statements.

The application of IFRS 15 is complex and involves management judgment and estimation. For Sage this complexity is increased as a result of diversity in both the products and services offered by the Group and the sales channels.

The principal risk is that the transition adjustment at 1 October 2018, and subsequently revenue recognised in the income statement in the year ended 30 September 2019, is not materially correct. This may result from an inappropriate or incomplete analysis of the effects of IFRS 15 on Sage's revenue recognition. The Group's systems are not yet fully configured to record the adjustments for IFRS 15 and therefore a number of manual calculations and adjustments are required.

Disclosure is required of the effect of the first time application of IFRS 15 and of FY19 financial information to reflect what would have been reported under IAS 18 *Revenue*.

We consider that the risk profile has increased in the current year as IFRS 15 is the basis for recognising the Group's revenue in FY19, as compared to disclosure on the expected impact of the initial application of IFRS 15 in the prior year.

Refer to the Audit and Risk Committee Report (page 92). The first time application of IFRS 15 is disclosed in note 17 to the consolidated financial statements and the relevant accounting policies in note 3.1. The disclosure of what would have been reported in FY19 under IAS 18 is in note 17.

## Our audit response

As described in our 2018 auditor's report, procedures were performed as part of the prior year audit to gain assurance over the disclosures on the expected impact of the initial adoption of IFRS 15 as at 1 October 2018. In the prior year audit, procedures were performed by the Primary Team as well as testing at a component level by all full and specific scope components with significant revenue streams (8 components). There have been no significant changes to the transition adjustments since these procedures were performed.

Procedures over the application of the Group's IFRS 15 accounting policies in the year ended 30 September 2019 were performed in conjunction with the testing of revenue recognition at all full and specific scope audit components with significant revenue streams (8 components which covered 89% of the Group's revenue). Our audit approach for the adjustments to reflect the effects of IFRS 15 are substantive in nature across all components.

Area of audit focus	Audit Response
Transition adjustments to reflect initial adoption of IFRS 15 as at 1 October 2018	<p>Our procedures in respect of the transition adjustments for the initial adoption of IFRS 15 were principally performed as part of the prior year audit (and reported as a key audit matter in the 2018 auditor's report).</p> <p>At a Group level, these procedures included:</p> <ul style="list-style-type: none"> <li>– Appraising the revisions to the Group's revenue recognition accounting policy under IFRS 15, including both its technical appropriateness and its completeness in reflecting the diversity of the Group's products and services.</li> <li>– Evaluating the impact analysis and the accounting judgments made based on the characteristics of the Group's products and their method of delivery to customers.</li> <li>– Assessing the appropriateness of the methods used to determine the estimated impact of the initial application of IFRS 15.</li> </ul> <p>As part of the prior year audit, we instructed component audit teams in all full and specific scope locations with significant revenue streams to perform:</p> <ul style="list-style-type: none"> <li>– audit procedures on a sample basis to test the accuracy and completeness of local management's analysis of product types, contract terms and sales channel mechanisms; and</li> <li>– substantive testing to gain assurance on the quantitative impact of the transition to IFRS 15 at each location.</li> </ul> <p>As part of the FY19 audit, we assessed the results of our audit procedures on revenue recognised in the year ended 30 September 2019 for indications that the assessment and calculation of the transition adjustment was inappropriate.</p>

## First time application of IFRS 15 continued

Area of audit focus	Audit Response
Application of the Group's IFRS 15 accounting policies in the year ended 30 September 2019 (FY19)	<p>Component audit teams in all full and specific scope locations with significant revenue streams (8 components) performed:</p> <ul style="list-style-type: none"> <li>– Analysis of products sold and ways of selling these in the year to assess whether there are changes that would require further assessment with respect to the requirements of IFRS 15 and the Group's updated accounting policies for revenue recognition; and</li> <li>– Substantive testing to gain assurance on the adjustments posted to reflect the application of the Group's updated IFRS 15 accounting policy on FY19 revenue including: <ul style="list-style-type: none"> <li>– the measurement of adjustments to revenue recognised in the year in respect of the recognition and deferral of revenue for on-premise subscription products;</li> <li>– the assessment of whether business partners represent customers of the Group in the sale of product and services and the related classification of amounts payable to business partners;</li> <li>– the recognition or deferral of non-refundable contract sign-up fees; and</li> <li>– the capitalisation and amortisation of costs incurred in order to acquire customer contracts.</li> </ul> </li> </ul>
Disclosures in the first year of application as required by IFRS 15 Appendix C.	<ul style="list-style-type: none"> <li>– We assessed whether these disclosures, including the Group's accounting policy for revenue under IFRS 15, were complete and consistent with the results of our testing of the effects of adoption, both qualitatively and quantitatively.</li> </ul>

## Key observations communicated to the Audit and Risk Committee

Based on the procedures performed, we concluded that management's adoption of IFRS 15, including the specific considerations around the recognition and presentation of revenue under this standard is appropriate. We did not identify any significant new revenue matters requiring consideration beyond those identified at adoption.

## Key audit matter

### Recoverability of goodwill and other intangible assets allocated to the Intacct CGU

Goodwill of £2,098 million is recognised in the Group's consolidated balance sheet at 30 September 2019. Included in this balance is the North America Intacct Cash Generating Unit ('CGU') goodwill of £479 million, as at 30 June 2019, the date of the Group's annual goodwill impairment test. In addition, other intangible assets of £137 million are recognised within the Intacct CGU at 30 June 2019.

We focused on this CGU as the director's assessment of its 'value in use' involves estimation about the future performance of the business, particularly as Intacct has been recently acquired, is currently loss making and is in a period of growth. Furthermore, estimation is required in determining the discount rate to be applied to the forecasts of future cash flows.

In addition, for the Intacct CGU:

- forecasts for a nine-year period are applied to reflect the ongoing investment in new customer acquisition; and
- the recoverable value is sensitive to reasonably possible changes in certain key assumptions.

There is no change in the risk profile in the current year.

Our audit response to this risk is consistent with the prior year.

Refer to the Audit and Risk Committee Report (page 92). Management's assessment of the estimation required is set out in note 1 to the consolidated financial statements, with results of management's assessment of the recoverability of goodwill in note 6.1.

## Recoverability of goodwill and other intangible assets allocated to the Intacct CGU

### Our audit response

The recoverability of the goodwill balance carried by the North America Intacct CGU of the Group was subject to full scope audit procedures performed by the Primary audit team with support from the Intacct component audit team on certain procedures.

Area of audit focus	Audit Response
Valuation model	<ul style="list-style-type: none"> <li>– We tested the methodology applied in the value in use calculation as compared to the requirements of IAS 36, Impairment of Assets, including the appropriateness of the forecast period, and the mathematical accuracy of management's model.</li> <li>– We have evaluated management's forecasting for Intacct through comparison of actual performance to budget since acquisition.</li> </ul>
Key assumptions in the valuation	<ul style="list-style-type: none"> <li>– We evaluated the key underlying assumptions used in the valuation including growth rates, margin and the discount rate applied.</li> <li>– We assessed the appropriateness of the key assumptions used in the FY20 forecast including new customer acquisition, upsell/add-ons and level of churn by assessing these against the results achieved in FY19 and the prior track record of growth.</li> <li>– For forecasts for FY21-FY23, we considered the latest market trends to evaluate whether there is any evidence that the forecast growth rates assumed for this period should be lower than the current growth rate.</li> <li>– We assessed whether there are any contra indicators, such as new market entrants or new technology, which may indicate that the forecast revenue growth for FY24-FY28 will not be realised.</li> <li>– With assistance from EY valuation specialists, we performed audit procedures on the reasonableness of the discount rate and long-term growth rate used by management, including comparison to economic and industry forecasts where appropriate.</li> <li>– We evaluated if and why the forecasts differed from the original acquisition plan used in the purchase price allocation at the date of acquisition and evaluated management's track record of delivering against budget since acquisition.</li> <li>– We performed downside sensitivity analyses on key assumptions in the model, including combinations thereof, to understand the parameters that, should they arise, cause an impairment of goodwill.</li> </ul>
Disclosures	<ul style="list-style-type: none"> <li>– We considered the appropriateness of the related disclosures provided in note 6.1 in the Group financial statements, in particular the disclosure of the forecast period used in the value in use calculation and sensitivity disclosures.</li> </ul>

### Key observations communicated to the Audit and Risk Committee

Whilst the discount rate used by management was below the lower end of EY's determined range for Intacct, applying a discount rate at the top-end of our range would not erode all the headroom in the value in use calculation. Accordingly, we agree with management's conclusion that no impairment of Intacct goodwill is required in the current year.

We agree with management that additional sensitivity disclosures are required in note 6.1 of the Group financial statements on the basis that a reasonably possible change in certain key assumptions could lead to a different conclusion in respect of the recoverability of goodwill. The variables to which the goodwill is most sensitive are the revenue growth rate assumptions and the discount rate applied.

The disclosures of sensitivities which would cause the headroom to be reduced to £nil reflect management's discount rate. We reported to the Audit and Risk Committee our sensitivities which considered the mid-point of the EY range as a starting point. We do not consider the differences between these sensitivities to be material.

The current year key audit matters are consistent with prior year except for:

- the risk with respect to IFRS 15 has changed from disclosure of the impact of IFRS 15 adoption in FY18 to implementation of the standard in FY19, and
- the allocation of Intacct goodwill is no longer relevant, this being finalised in the prior year.

### An overview of the scope of our audit

#### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent Internal Audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 20 components of the Group, we identified 11 components which represent the principal business units within the Group. These include entities within the United Kingdom and Ireland, France, North America, Spain, Germany, Brazil and South Africa.

Of the 11 components identified, we performed an audit of the complete financial information of 6 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 5 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. For the remaining 9 components, audit procedures were undertaken as set out below to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.

Reporting components	2019				2018		
	Number	% Group adjusted Profit before tax*	% Group Revenue	Note	Number	% Group adjusted Profit before tax	% Group Revenue
Full scope	6	77%	61%	1,2	6	81%	60%
Specific scope	5	18%	28%	2,3	5	19%	29%
<b>Full and specific scope coverage</b>	<b>11</b>	<b>95%</b>	<b>89%</b>		<b>11</b>	<b>100%</b>	<b>89%</b>
Remaining components	9	5%	11%	4	10	0%	11%
<b>Total Reporting components</b>	<b>20</b>	<b>100%</b>	<b>100%</b>		<b>21</b>	<b>100%</b>	<b>100%</b>

#### Notes

- 3 of the 6 full scope components relate to the Parent Company and other corporate entities whose activities include the Group's treasury management and consolidation adjustments. The other 3 full scope components are UKI, France, and North America Sage Business Solutions Division.
- The Group audit risk in relation to revenue recognition was subject to audit procedures at each of the full and specific scope locations with significant revenue streams (being 3 full scope components and 5 specific scope components). The Group audit risk in relation to the recoverability of goodwill and other intangible assets allocated to the Intacct CGU was subject to audit procedures by the Primary audit team on the entire balance, with support from the Intacct component audit team on certain procedures.
- Specific scope components are Brazil, Germany, North America Intacct, Spain, and South Africa. The audit scope of these specific scope components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts selected for testing by the Primary audit team.
- In the current year, the remaining 9 components contributed a net 5% of adjusted Profit before tax\* and the individual contribution of these components ranged from (1)% to 3% of the Group's adjusted Profit before tax\*. For 5 components, being Asia, Australia, Middle East, Sage People and Switzerland, the Primary audit team performed review scope procedures, including analytical review and inquiries of component management (FY18: 3 components being Asia, Australia and Middle East). In addition, the Primary team performed specified procedures on pension related balances in Switzerland. For the remaining 4 components, the Primary audit team performed other procedures, including overall analytical review procedures and testing of consolidation journals, intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

\* Profit before tax and non-recurring items as defined in the 'Our application of materiality' section of this report.

#### Changes from the prior year

The change in the total number of reporting components from 21 to 20 results from the disposal of the North America payroll business.

#### Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the Primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the 6 full scope components, the Primary audit team performed audit procedures directly on 3, with the remaining 3 being performed by component audit teams. For the 3 full scope components and the 5 specific scope components where the work was performed by component auditors, we were responsible for the scoping and direction of the audit process and determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole. The Primary audit team also performed review procedures directly on a further 5 components.

The Group audit team followed a programme of planned visits that was designed to ensure that the Senior Statutory Auditor, or another Group audit partner, would visit all full scope and select specific scope components. During the current year's audit cycle, visits were undertaken at least once by the primary audit team to the component teams in UKI, France, North America Sage Business Solutions Division, North America Intacct, Spain, and South Africa. These visits involved discussing with the component team their audit approach and any issues arising from their work, reviewing key audit working papers on the Group's audit risk areas, and meeting with local management to discuss the component's business performance and matters relating to the local finance organisation including the internal financial control environment. The Primary team interacted regularly with all component teams during various stages of the audit, attended closing meetings and reviewed those working papers considered necessary to conclude we had obtained sufficient appropriate audit evidence. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

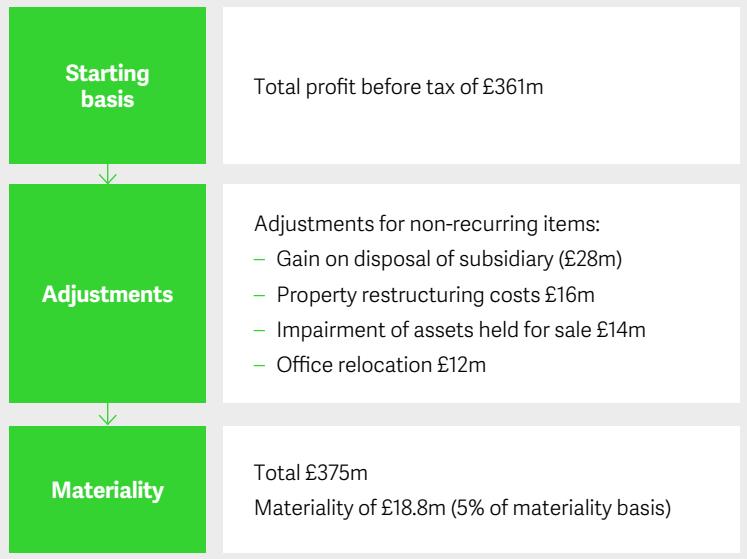
## Our application of materiality

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 £18.8 million (2018: £20.4 million), which is 5% (2018: 5%) of Profit before tax adjusted for non-recurring items reported by the Group. We believe that Profit before tax adjusted for non-recurring items provides us with the most relevant performance measure to the stakeholders of the entity. Non-recurring items are set out in note 3.6 of the Group's financial statements and are summarised in the graphic to the right.



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.

We determined materiality for the Parent Company to be £27.9 million (2018: £28.7 million), which is 1% (2018: 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.

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 £0.9m to £6.3m (2018: £1.0m to £5.7m).

### 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 £0.9m (2018: £1.0m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

### Other information

The other information comprises the information included in the Annual Report set out on pages 1 to 128, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 128**  
– the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit and Risk Committee reporting set out on page 89**  
– the section describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 70** – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- 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

### Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 128, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- The Primary team obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those that relate to the reporting framework (IFRS, FRS 102, the Companies Act 2006 and UK Corporate Governance Code), the relevant tax compliance regulations in the jurisdictions in which the Group operates and the EU General Data Protection Regulation (GDPR).
- We understood how the Group is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the company secretary. We corroborated our enquiries through our review of board minutes and papers provided to the Audit and Risk Committee and attendance at all meetings of the Audit and Risk Committee, as well as consideration of the results of our audit procedures across the Group.
- Based on our understanding we designed our audit procedures to identify non-compliance with laws and regulations, including instructions to full and specific scope component audit teams. At a Group level our procedures involved: enquiries of Group management and those charged with governance, legal counsel and internal audit; journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business. At a component level, our full and specific scope component audit team's procedures included enquiries of component management; journal entry testing; and focused testing, including as referred to in the key audit matters section above.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by: meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud; and assessing whistleblowing incidences for those with a potential financial reporting impact. We also considered performance targets and their propensity to influence on efforts made by management to manage revenue and earnings. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programs and controls.

Where the risk was considered to be higher, including areas impacting Group key performance indicators or management remuneration, we performed audit procedures to address each identified fraud risk or other risk of material misstatement. These procedures included those on revenue recognition detailed above, the assessment of items identified by management as non-recurring and testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

A further description of our responsibilities for the audit of the financial statements is located on the

Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

## Other matters we are required to address

- We were appointed by the Company at the AGM on 27 February 2019 to audit the financial statements for the year ended 30 September 2019 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is five years, covering the years ended 30 September 2015, 30 September 2016, 30 September 2017, 30 September 2018 and 30 September 2019.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit and Risk Committee.

## Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Alison Duncan (Senior statutory auditor)

for and on behalf of Ernst & Young LLP,  
Statutory Auditor  
London

19 November 2019

Notes:

1. The maintenance and integrity of The Sage Group plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# CONSOLIDATED INCOME STATEMENT

For the year ended 30 September 2019

	Note	Underlying 2019 £m	Adjustments (note 3.6) 2019 £m	Statutory 2019 £m	Underlying as reported* 2018 £m	Adjustments (note 3.6) 2018 £m	Statutory 2018 £m
<b>Revenue</b>	21, 3.1	<b>1,936</b>	–	<b>1,936</b>	1,857	(11)	1,846
Cost of sales		(138)	–	(138)	(130)	–	(130)
<b>Gross profit</b>		<b>1,798</b>	–	<b>1,798</b>	1,727	(11)	1,716
Selling and administrative expenses		(1,350)	(66)	(1,416)	(1,223)	(66)	(1,289)
<b>Operating profit</b>	2.2, 3.2, 3.3, 3.6	<b>448</b>	(66)	<b>382</b>	504	(77)	427
Finance income	3.5	6	2	8	4	1	5
Finance costs	3.5	(29)	–	(29)	(33)	(1)	(34)
<b>Profit before income tax</b>		<b>425</b>	(64)	<b>361</b>	475	(77)	398
Income tax expense	4	(116)	21	(95)	(123)	20	(103)
<b>Profit for the year</b>		<b>309</b>	(43)	<b>266</b>	352	(57)	295
<b>Profit attributable to:</b>							
Owners of the parent		<b>309</b>	(43)	<b>266</b>	352	(57)	295
<b>Earnings per share attributable to the owners of the parent (pence)</b>							
– Basic	5	<b>28.40p</b>		<b>24.49p</b>	32.51p		27.21p
– Diluted	5	<b>28.17p</b>		<b>24.29p</b>	32.35p		27.07p

All operations in the year relate to continuing operations.

Note:

\* Underlying as reported is at 2018 reported exchange rates.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 30 September 2019

	Note	2019 £m	2018 £m
<b>Profit for the year</b>		<b>266</b>	295
<b>Other comprehensive (expense)/income:</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Actuarial loss on post-employment benefit obligations	10, 14.4	(1)	–
Deferred tax charge on actuarial loss on post-employment benefit obligations	4, 14.4	–	–
		<b>(1)</b>	–
<b>Items that may be reclassified to profit or loss:</b>			
Gain on available-for-sale fixed asset investment*	13.1	–	1
Exchange differences on translating foreign operations	14.3	42	15
Exchange differences recycled through income statement on sale of foreign operations	14.3	(4)	–
		<b>38</b>	16
<b>Other comprehensive income for the year, net of tax</b>		<b>37</b>	16
<b>Total comprehensive income for the year</b>		<b>303</b>	311
<b>Total comprehensive income for the year attributable to:</b>			
Owners of the parent		<b>303</b>	311

\* See note 1 for detail on transition to IFRS 9 and the disposal of the available-for-sale fixed asset investment during the year ended 30 September 2019.

# CONSOLIDATED BALANCESHEET

As at 30 September 2019

	Note	2019 £m	2018 £m
<b>Non-current assets</b>			
Goodwill	6.1	<b>2,098</b>	2,008
Other intangible assets	6.2	<b>228</b>	260
Property, plant and equipment	7	<b>117</b>	129
Fixed asset investment	13.1	—	17
Other financial assets		<b>4</b>	1
Trade and other receivables	8.1	<b>73</b>	2
Deferred income tax assets	11	<b>31</b>	51
		<b>2,551</b>	2,468
<b>Current assets</b>			
Trade and other receivables	8.1	<b>364</b>	460
Current income tax asset		<b>3</b>	4
Cash and cash equivalents (excluding bank overdrafts)	12.3	<b>371</b>	272
Assets classified as held for sale	15.3	<b>63</b>	113
		<b>801</b>	849
<b>Total assets</b>		<b>3,352</b>	3,317
<b>Current liabilities</b>			
Trade and other payables	8.2	<b>(291)</b>	(249)
Current income tax liabilities		<b>(32)</b>	(39)
Borrowings	12.4	<b>(122)</b>	(8)
Provisions	9	<b>(11)</b>	(26)
Deferred income	8.3	<b>(637)</b>	(620)
Liabilities classified as held for sale	15.3	<b>(33)</b>	(63)
		<b>(1,126)</b>	(1,005)
<b>Non-current liabilities</b>			
Borrowings	12.4	<b>(643)</b>	(913)
Post-employment benefits	10	<b>(25)</b>	(22)
Deferred income tax liabilities	11	<b>(24)</b>	(25)
Provisions	9	<b>(15)</b>	(11)
Trade and other payables		<b>(7)</b>	(8)
Deferred income	8.3	<b>(8)</b>	(6)
		<b>(722)</b>	(985)
<b>Total liabilities</b>		<b>(1,848)</b>	(1,990)
<b>Net assets</b>		<b>1,504</b>	1,327
<b>Equity attributable to owners of the parent</b>			
Ordinary shares	14.1	<b>12</b>	12
Share premium		<b>548</b>	548
Other reserves	14.3	<b>184</b>	146
Retained earnings		<b>760</b>	621
<b>Total equity</b>		<b>1,504</b>	1,327

The consolidated financial statements on pages 140 to 205 were approved by the Board of Directors on 19 November 2019 and are signed on their behalf by:

**Jonathan Howell**  
Chief Financial Officer

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended 30 September 2019

	Note	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Attributable to owners of the parent Total equity £m
<b>At 1 October 2018 as originally presented</b>		<b>12</b>	<b>548</b>	<b>146</b>	<b>621</b>	<b>1,327</b>
Adjustment on initial application of IFRS 15 net of tax	17	–	–	–	24	24
Adjustment on initial application of IFRS 9 net of tax	1	–	–	–	(5)	(5)
<b>At 1 October as adjusted</b>		<b>12</b>	<b>548</b>	<b>146</b>	<b>640</b>	<b>1,346</b>
<b>Profit for the year</b>		–	–	–	266	266
<b>Other comprehensive income/(expense):</b>						
Exchange differences on translating foreign operations	14.3	–	–	42	–	42
Exchange differences recycled through income statement on sale of foreign operations	14.3	–	–	(4)	–	(4)
Actuarial loss on post-employment benefit obligations	14.4	–	–	–	(1)	(1)
<b>Total comprehensive income for the year ended 30 September 2019</b>		–	–	38	(1)	37
<b>Transactions with owners:</b>						
<b>Employee share option scheme:</b>						
Value of employee services including deferred tax	14.4	–	–	–	33	33
Proceeds from issuance of treasury shares	14.4	–	–	–	3	3
Dividends paid to owners of the parent	14.4, 14.5	–	–	–	(181)	(181)
<b>Total transactions with owners for the year ended 30 September 2019</b>		–	–	–	(145)	(145)
<b>At 30 September 2019</b>		<b>12</b>	<b>548</b>	<b>184</b>	<b>760</b>	<b>1,504</b>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended 30 September 2018

	Note	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Attributable to owners of the parent Total equity £m
<b>At 1 October 2017</b>		<b>12</b>	<b>548</b>	<b>131</b>	<b>477</b>	<b>1,168</b>
<b>Profit for the year</b>		–	–	–	295	295
<b>Other comprehensive income/(expense):</b>						
Exchange differences on translating foreign operations	14.3	–	–	15	–	15
Gain on available-for-sale fixed asset investment	13.1, 14.4	–	–	–	1	1
<b>Total comprehensive income for the year ended 30 September 2018</b>		–	–	15	296	311
<b>Transactions with owners:</b>						
<b>Employee share option scheme:</b>						
Value of employee services, net of deferred tax	14.4	–	–	–	16	16
Proceeds from issuance of treasury shares	14.4	–	–	–	3	3
Dividends paid to owners of the parent	14.4, 14.5	–	–	–	(171)	(171)
<b>Total transactions with owners for the year ended 30 September 2018</b>		–	–	–	(152)	(152)
<b>At 30 September 2018</b>		<b>12</b>	<b>548</b>	<b>146</b>	<b>621</b>	<b>1,327</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 September 2019

	Note	2019 £m	2018 £m
<b>Cash flows from operating activities</b>			
Cash generated from continuing operations	12.1	<b>586</b>	487
Interest paid		(26)	(30)
Income tax paid		(88)	(64)
<b>Net cash generated from operating activities</b>		<b>472</b>	393
<b>Cash flows from investing activities</b>			
Acquisitions of subsidiaries, net of cash acquired	15.1	(41)	(8)
Investment in non-current asset		(3)	–
Disposal of subsidiaries, net of cash disposed	15.3	<b>70</b>	–
Proceeds on settlement of equity investment		17	–
Purchases of intangible assets	6.2	(15)	(36)
Purchases of property, plant and equipment	7	(27)	(20)
Proceeds from sale of property, plant and equipment		–	2
Interest received	3.5	<b>6</b>	4
<b>Net cash generated from/(used in) investing activities</b>		<b>7</b>	(58)
<b>Cash flows from financing activities</b>			
Proceeds from issuance of treasury shares		<b>3</b>	3
Proceeds from borrowings		<b>414</b>	330
Repayments of borrowings		(594)	(389)
Movements in cash held on behalf of customers		(78)	2
Borrowing costs		(1)	(3)
Dividends paid to owners of the parent	14.5	(181)	(171)
<b>Net cash used in financing activities</b>		<b>(437)</b>	(228)
<b>Net increase in cash, cash equivalents and bank overdrafts (before exchange rate movement)</b>		<b>42</b>	107
Effects of exchange rate movement	12.2	<b>8</b>	2
<b>Net increase in cash, cash equivalents and bank overdrafts</b>		<b>50</b>	109
Cash, cash equivalents and bank overdrafts at 1 October	12.2	<b>322</b>	213
<b>Cash, cash equivalents and bank overdrafts at 30 September</b>	12.2	<b>372</b>	322

## BASIS OF PREPARATION AND CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

### 1 Basis of preparation and critical accounting estimates and judgements

Accounting policies applicable across the financial statements are shown below. Accounting policies that are specific to a component of the financial statements have been incorporated into the relevant note.

#### Basis of preparation

The consolidated financial statements of The Sage Group plc have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and IFRS as issued by the International Accounting Standards Board ("IASB"). IFRS as adopted by the EU differ in certain respects from IFRS as issued by the IASB. The differences have no impact on the Group's consolidated financial statements for the years presented. The consolidated financial statements have been prepared under the historical cost convention, except where adopted IFRS require an alternative treatment. The principal variations from the historical cost convention relate to derivative financial instruments which are measured at fair value through profit or loss. The financial statements of the Group comprise the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared at the end of the reporting period. The accounting policies have been consistently applied across the Group. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity, which is usually from date of acquisition.

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

#### New or amended accounting standards.

There are no IFRS, IAS amendments or IFRIC interpretations effective for the first time this financial year that have had a material impact on the Group with the exception of the adoption of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers", the impact of which has been detailed below.

#### IFRS 9

The Group has adopted IFRS 9 "Financial Instruments" from 1 October 2018 and applied the modified retrospective approach. Comparatives for 2018 have not been restated and the cumulative impact of adoption has been recognised as a decrease to retained earnings with a corresponding decrease in net assets as at 1 October 2018 as follows:

	1 October 2018 £m
Retained earnings	
Provision for losses against trade debtors	(6)
Tax impact	1
<b>Total impact at 1 October 2018</b>	<b>(5)</b>
Non-current assets	
Deferred income tax asset	1
Current assets	–
Trade and other receivables	(6)
<b>Total impact at 1 October 2018</b>	<b>(5)</b>

The adjustment above arises from adoption of IFRS 9's simplified approach to providing for lifetime expected credit losses at the date of initial recognition of trade receivables. Previously under IAS 39 an impairment allowance for credit losses was not recognised until there was an indicator of impairment. Under IFRS 9, the Group uses a matrix approach to determine the credit loss provisions, with default rates assessed for each country in which the Group operates.

The Group continues to apply the hedge accounting requirements of IAS 39 instead of those in IFRS 9.

IFRS 9 made changes to the classification and measurement requirements for financial assets compared to IAS 39. These did not have any significant impact on the balances reported by the Group. The changes applicable to the Group are:

- Trade receivables and other financial assets were classified as loans and receivables under IAS 39. Under IFRS 9, they are classified and measured as financial assets held at amortised cost because they are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. This did not result in any change in the carrying amount or presentation of these balances.
- On transition to IFRS 9, the Group elected to classify its unquoted equity investment, which is presented in the balance sheet as a fixed asset investment, as at fair value through other comprehensive income. The investment has since been derecognised on its redemption in the year ended 30 September 2019. The investment had previously been classified as an available-for-sale financial asset under IAS 39. The investment is carried at its fair value under both IAS 39 and IFRS 9 and as a result of the election made under IFRS 9, changes in the fair value of the investment prior to its derecognition continued to be recognised in the statement of other comprehensive income when they arose. However, in a change to the previous treatment, under IFRS 9 the cumulative gain was not reclassified to profit for the period when the investment was derecognised.

## 1 Basis of preparation and critical accounting estimates and judgements continued

The following table summarises these reclassifications:

As at 1 October 2018	Total balance under IAS 39 £m	IFRS 9 measurement category	
		Amortised cost £m	Fair value through OCI £m
<b>IAS 39 measurement category</b>			
<i>Loans and receivables</i>			
Trade receivables*	370	364	–
Other financial assets	3	3	–
<i>Available for sale</i>			
Fixed asset investment	17	–	17
	<b>390</b>	<b>367</b>	<b>17</b>

\* The change in carrying amount results from the increase in the provision for losses as explained above.

The change in the closing balance of allowances for impairment losses under IAS 39 to the opening loss allowances on adoption of IFRS 9 is as follows:

As at 1 October 2018	Allowance for impairment under IAS 39 £m	Remeasurement £m	Expected credit losses under IFRS 9 £m	
			20	6
Loans and receivables under IAS 39 / financial assets held at amortised cost under IFRS 9				

### IFRS 15

As disclosed in our Annual Report 2018, the Group has adopted IFRS 15 retrospectively with the cumulative effect of initially applying the standard recognised on the date of initial application, being 1 October 2018 for the Group (the “cumulative catch up” approach) and the practical expedient to apply the standard only to contracts in progress but not completed at the date of initial application. Prior year comparatives are not restated and retained earnings at 1 October 2018 have been restated for the full cumulative impact of adopting the standard.

Information on the changes resulting from the adoption of IFRS 15, quantitative information on their impact at 1 October 2018 and a reconciliation for the year ending 30 September 2019 between the primary financial statements under IFRS 15 and the financial position and performance that would have been reported in accordance with IAS 18 are set out in note 17.

### Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 2 to 65.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future, for a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements, in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. Further details for adopting the going concern basis are set out in the Directors' Report on page 124.

### Foreign currencies

The consolidated financial statements are presented in sterling, which is the functional currency of the parent Company and the presentation currency for the consolidated financial statements.

Foreign currency transactions are recorded at the rates of exchange prevailing on the dates of the transactions. Foreign currency monetary items are translated at the rates prevailing at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlements of monetary items and on the retranslation of monetary items are included in profit or loss for the period, except for foreign currency movements on intercompany balances where settlement is not planned or likely in the foreseeable future, in which case they are recognised in other comprehensive income. Foreign exchange movements on external borrowings which are designated as a hedge of the net investment in its related subsidiaries are recognised in the translation reserve.

The assets and liabilities of the Group's subsidiaries outside the UK are translated into sterling using period-end exchange rates. Income and expense items are translated at the average exchange rates for the period. Where differences arise between these rates, they are recognised in other comprehensive income and the translation reserve.

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in other comprehensive income are recycled in the income statement as part of the gain or loss on sale, with the exception of exchange differences recorded in equity prior to the transition to IFRS on 1 October 2004, in accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards".

#### **Critical accounting estimates and judgements**

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

The judgements and management's rationale in relation to these accounting estimates and judgements are assessed and where material in value or in risk, are discussed with the Audit and Risk Committee.

#### **Revenue recognition**

Approximately 35% of the Company's revenue is generated from sales to partners rather than end users. The key judgement is determining whether the business partner is a customer of the Group. The key criteria in this determination is whether the business partner has taken control of the product, which is usually assessed based on whether the business partner has responsibility for payment and takes on the risks and rewards of the product from Sage.

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

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

An additional area of judgement is the recognition and deferral of revenue on on-premise subscription offerings, for example the sale of a term licence with an annual maintenance and support contract as part of a subscription contract. In such instances, the transaction price is allocated between the constituent performance obligations on the basis of standalone selling prices (SSPs). Judgement is required when estimating SSPs. The Group has established a hierarchy to identify the SSPs that are used to allocate the transaction price of a customer contract to the performance obligations in the contract. Where SSPs for on-premise offerings are observable and consistent across the customer base, SSP estimates are derived from pricing history. Where there are no directly observable estimates available, comparable products are utilised as a basis of assessment or residual approach is used. Under the residual approach, the SSP for the offering is estimated to be the total transaction price less the sum of the observable SSPs of other goods or services in the contract. The Group uses this technique in particular for its on-premise subscription offerings.

#### **Goodwill impairment**

A key judgement is the ongoing appropriateness of the cash-generating units ("CGUs") for the purpose of impairment testing. In the current year CGUs were assessed in the context of the Group's evolving business model, the Sage strategy and the shift to global product development. Management continues to monitor goodwill at a regional level, thus it was determined that the use of CGUs based on geographical area of operation remains appropriate.

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

These key assumptions used in performing the impairment assessment, and further information on the level at which goodwill is monitored, are disclosed in note 6.1.

#### **Classification and measurement of businesses held for sale**

The Group's Brazilian and Sage Pay businesses have been classified as businesses held for sale. Classification as held for sale requires judgements to be made on whether the qualifying criteria have been met. The Group considers these businesses to meet the criteria to be classified as held for sale for the following reasons:

- Management has approved the plans to sell these businesses;
- The businesses are available for immediate sale and can be sold to a buyer in their current condition;
- The sales are expected to be completed within one year from the date of initial classification; and
- Potential buyers have been identified and negotiations are ongoing as at the reporting date.

## 1 Basis of preparation and critical accounting estimates and judgements continued

The assets of businesses held for sale are measured at the lower of their carrying amount and their fair value less costs to sell. Determination of fair value less costs to sell requires estimates to be made of the selling price that might be obtained for the business and the costs to be incurred on completing the transaction. Management has reached its conclusions based on the bids received from potential buyers to date, the status of negotiations and its past experience of similar transactions.

For more details on the businesses held for sale, see note 15.3.

### Future accounting standards

The Directors also considered the impact on the Group of new and revised accounting standards, interpretations or amendments which have been issued but were not effective for the Group for the year ended 30 September 2019. The most significant of these is IFRS 16 "Leases", which has been endorsed for use in the EU and has been adopted by the Group with effect from 1 October 2019. IFRS 16 will have a significant effect on the Group's financial reporting and its impact is discussed below. Other new and revised accounting standards, interpretations or amendments that have been issued but are not yet effective for the Group are not expected to have a material impact on the consolidated financial statements when first applied.

### IFRS 16

IFRS 16 is effective for the Group for the financial year commencing on 1 October 2019, replacing the existing lease accounting standard IAS 17. The new standard will impact the accounting for leases in which the Group is the lessee. The Group currently accounts for these leases as operating leases, with rentals payable charged to the income statement on a straight-line basis as an operating expense. Under the new standard, the Group will recognise additional lease assets and lease liabilities on the balance sheet to account for the right to use the leased items and the obligation to make future lease payments. The right of use asset will be presented within property, plant and equipment and the lease liabilities within current and non-current borrowings. The costs of most leases will be recognised in the income statement split between depreciation of the lease asset and a finance charge on the lease liability. Depreciation will be presented within selling and administrative expenses and finance charges within finance costs.

The Group will apply the modified retrospective approach to transition to IFRS 16 with the cumulative impact recognised in equity on 1 October 2019 and no restatement of the financial statements for the prior year. Under this approach, lease liabilities are measured at the present value of future lease payments discounted using the Group's incremental borrowing rate applicable to the currency and remaining term of each lease. Right of use assets are measured either as if IFRS 16 had been in place since the commencement of the lease or at an amount equal to the lease liability at adoption, adjusted for any existing prepaid or accrued lease payments. Measurement as if IFRS 16 had been in place since commencement of the lease is applied to the Group's property leases.

The Group's implementation of the new standard is substantially complete and data has been collected on all the leases to which the standard applies. The Group has elected to apply the exemptions available for short-term leases with a lease term of 12 months or less and leases of low value items. The leases to which these exemptions apply will be accounted for in the same way as current operating leases, with no lease assets or liabilities recognised. The low value exemption is expected to apply to most of the Group's leases of IT and other office equipment. On transition, the Group will make use of the following practical expedients available under the modified retrospective approach:

- For leases other than property leases, the Group will measure the right of use assets at an amount equal to the lease liability at adoption, adjusted for any existing prepaid or accrued lease payments, and will also apply a single discount rate to a portfolio of those leases with reasonably similar characteristics;
- For all leases, the Group will exclude from the measurement of the right of use asset initial direct costs incurred when obtaining the lease; and
- The Group will rely on its existing onerous lease assessments under IAS 37 to impair right of use assets instead of performing a new impairment assessment for those assets.

The Group currently estimates that on transition it will recognise right of use assets of between approximately £120m and £130m and lease liabilities of between approximately £135m and £145m. Taking account of the elimination of the Group's existing assets and liabilities for prepaid and accrued lease payments, net assets will decrease by approximately £5m, with a corresponding adjustment recognised in equity. The Group's total undiscounted operating lease commitment at 30 September 2019 as disclosed under existing reporting requirements was £162m (note 3.4). The Group's most significant leases by value are those for office buildings which comprise over 95% of existing current lease commitments. For the year ending 30 September 2020 and subsequent years, there will be a reduction in lease expenses charged to operating profit and an increase in finance costs in the income statement compared to the current treatment. The impact will depend on the future make-up of the Group's lease portfolio but, assuming the existing portfolio remains unchanged, the previous operating expense is estimated to reduce by approximately £5m and finance costs to increase by approximately £5m. The Group's total rental expense for the year ended 30 September 2019 under existing reporting requirements was £30m (note 3.2). The standard will not impact net cash flow, but cash flows from most lease payments will be reclassified from cash flows from operating activities to cash flows from financing activities, as the payments will represent the repayment of lease liabilities.

## RESULTS FOR THE YEAR

### 2 Segment information

This note shows how Group revenue and Group operating profit are generated across the three reportable segments in which we operate, being Northern Europe, Central and Southern Europe and North America. The Group's operations in Africa and the Middle East, Asia (including Australia) and Latin America do not meet the quantitative thresholds for disclosure as reportable segments under IFRS 8, and so are presented together in the analyses and described as International. This is explained further below.

For each geographical region, revenue and operating profit are compared to prior year in order to understand the movements in the year. This comparison is provided for statutory, underlying and organic revenue and statutory and underlying operating profit.

- Statutory results reflect the Group's results prepared in accordance with the requirements of IFRS.
- “Underlying” and “underlying as reported” are non-GAAP measures. Adjustments are made to statutory results to arrive at an underlying result which is in line with how the business is managed and measured on a day-to-day basis. Adjustments are made for items that are individually important in order to understand the financial performance. If included, these items could distort understanding of the performance for the year and the comparability between periods. Management applies judgement in determining which items should be excluded from underlying performance. See note 3.6 for details of these adjustments.

In addition, the prior year underlying amounts are translated at current year exchange rates, so that exchange rate impacts do not distort comparisons. Prior year underlying amounts at prior year exchange rates are “underlying as reported”; prior year and current year amounts at current year exchange rates are “underlying”.

- Organic is a non-GAAP measure. 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. Financial year 2018 comparative includes the impact of IFRS 15 applied in a manner consistent with financial year 2019.

In addition, the following reconciliations are made in this note.

- Revenue per segment reconciled to the profit for the year as per the income statement.
- Statutory operating profit reconciled to underlying operating profit per segment (detailing the adjustments made).

## 2 Segment information continued

### Accounting policy

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

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

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

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

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

### Segment reporting

The tables overleaf show a segmental analysis of the results for continuing operations.

The revenue analysis in the table overleaf is based on the location of the customer which is not materially different from the location where the order is received and where the assets are located.

Revenue categories are defined in note 3.1.

**2.1 Revenue by segment**

	Year ended 30 September 2019			Change		
	Statutory and Underlying £m	Organic adjustments* £m	Organic £m	Statutory	Underlying	Organic
<b>Recurring revenue by segment</b>						
North America	<b>574</b>	(1)	<b>573</b>	23.0%	14.9%	11.8%
Northern Europe	<b>341</b>	(1)	<b>340</b>	14.4%	14.2%	16.4%
Central and Southern Europe	<b>490</b>	–	<b>490</b>	3.1%	3.1%	6.9%
International	<b>207</b>	(51)	<b>156</b>	4.7%	8.2%	8.5%
Recurring revenue	<b>1,612</b>	(53)	<b>1,559</b>	11.3%	10.0%	10.8%
<b>Software and software related services ("SSRS") revenue by segment</b>						
North America	<b>68</b>	–	<b>68</b>	(8.4%)	(13.5%)	(11.5%)
Northern Europe	<b>27</b>	(2)	<b>25</b>	(37.5%)	(37.9%)	(37.2%)
Central and Southern Europe	<b>118</b>	–	<b>118</b>	(21.7%)	(21.7%)	(19.2%)
International	<b>47</b>	(3)	<b>44</b>	(14.6%)	(13.0%)	(8.0%)
SSRS revenue	<b>260</b>	(5)	<b>255</b>	(18.5%)	(20.5%)	(17.9%)
<b>Processing revenue by segment</b>						
North America	<b>15</b>	(15)	–	(52.8%)	(55.2%)	(8.7%)
Northern Europe	<b>38</b>	(37)	<b>1</b>	(1.4%)	(1.4%)	(30.3%)
Central and Southern Europe	–	–	–	–	–	–
International	<b>11</b>	(4)	<b>7</b>	(26.4%)	(23.5%)	6.3%
Processing revenue	<b>64</b>	(56)	<b>8</b>	(24.7%)	(25.7%)	(3.0%)
<b>Total revenue by segment</b>						
North America	<b>657</b>	(16)	<b>641</b>	14.8%	7.5%	8.8%
Northern Europe	<b>406</b>	(40)	<b>366</b>	6.8%	6.6%	9.7%
Central and Southern Europe	<b>608</b>	–	<b>608</b>	(2.8%)	(2.9%)	0.6%
International	<b>265</b>	(58)	<b>207</b>	(1.0%)	2.0%	4.4%
Total revenue	<b>1,936</b>	(114)	<b>1,822</b>	4.9%	3.1%	5.6%

## 2 Segment information continued

	Year ended 30 September 2018						
	Statutory £m	Underlying adjustments £m	Underlying as reported £m	Impact on foreign exchange £m	Underlying £m	Organic adjustments* £m	Organic £m
<b>Recurring revenue by segment</b>							
North America	468	10	478	22	500	12	512
Northern Europe	297	1	298	–	298	(6)	292
Central and Southern Europe	475	–	475	1	476	(18)	458
International	197	–	197	(6)	191	(47)	144
Recurring revenue	1,437	11	1,448	17	1,465	(59)	1,406
<b>Software and software related services ("SSRS") revenue by segment</b>							
North America	75	–	75	3	78	(1)	77
Northern Europe	44	–	44	–	44	(4)	40
Central and Southern Europe	150	–	150	–	150	(4)	146
International	55	–	55	(1)	54	(6)	48
SSRS revenue	324	–	324	2	326	(15)	311
<b>Processing revenue by segment</b>							
North America	31	–	31	2	33	(33)	–
Northern Europe	39	–	39	–	39	(37)	2
Central and Southern Europe	–	–	–	–	–	–	–
International	15	–	15	–	15	(9)	6
Processing revenue	85	–	85	2	87	(79)	8
<b>Total revenue by segment</b>							
North America	574	10	584	27	611	(22)	589
Northern Europe	380	1	381	–	381	(47)	334
Central and Southern Europe	625	–	625	1	626	(22)	604
International	267	–	267	(7)	260	(62)	198
Total revenue	1,846	11	1,857	21	1,878	(153)	1,725

\* Adjustments relate to the disposal of Sage Payroll Solutions and assets held for sale in the current year (note 15.3). Adjustments to the prior year comparatives include proforma adjustments for the areas of impact of IFRS 15 adoption assuming the same contractual basis as the current year. This is to enable like-for-like comparison across the periods.

### 2.2 Operating profit by segment

	Year ended 30 September 2019				Change			
	Statutory £m	Underlying adjustments £m	Underlying £m	Organic adjustments £m	Organic £m	Statutory	Underlying	Organic
<b>Operating profit by segment</b>								
North America	128	5	133	–	133	36.6%	(15.1%)	(22.9%)
Northern Europe	134	23	157	(14)	143	3.1%	10.9%	13.7%
Central and Southern Europe	120	9	129	–	129	(31.4%)	(29.5%)	(25.5%)
International	–	29	29	(2)	27	(98.7%)	1.7%	4.9%
<b>Total operating profit</b>	<b>382</b>	<b>66</b>	<b>448</b>	<b>(16)</b>	<b>432</b>	<b>(10.5%)</b>	<b>(12.1%)</b>	<b>(13.0%)</b>

	Year ended 30 September 2018						
	Statutory £m	Underlying adjustments £m	Underlying as reported £m	Impact of foreign exchange £m	Underlying £m	Organic adjustments £m	Organic £m
<b>Operating profit by segment</b>							
North America	94	55	149	8	157	15	172
Northern Europe	130	11	141	–	141	(15)	126
Central and Southern Europe	174	10	184	(1)	183	(11)	172
International	29	1	30	(2)	28	(2)	26
<b>Total operating profit</b>	<b>427</b>	<b>77</b>	<b>504</b>	<b>5</b>	<b>509</b>	<b>(13)</b>	<b>496</b>

The results by segment from continuing operations were as follows:

Year ended 30 September 2019	Note	North America £m	Northern Europe £m	Central and Southern Europe £m	Total reportable segments £m	International £m	Group £m
<b>Revenue</b>		<b>657</b>	<b>406</b>	<b>608</b>	<b>1,671</b>	<b>265</b>	<b>1,936</b>
<b>Segment statutory operating profit</b>		<b>128</b>	<b>134</b>	<b>120</b>	<b>382</b>	–	<b>382</b>
Finance income	3.5						<b>8</b>
Finance costs	3.5						<b>(29)</b>
<b>Profit before income tax</b>							<b>361</b>
Income tax expense	4						<b>(95)</b>
<b>Profit for the year – continuing operations</b>							<b>266</b>

Reconciliation of underlying operating profit to statutory operating profit

	North America £m	Northern Europe £m	Central and Southern Europe £m	Total reportable segments £m	International £m	Group £m
Underlying operating profit	<b>133</b>	<b>157</b>	<b>129</b>	<b>419</b>	<b>29</b>	<b>448</b>
Amortisation of acquired intangible assets (note 3.6)	<b>(19)</b>	<b>(6)</b>	<b>(5)</b>	<b>(30)</b>	<b>(1)</b>	<b>(31)</b>
Other acquisition-related items (note 3.6)	<b>(9)</b>	<b>(5)</b>	–	<b>(14)</b>	<b>(7)</b>	<b>(21)</b>
Non-recurring items (note 3.6)	<b>23</b>	<b>(12)</b>	<b>(4)</b>	<b>7</b>	<b>(21)</b>	<b>(14)</b>
<b>Statutory operating profit</b>	<b>128</b>	<b>134</b>	<b>120</b>	<b>382</b>	–	<b>382</b>

The results by segment from continuing operations were as follows:

Year ended 30 September 2018	Note	North America £m	Northern Europe £m	Central and Southern Europe £m	Total reportable segments £m	International £m	Group £m
<b>Revenue</b>		<b>574</b>	<b>380</b>	<b>625</b>	<b>1,579</b>	<b>267</b>	<b>1,846</b>
<b>Segment statutory operating profit</b>		<b>94</b>	<b>130</b>	<b>174</b>	<b>398</b>	<b>29</b>	<b>427</b>
Finance income	3.5						<b>5</b>
Finance costs	3.5						<b>(34)</b>
<b>Profit before income tax</b>							<b>398</b>
Income tax expense	4						<b>(103)</b>
<b>Profit for the year – continuing operations</b>							<b>295</b>

Reconciliation of underlying operating profit to statutory operating profit

	North America £m	Northern Europe £m	Central and Southern Europe £m	Total reportable segments £m	International £m	Group £m
Underlying operating profit as reported	<b>149</b>	<b>141</b>	<b>184</b>	<b>474</b>	<b>30</b>	<b>504</b>
Amortisation of acquired intangible assets (note 3.6)	<b>(26)</b>	<b>(3)</b>	<b>(5)</b>	<b>(34)</b>	<b>(1)</b>	<b>(35)</b>
Other acquisition-related items (note 3.6)	<b>(28)</b>	<b>(4)</b>	–	<b>(32)</b>	–	<b>(32)</b>
Non-recurring items (note 3.6)	<b>(1)</b>	<b>(4)</b>	<b>(5)</b>	<b>(10)</b>	–	<b>(10)</b>
<b>Statutory operating profit</b>	<b>94</b>	<b>130</b>	<b>174</b>	<b>398</b>	<b>29</b>	<b>427</b>

## 2 Segment information continued

### 2.3 Analysis by geographic location

Management considers countries which generate more than 10% of total Group revenue to be material. Additional disclosures have been provided below to show the proportion of revenue from these countries.

<b>Revenue by individually significant countries</b>	<b>2019 £m</b>	<b>2018 £m</b>
USA	<b>561</b>	486
UK	<b>380</b>	353
France	<b>277</b>	292
Other individually immaterial countries	<b>718</b>	715
	<b>1,936</b>	1,846

Management considers countries which contribute more than 10% to total Group non-current assets to be material. Additional disclosures have been provided below to show the proportion of non-current assets from these countries.

Non-current assets presented below excludes deferred tax assets, post-employment benefit assets and financial instruments.

<b>Non-current assets by geographical location</b>	<b>2019 £m</b>	<b>2018 £m</b>
USA	<b>913</b>	1,348
UK	<b>371</b>	416
France	<b>237</b>	243
Other individually immaterial countries	<b>931</b>	390
	<b>2,452</b>	2,397

## 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 analyses the future amounts payable under operating lease agreements, which the Group has entered into as at the year end. These commitments are not included as liabilities in the consolidated balance sheet.

This note also provides a breakdown of any material recurring and non-recurring items that have been reported separately on the face of the income statement.

### 3.1 Revenue

#### Accounting policy

The Group's new IFRS 15 accounting policy is disclosed below. Differences from policies applied to 2018 comparatives are disclosed in note 17, and full revenue policies applied to 2018 figures can be found in the Annual Report and Accounts 2018. The Group reports revenue under three revenue categories and the basis of recognition for each category is described below:

Category and examples	Accounting treatment
<b>Recurring revenue</b>	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 contracts	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.
Maintenance and support contracts	Subscription revenue and maintenance and support revenue are usually recognised on a straight-line basis over the term of the contract as control is transferred to the customer (including non-specified upgrades, when included). An exception is revenue from term licences embedded within a subscription contract for software with significant standalone functionality which are expected to recur upon renewal of the subscription offering. Revenue for these term licences is recognised when control is transferred at inception of each subscription contract period.
<b>Software and software-related services</b>	Perpetual software licences with significant standalone functionality and specified upgrades revenue are recognised when the control relating to the licence has been transferred. This is when the goods have left the warehouse to be shipped to the customer or when electronic delivery has taken place. Other product revenue (which includes hardware and stationery) is recognised as the products are shipped to the customer. Other services revenue (which includes the sale of professional services and training) is recognised when delivered, or by reference to the stage of completion of the transaction at the end of the reporting period. This assessment is made by comparing the proportion of contract costs incurred to date to the total expected costs to completion.
<b>Processing revenue</b>	Processing revenue is revenue earned from customers for the processing of payments or where Sage colleagues process our customers' payroll. Processing revenue is recognised at the point that the service is rendered on a per transaction basis.

#### Identification of performance obligations

When the Group enters into an agreement with a customer, goods and services deliverable under the contract are identified as separate performance obligations ("obligations") to the extent that the customer can benefit from the goods or services on their own and that the separate goods and services are considered distinct from other goods and services in the agreement. Where individual goods and services do not meet the criteria to be identified as separate obligations they are aggregated with other goods and/or services in the agreement until a separate obligation is identified.

Typically, the products and services outlined in the categories of revenue section qualify as separate performance obligations and the portion of the contractual fee allocated to them is recognised separately. However, certain on-premise subscription contracts, which combine the delivery of on-premise software and maintenance and support services, require unbundling. Sage native cloud services usually do not require unbundling as the terms usually do not provide the customer with a right to terminate the hosting contract and take possession of the software.

When selling goods or services, in certain instances, customers pay a non-refundable contract sign-up fee when they enter into a new initial contract for a software product, and no equivalent fee is payable on subsequent renewals. The Group applies judgement in determining whether such sign-up fees provide a material right to the customer that the customer would not receive without entering into that contract. In applying this judgement, the Group considers whether the options entitle the customer to a discount that exceeds the discount that would normally be granted for the respective goods or services if they were to be sold without the option. Where this is the case, the non-refundable contract sign-up fee is treated as a separate performance obligation.

#### Determination of transaction price and standalone selling prices

The Group determines the transaction price it is entitled to in return for providing the promised obligations to the customer based on the committed contractual amounts, net of sales taxes and discounts. Contract terms generally are monthly or annual and customers either pay up-front or over the term of the related service agreement.

### 3 Profit before income tax continued

#### 3.1 Revenue continued

The transaction price is allocated between the identified obligations according to the relative standalone selling prices (SSPs) of the obligations. The SSP of each obligation deliverable in the contract is determined according to the prices that the Group would obtain by selling the same goods and/or services included in the obligation to a similar customer on a standalone basis. See "Critical accounting estimates and judgements" in note 1 for details.

##### **Timing of recognition**

Revenue is recognised when the respective obligations in the contract are delivered to the customer and payment remains probable.

- Licences for standard on-premise software products are typically delivered by providing the customer with access to download the software. The licence period starts when such access is granted. Licence revenue is recognised at a point in time or over time depending on whether the Group delivers software with significant standalone functionality or software which is dependent on updates for ongoing functionality. The Group recognises revenue for these licenses which have significant standalone functionality at the point in time when the customer has access to and thus control over the software. For licences which are dependent on updates for ongoing functionality the Group recognises revenue based on time elapsed and thus rateably over the term of the contract. Typically, this includes our payroll and tax compliance software.
- Where the Group's performance obligation is the grant of a right to continuously access a cloud offering for a certain term, revenue is recognised based on time elapsed and thus rateably over the term.
- Maintenance and support revenue is typically recognised based on time elapsed and thus rateably over the term of the support arrangement. Under the standardised maintenance and support services, the Group's performance obligation is to stand ready to provide technical product support and unspecified updates, upgrades and enhancements on a when-and-if-available basis. The customers simultaneously receive and consume the benefits of these services.
- Professional services and training revenue are typically recognised over time. Where the Group stands ready to provide the service (such as access to learning content), revenue is recognised based on time elapsed and thus rateably over the service period. Consumption-based services (such as separately identifiable professional services and premium support services, messaging services, and classroom training services) are recognised over time as the services are utilised, typically following the percentage-of-completion method or rateably.
- Non-refundable contract sign-up fees that qualify as separate performance obligations are recognised as revenue over the anticipated period of benefit to the customer, which takes account of the likelihood of the customer renewing the contract.

##### **Identification of contract with the customer**

When the Group sells goods or services through a business partner, a key consideration is determining whether the business partner or the end user is Sage's customer. The key criteria in this determination is whether the business partner has taken control of the product. This is usually assessed based on whether the business partner has responsibility for payment and takes on the risks and rewards of the product from Sage. See "Critical accounting estimates and judgements" in note 1 for details.

##### **Principal versus agent considerations**

When the Group has control of third-party goods or services prior to delivery to a customer, then the Group is the principal in the sale to the customer. As a principal, receipts from customers and payments to suppliers are reported on a gross basis in revenue and cost of sales. If the Group does not have control of third-party goods or services prior to transfer to a customer, then the Group is acting as an agent for the other party and revenue in respect of the relevant obligations is recognised net of any related payments to the supplier and reported revenue represents the margin earned by the Group. Whether the Group is considered to be the principal or an agent in the transaction depends on analysis by management of both the legal form and substance of the agreement between the Group and its supplier. This takes into account whether Sage bears the price, inventory and performance risks associated with the transaction.

##### **Practical expedients**

As the majority of contracts have a term of one year or less, the Group has applied the following practical expedients.

- The aggregate transaction price allocated to the unsatisfied or partially unsatisfied performance obligations at the end of the reporting period is not disclosed.
- Any financing component is not considered when determining the transaction price.

### 3.2 Operating profit

#### Accounting policy

Cost of sales includes items such as third-party royalties, transaction and credit card fees related to the provision of payment processing services and the cost of hardware and inventories. These also include the third-party costs of providing training and professional services to customers. All other operating expenses incurred in the ordinary course of business are recorded in selling and administrative expenses.

The following items have been included in arriving at operating profit from continuing operations	Note	2019 £m	2018 £m
Staff costs		<b>885</b>	837
Depreciation of property, plant and equipment	7	<b>34</b>	20
Amortisation of intangible assets	6.2	<b>44</b>	48
(Gain)/loss on disposal of subsidiary	3.6	<b>(28)</b>	1
Other operating lease rentals payable		<b>30</b>	27
Other acquisition-related items	3.6	<b>21</b>	32

The Group incurred £220m (2018: £192m) of research and development expenditure in the year, of which £194m (2018: £174m) relates to total Group staff costs included above. See note 6.2 for the research and development accounting policy.

Depreciation of property, plant and equipment includes £12m of accelerated depreciation charge relating to the Group's UK flagship office move from North Park to Cobalt Business Park, announced on 1 July 2019. The Group has reviewed its estimates of the useful lives and residual values of the assets relating to the existing site. These assets are presented in the balance sheet within property, plant and equipment. The effect of these changes in estimates is to depreciate the remaining carrying amounts of these assets down to their revised residual values over the period July 2019 to September 2020, by which time the relocation is expected to be complete and the existing property vacated. This has resulted in an increase of £12m in the amount of depreciation charged in the income statement in the year ended 30 September 2019. These changes are also expected to increase the depreciation charge for the year ending 30 September 2020 by £48m. These accelerated depreciation charges are classified as non-recurring adjustments between underlying and statutory results as explained in note 3.6. Expenses incurred whilst preparing the new property for occupation, including related lease costs, are capitalised as leasehold improvement assets within property, plant and equipment.

#### Services provided by the Group's auditor and network firms

During the year, the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor at costs as detailed below:

	2019 £m	2018 £m
Fees payable to the Group's auditor for the audit of the Plc's companies and the consolidated accounts	<b>2</b>	2
Fees payable to the Group's auditor for the audit of the Company's subsidiaries	<b>3</b>	2
Fees payable to the Group's auditor for audit-related assurance services*	—	—
<b>Total audit and audit related services</b>	<b>5</b>	4
Other non-audit services	—	—
<b>Total fees</b>	<b>5</b>	4

\* Includes costs relating to half year review.

A summary of the Board's policy in respect of the procurement of non-audit services for the Group's auditor is set out on page 95.

### 3 Profit before income tax continued

#### 3.3 Employees and Directors

Average monthly number of people employed (including Directors)	2019 number	2018 number
By segment:		
North America	<b>2,551</b>	2,704
Northern Europe	<b>2,865</b>	3,109
Central and Southern Europe	<b>4,334</b>	4,396
International	<b>3,005</b>	3,451
	<b>12,755</b>	13,660

Staff costs (including Directors on service contracts)	Note	2019 £m	2018 £m
Wages and salaries		<b>788</b>	706
Social security costs		<b>104</b>	100
Post-employment benefits	10	<b>18</b>	13
Share-based payments	14.2	<b>32</b>	18
		<b>942</b>	837

Staff costs include a total of £57m of capitalised commission costs which are amortised over the expected contract life including probable contract renewals.

Key management compensation		2019 £m	2018 £m
Salaries and short-term employee benefits		<b>9</b>	4
Post-employment benefits		—	—
Share-based payments		<b>7</b>	2
		<b>16</b>	6

Key management personnel are deemed to be members of the Group's Executive Committee members and the Non-executive Directors as shown on pages 67 to 69. The key management figures given above include the Executive Directors of the Group.

#### 3.4 Operating lease commitments

##### Accounting policy

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Total future minimum lease payments under non-cancellable operating leases falling due for payment as follows:	2019 Property, vehicles, plant and equipment £m	2018 Property, vehicles, plant and equipment £m
Within one year	<b>30</b>	30
Later than one year and less than five years	<b>76</b>	89
After five years	<b>56</b>	32
	<b>162</b>	151

The Group leases various offices and warehouses under non-cancellable operating lease agreements. These leases have various terms, escalation clauses and renewal rights. The Group also leases vehicles, plant and equipment under non-cancellable operating lease agreements.

### 3.5 Finance income and costs

#### Accounting policy

Finance income and costs are recognised using the effective interest method. Finance costs are recognised in the income statement simultaneously with the recognition of an increase in a liability or the reduction in an asset. Derivative financial instruments are measured at fair value through profit or loss. Foreign currency movements on intercompany balances are recognised in the profit and loss account unless settlement is not planned or likely in the foreseeable future, in which case they are recognised in other comprehensive income.

	2019 £m	2018 £m
<b>Finance income:</b>		
Interest income on short-term deposits	<b>6</b>	4
Foreign currency movements on intercompany balances	<b>2</b>	1
<b>Finance income</b>	<b>8</b>	5
 <b>Finance costs:</b>		
Finance costs on bank borrowings	<b>(11)</b>	(14)
Finance costs on US senior loan notes	<b>(16)</b>	(17)
Fair value adjustments to debt-related financial instruments	–	(1)
Amortisation of issue costs	<b>(2)</b>	(2)
<b>Finance costs</b>	<b>(29)</b>	(34)
 <b>Finance costs – net</b>	<b>(21)</b>	(29)

### 3.6 Adjustments between underlying and statutory results

#### Accounting policy

The business is managed and measured on a day-to-day basis using underlying results. To arrive at underlying results, certain adjustments are made for items that are individually important and which could, if included, distort the understanding of the performance for the year and the comparability between periods.

Management applies judgement in determining which items should be excluded from underlying performance.

#### Recurring items

These are items which occur regularly but which management judge to have a distorting effect on the underlying results of the Group. These items relate mainly to fair value adjustments on financial instruments and merger and acquisition ("M&A") related activity, although other types of recurring items may arise. M&A activity by its nature is irregular in its impact and includes amortisation of acquired intangible assets, adjustments to acquired deferred income and acquisition and disposal-related costs, including integration costs relating to an acquired business and acquisition-related remuneration. Foreign currency movements on intercompany balances that are charged through the income statement are excluded from underlying results, so that exchange rate impacts do not distort comparisons. Recurring items are adjusted each year irrespective of materiality to ensure consistent treatment.

#### Non-recurring items

These are items which are non-recurring and are adjusted on the basis of either their size or their nature. These items can include, but are not restricted to, gains and losses on the disposal of assets, impairment charges and reversals, and restructuring-related costs. As these items are one-off or non-operational in nature, management considers that they would distort the Group's underlying business performance.

### 3 Profit before income tax continued

	Recurring 2019 £m	Non-recurring 2019 £m	Total 2019 £m	Recurring 2018 £m	Non-recurring 2018 £m	Total 2018 £m
<b>M&amp;A activity-related items</b>						
Amortisation of acquired intangibles	<b>31</b>	–	<b>31</b>	35	–	35
(Gain)/loss on disposal of subsidiary	–	<b>(28)</b>	<b>(28)</b>	–	1	1
Impairment of assets held for sale	–	<b>14</b>	<b>14</b>	–	–	–
Adjustment to acquired deferred income	–	–	–	11	–	11
Other M&A activity-related items	<b>21</b>	–	<b>21</b>	21	–	21
<b>Other items</b>						
Litigation items	–	–	–	–	4	4
Restructuring costs	–	–	–	–	5	5
Property restructuring costs	–	<b>16</b>	<b>16</b>	–	–	–
Office relocation	–	<b>12</b>	<b>12</b>	–	–	–
<b>Total adjustments made to operating profit</b>	<b>52</b>	<b>14</b>	<b>66</b>	67	10	77
Fair value adjustments	–	–	–	1	–	1
Gain on foreign currency movements on intercompany balances	<b>(2)</b>	–	<b>(2)</b>	(1)	–	(1)
<b>Total adjustments made to profit before income tax</b>	<b>50</b>	<b>14</b>	<b>64</b>	67	10	77

#### Recurring items

Acquired intangibles are assets which have previously been recognised as part of business combinations or similar transactions. These assets are predominantly brands, customer relationships and technology rights. Further details including specific accounting policies in relation to these assets can be found in note 6.2.

Other M&A activity-related items relate to completed transaction costs and include advisory, legal, accounting, valuation and other professional or consulting services as well as acquisition-related remuneration and directly attributable integration costs. This includes a provision for future selling costs for assets held for sale. Further details can be found in note 15.3.

Foreign currency movements on intercompany balances of £2m (2018: credit of £1m) occur due to retranslation of intercompany balances other than those where settlement is not planned or likely in the foreseeable future. The balance arises in the current year due to fluctuation in exchange rates, predominantly the movement in Euro and US Dollar compared to sterling.

The adjustment made in the prior year to acquired deferred income 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.

The prior year fair value adjustment was in relation to an embedded derivative asset which relates to contractual terms agreed as part of the US private placement debt.

#### Non-recurring items

Net charges in respect of non-recurring items amounted to £14m (2018: £10m).

Property restructuring costs of £16m (2018: £nil) relate to the reorganisation of the Group's properties and consist of net lease exit costs following consolidation of office space and impairment of leasehold and other related assets that are no longer in use. The Group is anticipating incurring additional costs in the following year in connection with the further reorganisation of the Group's property portfolio.

The prior year restructuring costs relate to costs arising from the restructure of parts of the senior leadership team.

Office relocation costs relate to the incremental depreciation charge resulting from accelerated depreciation following the announced UK office move. Further details can be found in note 3.2.

The adjustment relating to litigation costs of £4m in the prior year related to two specific employment related matters that, based on the Group's experience, are one-off in nature. Both cases were settled during the year. All other litigation costs which have been incurred through the normal course of business are included within underlying operating profit.

Details of gain on disposal of subsidiary and impairment of assets held for sale can be found in note 15.3.

In the prior year, the loss on disposal of subsidiary related to the sale of Sage XRT Brasil Ltda.

See note 4 for the tax impact of these adjustments.

## 4 Income tax expense

This note analyses the tax expense for this financial year which includes both current and deferred tax. Current tax expense represents the amount payable on this year's taxable profits and any adjustments relating to prior years. Deferred tax is an accounting adjustment to recognise liabilities or benefits that are expected to arise in the future due to differences between the carrying values of assets and liabilities and their respective tax bases.

This note outlines the tax accounting policies, analyses the current and deferred tax expenses in the year and presents a reconciliation between profit before tax in the income statement multiplied by the UK rate of corporation tax and the tax expense for the year.

### Accounting policy

The taxation expense for the year represents the sum of current tax payable and deferred tax. The expense is recognised in the income statement, in the statement of comprehensive income or in equity according to the accounting treatment of the related transaction.

Current tax payable or receivable is based on the taxable income for the period and any adjustment in respect of prior periods. Current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax arises due to certain temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases (note 11).

	Note	2019 £m	2018 £m
<b>Analysis of expense in the year</b>			
<b>Current income tax</b>			
- Current tax on profit for the year		<b>91</b>	103
- Adjustment in respect of prior years		<b>3</b>	-
<b>Current income tax on continuing operations</b>		<b>94</b>	103
<b>Current income tax on discontinued operations</b>		-	-
		<b>94</b>	103
<b>Deferred tax</b>			
Origination and reversal of temporary differences		<b>5</b>	-
Impact of rate changes		-	(4)
Adjustment in respect of prior years		<b>(4)</b>	4
<b>Deferred tax</b>	11	<b>1</b>	-
The current year tax expense is split into the following:			
Underlying tax expense		<b>116</b>	123
Tax credit on adjustments between the underlying and statutory operating profit		<b>(21)</b>	(17)
Tax only adjustments between the underlying and statutory operating profit		-	(3)
<b>Income tax expense on continuing operations</b>		<b>95</b>	103
<b>Income tax expense on discontinued operations</b>		-	-
<b>Income tax expense reported in income statement</b>		<b>95</b>	103
<b>Tax on items credited to other comprehensive income</b>			
Deferred tax charge on actuarial gain on post-employment benefit obligations		-	-
Deferred tax credit on foreign exchange movements		-	-
Total tax on items credited to other comprehensive income		-	-

Deferred tax charge relating to share options and IFRS15 and 9 of £4m (2018: charge of £2m) has been recognised directly in equity.

#### 4 Income tax expense continued

The tax for the year is higher (2018: higher) than the rate of UK corporation tax applicable to the Group of 19% (2018: 19%). The differences are explained below:

	2019 £m	2018 £m
<b>Profit before income tax from continuing operations</b>	<b>361</b>	398
<b>Profit before income tax from discontinued operations</b>	<b>–</b>	–
Total profit before income tax	<b>361</b>	398
Statutory profit before income tax multiplied by the rate of UK corporation tax of 19% (2018: 19%)	<b>69</b>	76
Tax effects of:		
Adjustments in respect of prior years	(1)	4
Foreign tax rates in excess of UK rate of tax	20	26
US tax reform	1	(3)
Non-deductible expenses and permanent items	6	(1)
Other corporate taxes (withholding tax, business tax)	7	5
Tax incentive claims	(7)	(5)
Recognition of tax losses and amortisation	–	1
<b>At the effective income tax rate of 26% (2018: 26%)</b>	<b>95</b>	103
<b>Income tax expense reported in the income statement</b>	<b>95</b>	103
<b>Income tax attributable to discontinued operations</b>	<b>–</b>	–
	<b>95</b>	103

The effective tax rate on statutory profit before tax was 26% (2018: 26%), whilst the effective tax rate on underlying profit before tax on continuing operations was 27% (2018: 26%). The effective tax rate is higher than the UK corporation tax rate applicable to the Group primarily due to the geographic profile of the Group, the inclusion of local business taxes in the corporate tax expense offset by innovation tax credits for registered patents and research and development activities which are government tax incentives in a number of operating territories. The Group recognises certain provisions and accruals in respect of tax which involve a degree of estimation and uncertainty where the tax treatment cannot finally be determined until a resolution has been reached by the relevant tax authority. This approach resulted in providing £27m as at 30 September 2019 (2018: £27m).

The carrying amount is sensitive to a number of issues which is not always within the control of the Group and it is 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.

The nature of the assumptions made by management when calculating the carrying amounts relates to the estimated tax which could be payable as a result of decisions with tax authorities in respect of transactions and events whose treatment for tax purposes is uncertain. In making the 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 relevant tax environments.

When making this assessment, we utilise our specialist in-house tax knowledge and experience of similar situations elsewhere to confirm these provisions. These judgements also take into consideration specialist tax advice provided by third-party advisers on specific items.

## EU State Aid

The Group continues to monitor developments following the EU Commission's decision published on 25 April 2019 in respect of its State Aid investigation into the UK's Controlled Foreign Company regime. The EU Commission concluded that the UK law did not comply with EU State Aid rules in certain circumstances. The UK Government has appealed to the European Court seeking annulment of the EC Commission's decision. The Group, in line with a number of UK corporates, is making a similar appeal. We have calculated our maximum potential liability, excluding interest, to be approximately £35m. Based on current advice, we consider that no provision is required at this time. The assessment of uncertain tax positions is subjective and significant management judgement is required. This judgement is based on current interpretation of legislation, management experience and professional advice.

## 5 Earnings per share

This note sets out how earnings per share ("EPS") is calculated. EPS is the amount of post-tax profit attributable to each ordinary share. Diluted EPS shows what the impact would be if all potentially dilutive ordinary shares in respect of exercisable share options were exercised and treated as ordinary shares at the year end.

This note also provides a reconciliation between the statutory profit figure, which ties to the consolidated income statement, and the Group's internal measure of performance, underlying profit. See note 3.6 for details of the adjustments made between statutory and underlying profit, and note 4 for the tax impact on these adjustments.

### Accounting policy

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

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

<b>Reconciliations of the earnings and weighted average number of shares</b>	<b>Underlying 2019</b>	Underlying as reported 2018	Underlying 2018	<b>Statutory 2019</b>	Statutory 2018
Earnings attributable to owners of the parent (£m)					
<b>Profit for the year</b>	<b>309</b>	352	356	<b>266</b>	295
Number of shares (millions)					
Weighted average number of shares	<b>1,086</b>	1,083	1,083	<b>1,086</b>	1,083
Dilutive effects of shares	<b>9</b>	6	6	<b>9</b>	6
	<b>1,095</b>	1,089	1,089	<b>1,095</b>	1,089
Earnings per share attributable to owners of the parent – continuing operations					
Basic earnings per share (pence)	<b>28.40</b>	32.51	32.85	<b>24.49</b>	27.21
Diluted earnings per share (pence)	<b>28.17</b>	32.35	32.68	<b>24.29</b>	27.07

## 5 Earnings per share continued

	2019 £m	2018 £m
<b>Reconciliation of earnings</b>		
Earnings – statutory profit for the year attributable to owners of the parent	<b>266</b>	295
Adjustments:		
– Amortisation of acquired intangible assets and adjustment to acquired deferred income	31	46
– Fair value adjustments to debt-related financial instruments	–	1
– (Gain)/loss on disposal of subsidiary	(28)	1
– Foreign currency movements on intercompany balances	(2)	(1)
– Other M&A activity-related items	21	21
– Impairment of assets held for sale	14	–
– Restructuring costs and litigation-related items	16	9
– Office relocation	12	–
– Taxation on adjustments between underlying and statutory profit before tax	(21)	(20)
Net adjustments	<b>43</b>	57
Earnings – underlying profit for the year (before exchange movement)	<b>309</b>	352
Exchange movement	–	5
Taxation on exchange movement	–	(1)
Net exchange movement	–	4
Earnings – underlying profit for the year (after exchange movement) attributable to owners of the parent	<b>309</b>	356

Exchange movement relates to the retranslation of prior year results to current year exchange rates as shown in the table on page 52 within the financial review.

## OPERATING ASSETS AND LIABILITIES

### 6 Intangible assets

This note provides details of the non-physical assets used by the Group to generate revenues and profits. These assets include items such as goodwill, and other intangible assets such as brands, customer relationships, computer software, in-process R&D and technology which have predominantly been acquired as part of business combinations. These assets are initially measured at fair value, which is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

Goodwill represents the excess of the amount paid to acquire a business over the fair value of the identifiable net assets of that business at the acquisition date.

This section also explains the accounting policies applied and the specific judgements and estimates made by the Directors in arriving at the carrying value of these assets.

#### 6.1 Goodwill

##### Accounting policy

Goodwill arising from the acquisition of a subsidiary represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's total identifiable net assets acquired. Goodwill is carried at cost less accumulated impairment losses.

Goodwill previously written off directly to reserves under UK GAAP prior to 1 October 1998 has not been reinstated and is not recycled to the income statement on the disposal of the business to which it relates.

Goodwill is tested for impairment annually and when circumstances indicate that it may be impaired. Goodwill is assessed for the purpose of impairment testing, at either the individual CGU level or group of CGUs, consistent with the level at which goodwill is monitored internally. Impairment is determined by assessing the recoverable amount of each CGU or group of CGUs to which the goodwill relates. When the recoverable amount of the CGU or group of CGUs is less than its carrying amount, an impairment loss is recognised.

At recognition, goodwill is allocated to those CGUs expected to benefit from the synergies of the combination.

	Note	2019 £m	2018 £m
<b>Cost at 1 October</b>		<b>2,100</b>	2,115
– Additions	15.1	<b>41</b>	–
– Disposals*	15.3	<b>3</b>	–
– Transfer to held for sale	15.3	<b>(119)</b>	(32)
– Exchange movement		<b>73</b>	17
<b>At 30 September</b>		<b>2,098</b>	2,100
 <b>Impairment at 1 October</b>		<b>92</b>	113
– Transfer to held for sale	15.3	<b>(93)</b>	–
– Exchange movement		<b>1</b>	(21)
<b>At 30 September</b>		<b>–</b>	92
 <b>Net book amount at 30 September</b>		<b>2,098</b>	2,008

\* Includes finalisation of the sale of Sage Payroll Solutions. See note 15.3.

## 6 Intangible assets continued

### 6.1 Goodwill continued

#### Cash-generating units

The following table shows the allocation of the carrying value of goodwill at the end of the reporting period by CGUs or group of CGUs:

	2019 £m	2018 £m
North America		
Sage Business Solutions Division (SBS)	<b>752</b>	705
Sage Intacct	<b>494</b>	466
UK & Ireland	<b>287</b>	287
France	<b>224</b>	225
Iberia	<b>134</b>	135
Central Europe	<b>87</b>	85
Africa and the Middle East	<b>31</b>	32
Australia	<b>28</b>	28
Asia	<b>20</b>	19
Sage Pay Europe (note 15.3)	–	26
Unallocated – Ocrex business combination*	<b>41</b>	–
	<b>2,098</b>	2,008

\* Unallocated goodwill relates to Ocrex Limited, which was acquired on 27 September 2019 and calculated on a provisional basis. See note 15.1. In accordance with IAS 36 "Impairment of assets", goodwill will be allocated before the end of the first annual period beginning after the acquisition date, being by 30 September 2020. Management assessed whether there have been any triggering event or indicator that could lead to an impairment of the goodwill acquired through the Ocrex Limited acquisition and concluded that there were no indicators that the fair value is lower than the amount paid by Sage.

#### Annual goodwill impairment tests

The recoverable amount of a CGU or group of CGUs is determined as the higher of its fair value less costs of disposal and its value in use. In determining value in use, estimated future cash flows are discounted to their present value. The Group performed its annual test for impairment as at 30 June 2019. In all cases, the 2020 budget and the approved Group plan for the three years following the current financial year form the basis for the cash flow projections for a CGU or group of CGUs with an extension of a further six years for the Sage Intacct CGU to reflect the planned growth following its acquisition in 2017. Beyond the three-year Group plan period and additional six-year period for the Sage Intacct CGU these projections are extrapolated using an estimated long-term growth rate. The key assumptions in the value in use calculations are the average medium-term revenue growth rates and the long-term growth rates of net operating cash flows.

- The average medium-term revenue growth rates represent the compound annual revenue growth for the first five (2018: five) years. The average medium-term revenue growth rate applied to CGUs reflects the specific rates for each territory.
- Long-term growth rates of net operating cash flows are assumed to be equal to the long-term growth rate in the gross domestic product of the country in which the CGU's operations are undertaken reflecting the specific rates for each territory.

Range of rates used across the different CGUs	2019	2018
– Average medium-term revenue growth rates*	<b>2%-17%</b>	4%-22%
– Long-term growth rates to net operating cash flows	<b>1%-3%</b>	1%-4%

\* Average medium-term revenue growth rate is calculated on value in use projections that exclude intercompany revenue.

In accordance with IAS 36, key assumptions for the value in use calculations are disclosed for those CGUs and groups of CGUs where significant goodwill is held. These are deemed by management to be CGUs or groups of CGUs holding more than 10% of total goodwill. The discount rate, average medium-term revenue growth rate and long-term growth rate assumptions used for the value in use calculation for these are shown below:

	Local discount rate (post-tax)	Approximate local discount rate (pre-tax) equivalent	Long-term growth rate	Average medium-term revenue growth rate*
<b>2019</b>				
– UKI	<b>7.9%</b>	<b>9.1%</b>	<b>2.1%</b>	<b>5.2%</b>
– France	<b>7.7%</b>	<b>9.6%</b>	<b>2.0%</b>	<b>3.9%</b>
– North America – SBS	<b>9.0%</b>	<b>11.6%</b>	<b>1.9%</b>	<b>4.8%</b>
– North America – Sage Intacct	<b>9.0%</b>	<b>10.7%</b>	<b>1.9%</b>	<b>16.8%</b>

	Local discount rate (post-tax)	Approximate local discount rate (pre-tax) equivalent	Long-term growth rate	Average medium-term revenue growth rate*
<b>2018</b>				
– UKI	7.9%	9.1%	2.1%	4.5%
– France	7.7%	9.8%	1.7%	5.2%
– North America – SBS	8.9%	11.6%	1.9%	5.8%
– North America – Sage Intacct	10.5%	12.5%	1.9%	21.7%

\* Average medium-term revenue growth rate is calculated on value in use projections that exclude 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 yield bonds and tax rates to each CGU or group of CGUs on a geographical basis. The discount rate applied to a CGU or group of CGUs represents a post-tax rate that reflects the market assessment of the time value of money as at 30 June 2019 and the risks specific to the CGU or group of CGUs. The post-tax discount rates applied to CGUs or group of CGUs were in the range of 7.2% (2018: 7.2%) to 15.6% (2018: 15.3%), reflecting the specific rates for each territory.

### Sensitivity analysis

A sensitivity analysis was performed for each of the significant CGUs or group of CGUs and other than for the Sage Intacct CGU management concluded that no reasonably possible change in any of the key assumptions would result in the carrying value of the CGU or group of CGUs to exceed its recoverable amount.

For the Intacct CGU, a reasonably possible change of a 2% increase in the discount rate combined with a decrease in the average medium-term revenue growth rate by 6% p.a. for the initial five years would reduce the value in use by £968m down to its carrying value. The Group has concluded that no reasonably possible change in the long-term growth rate would reduce the recoverable amount to below its carrying value.

For the Asia CGU, a reasonably possible change in the average medium-term revenue growth rate by 3% p.a. for the subsequent three years would reduce the value in use by £7m down to its carrying value. The Group has concluded that no reasonably possible change in discount rate or long-term growth rate would reduce the recoverable amount to below its carrying value.

### Impairment charge

The Group performed its annual test for impairment as at 30 June 2019. The recoverable amount exceeded the carrying value for each CGU or group of CGUs, accordingly no impairment charge has been recognised in the year (2018: £nil).

## 6 Intangible assets continued

### 6.2 Other intangibles

#### Accounting policy

Intangible assets arising on business combinations are recognised initially at fair value at the date of acquisition. Subsequently they are carried at cost less accumulated amortisation and impairment charges. The main intangible assets recognised are brands, technology, in-process R&D, computer software and customer relationships. Amortisation is charged to the income statement on a straight-line basis over their estimated useful lives.

The estimated useful lives are as follows:

Brand names	— 1 to 20 years	Customer relationships	— 4 to 15 years
Technology/In-process R&D ("IPR&D")	— 3 to 7 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. Software assets are amortised on a straight-line basis over their estimated useful lives, which do not exceed seven years.

The carrying value of intangibles is reviewed for impairment whenever events indicate that the carrying value may not be recoverable.

Internally-generated software development costs qualify for capitalisation when the Group can demonstrate all of the following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Its intention to complete the intangible asset and use or sell it;
- Its ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The existence of a market or, if it is to be used internally, the usefulness of the intangible asset;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- Its ability to measure reliably the expenditure attributable to the intangible asset during development.

Generally, commercial viability of new products is not proven until all high-risk development issues have been resolved through testing pre-launch versions of the product. As a result, technical feasibility is proven only after completion of the detailed design phase and formal approval, which occurs just before the products are ready to go to market. Accordingly, development costs have not been capitalised. However, the Group continues to assess the eligibility of development costs for capitalisation on a project-by-project basis.

Costs which are incurred after the general release of internally-generated software or costs which are incurred in order to enhance existing products are expensed in the period in which they are incurred and included within research and development expense in the financial statements.

	Brands £m	Technology £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
<b>Cost at 1 October 2018</b>	<b>41</b>	<b>187</b>	<b>4</b>	<b>135</b>	<b>183</b>	<b>550</b>
— Additions	—	4	—	11	—	15
— Disposals*	—	—	—	(1)	(8)	(9)
— Transfer to held for sale	(5)	(14)	—	(4)	(10)	(33)
— Exchange movement	1	5	—	5	7	18
<b>At 30 September 2019</b>	<b>37</b>	<b>182</b>	<b>4</b>	<b>146</b>	<b>172</b>	<b>541</b>
<b>Accumulated amortisation at 1 October 2018</b>	<b>35</b>	<b>99</b>	<b>4</b>	<b>85</b>	<b>67</b>	<b>290</b>
— Charge for the year	2	15	—	13	14	44
— Disposals*	—	—	—	(1)	(3)	(4)
— Transfer to held for sale	(4)	(14)	—	(3)	(6)	(27)
— Exchange movement	1	2	—	4	3	10
<b>At 30 September 2019</b>	<b>34</b>	<b>102</b>	<b>4</b>	<b>98</b>	<b>75</b>	<b>313</b>
<b>Net book amount at 30 September 2019</b>	<b>3</b>	<b>80</b>	<b>—</b>	<b>48</b>	<b>97</b>	<b>228</b>

\* Includes finalisation of the sale of Sage Payroll Solutions. See note 15.3.

	Brands £m	Technology £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
<b>Cost at 1 October 2017</b>	42	195	4	106	187	534
– Additions	–	12	–	27	–	39
– Acquisitions	–	11	–	–	–	11
– Disposals	–	–	–	(1)	–	(1)
– Transfer to held for sale	–	(34)	–	–	(6)	(40)
– Exchange movement	(1)	3	–	3	2	7
<b>At 30 September 2018</b>	41	187	4	135	183	550
<b>Accumulated amortisation at 1 October 2017</b>	33	102	4	67	54	260
– Charge for the year	3	18	–	13	14	48
– Disposals	–	–	–	–	–	–
– Transfer to held for sale	–	(19)	–	–	(1)	(20)
– Exchange movement	(1)	(2)	–	5	–	2
<b>At 30 September 2018</b>	35	99	4	85	67	290
<b>Net book amount at 30 September 2018</b>	6	88	–	50	116	260

All amortisation charges in the year have been charged through selling and administrative expenses.

## 7 Property, plant and equipment

This note details the physical assets used by the Group to operate the business and generate revenues and profits. Assets are shown at their purchase price less depreciation, which is an expense that is charged over the useful life of these assets to reflect annual usage and wear and tear, and impairment.

### 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	– over period of lease
Plant and equipment	– 2 to 7 years
Motor vehicles	– 4 years
Office equipment	– 2 to 7 years

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.

**7 Property, plant and equipment continued**

	Land and buildings £m	Plant and equipment £m	Motor vehicles and office equipment £m	Total £m
<b>Cost at 1 October 2018</b>	<b>92</b>	<b>130</b>	<b>60</b>	<b>282</b>
– Additions	–	25	2	27
– Disposals	–	(4)	(3)	(7)
– Disposal of subsidiaries	–	(2)	–	(2)
– Transfer to assets held for sale	–	(14)	(2)	(16)
– Exchange movement	–	2	2	4
<b>At 30 September 2019</b>	<b>92</b>	<b>137</b>	<b>59</b>	<b>288</b>
<b>Accumulated depreciation at 1 October 2018</b>	<b>18</b>	<b>94</b>	<b>41</b>	<b>153</b>
– Charge for the year	13	16	5	34
– Impairment	–	2	1	3
– Disposals	–	(4)	(3)	(7)
– Disposal of subsidiaries	–	(2)	–	(2)
– Transfer to assets held for sale	–	(12)	(1)	(13)
– Exchange movement	–	2	1	3
<b>At 30 September 2019</b>	<b>31</b>	<b>96</b>	<b>44</b>	<b>171</b>
<b>Net book amount at 30 September 2019</b>	<b>61</b>	<b>41</b>	<b>15</b>	<b>117</b>
	Land and buildings £m	Plant and equipment £m	Motor vehicles and office equipment £m	Total £m
<b>Cost at 1 October 2017</b>	<b>93</b>	<b>120</b>	<b>58</b>	<b>271</b>
– Additions	1	13	6	20
– Disposals	(2)	(4)	(3)	(9)
– Exchange movement	–	1	(1)	–
<b>At 30 September 2018</b>	<b>92</b>	<b>130</b>	<b>60</b>	<b>282</b>
<b>Accumulated depreciation at 1 October 2017</b>	<b>17</b>	<b>83</b>	<b>38</b>	<b>138</b>
– Charge for the year	1	15	4	20
– Disposals	–	(4)	(2)	(6)
– Exchange movement	–	–	1	1
<b>At 30 September 2018</b>	<b>18</b>	<b>94</b>	<b>41</b>	<b>153</b>
Net book amount at 30 September 2018	74	36	19	129

All depreciation charges in the year have been charged through selling and administrative expenses. Of these depreciation charges, £12m (2018: £nil) has been classified as a non-recurring adjustment, see note 3.6.

## 8 Working capital

This note provides the amounts invested by the Group in working capital balances at the end of the financial year. Working capital is made up of trade and other receivables, trade and other payables and deferred income.

Trade and other receivables are made up of amounts owed to the Group by customers, amounts that we pay to our suppliers in advance and unamortised incremental costs to acquire a contract. Trade receivables are shown net of an allowance for bad and doubtful debts. Our trade and other payables are amounts we owe to our suppliers that have been invoiced to us or accrued by us. They also include taxes and social security amounts due in relation to our role as an employer.

This note also gives some additional detail on the age and recoverability of our trade receivables, which provides an understanding of the credit risk faced by the Group as a part of everyday trading. Credit risk is further disclosed in note 13.6.

### 8.1 Trade and other receivables

#### Accounting policy

##### Trade receivables and contract assets

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for expected credit losses.

The Group uses the term "Trade receivables" for contract receivables. These are recognised when the right to consideration is unconditional. Typically, the Group invoices fees for perpetual licences on contract closure and delivery. For performance obligations satisfied over time, judgement is required in determining whether a right to consideration is unconditional. In such situations, a receivable is recognised for the transaction price of the non-cancellable portion of the contract when the Group starts satisfying the performance obligation.

When revenue recognised in respect of a customer contract exceeds amounts received or receivable from the customer a contract asset is recognised.

The Group has accounted for its trade receivables in accordance with IFRS 9 for the first time in the year ended 30 September 2019. Information relating to the year ended 30 September 2018 is presented in accordance with the Group's previous accounting policies under IAS 39. Under IAS 39, a provision for impairment of trade receivables was established when there was objective evidence that the Group would not be able to collect all amounts due according to the original terms of the receivables. Further explanation of the changes arising on transition to IFRS 9 is included in note 1.

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. Differences between IFRS 15 and previous accounting policy are set out in note 17.

Judgement is required in determining the amounts to be capitalised, particularly where the commissions are based on cumulative targets. The Group capitalises such cumulative target commissions for all customer contracts that count towards the cumulative target but only if nothing other than obtaining customer contracts can contribute to achieving the cumulative target.

The capitalised assets are amortised over the period during which the related revenue is recognised, which may extend beyond the initial contract term where the Group expects to benefit from future renewals as a result of incurring the costs. Typically, either the Group does not pay sales commissions for customer contract renewals or such commissions are not commensurate with the commissions paid for new contracts. Consequently, the Group amortises sales commissions paid for new customer contracts on a straight-line basis over the expected contract life including probable contract renewals. Judgement is required in estimating these contract lives. In exercising this judgement, the Group considers respective renewal history adjusted for indications that the renewal history is not fully indicative of future renewals.

The amortisation periods range from one year to ten years depending on the type of commission arrangement. Amortisation of the capitalised costs of obtaining customer contracts is reported within selling and administrative expenses.

## 8 Working capital continued

### 8.1 Trade and other receivables continued

	2019 £m	2018 £m
<b>Non-current:</b>		
Customer acquisition costs	<b>65</b>	–
Other receivables	<b>4</b>	–
Prepayments	<b>4</b>	2
	<b>73</b>	2
<b>Current:</b>		
Trade receivables	<b>280</b>	390
Less: allowance for expected credit losses	<b>(23)</b>	(20)
Trade receivables – net	<b>257</b>	370
Other receivables	<b>15</b>	24
Prepayments	<b>55</b>	66
Customer acquisition costs	<b>37</b>	–
	<b>364</b>	460

The Group has incurred £111m to obtain customer contracts and an amortisation expense of £76m was recognised in operating profit during the year. There were no material contract assets.

Movements on the Group allowance for expected credit losses of trade receivables were as follows:	2019 £m	2018 £m
At 1 October	<b>20</b>	21
Impact of adoption of IFRS 9	<b>6</b>	–
Increase in allowance for expected credit losses	<b>7</b>	7
Receivables written off during the year as uncollectable	<b>(5)</b>	(6)
Unused amounts reversed	<b>(3)</b>	(5)
Transfer to held for sale	<b>(1)</b>	–
Exchange movement	<b>(1)</b>	3
<b>At 30 September</b>	<b>23</b>	20

The Group's credit risk on trade and other receivables is primarily attributable to trade receivables. The Group has no significant concentrations of credit risk since the risk is spread over a large number of unrelated counterparties.

The Group's businesses implement policies, procedures and controls to manage customer credit risk. Outstanding balances are regularly monitored and reviewed to identify any change in risk profile. The Group recognises a loss allowance against trade receivables using the simplified approach under IFRS 9. The amount of the allowance reflects the lifetime expected credit losses measured using historical payment default rates determined for each geographical market in which the Group operates. The historical default rates are adjusted where necessary if they do not reflect the level of future expected credit losses, for example because of changes in the local economy or other commercial considerations. The allowance for expected credit losses is calculated using a provision matrix. The amount of the allowance increases as outstanding balances age. A customer balance is written off when it is considered that there is no reasonable expectation that the amount will be collected and legal enforcement activities have ceased.

An analysis of the gross carrying amount of trade receivables showing credit risk exposure by age of the outstanding balance is as follows:

Trade receivables at 30 September 2019	Not yet due £m	1-30 days overdue £m	31-60 days overdue £m	61-90 days overdue £m	91+ days overdue £m	Total £m
Expected credit loss rate	<b>2%</b>	<b>2%</b>	<b>17%</b>	<b>47%</b>	<b>77%</b>	–
Estimated total gross carrying amount at default	<b>203</b>	<b>39</b>	<b>10</b>	<b>12</b>	<b>16</b>	<b>280</b>
Expected credit loss	<b>(3)</b>	<b>(1)</b>	<b>(1)</b>	<b>(6)</b>	<b>(12)</b>	<b>(23)</b>

Disclosures for the prior year are presented in accordance with the requirements that applied under IAS 39:

At 30 September 2018, trade receivables of £22m were either partially or fully impaired.

<b>The ageing of these receivables was as follows:</b>	2018 £m
Not due	–
Less than six months past due	2
More than six months past due	20
	<b>22</b>

Trade receivables which were past due date but not impaired at 30 September 2018 were £82m.

<b>The ageing of these receivables was as follows:</b>	2018 £m
Less than six months past due	67
More than six months past due	15
	<b>82</b>

Included in selling and administrative expenses in the income statement is £17m (2018: £16m) 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 Directors estimate that the carrying value of trade receivables approximated their fair value.

## 8.2 Trade and other payables

### Accounting policy

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

<b>Trade and other payables can be analysed as follows:</b>	2019 £m	2018 £m
Trade payables	<b>16</b>	29
Other tax and social security payable	<b>37</b>	52
Other payables	<b>38</b>	31
Cash held on behalf of customers (see note 12.3)	–	19
Accruals	<b>200</b>	118
	<b>291</b>	249

## 8.3 Deferred income

### Accounting policy

If amounts received or receivable from a customer exceed revenue recognised for a contract, a contract liability is recognised. The Group uses the term "Deferred income" for a contract liability. Contract liabilities primarily reflect invoices due or payments received in advance of revenue recognition. Deferred revenue is unwound as related performance obligations are satisfied.

In all material respects current deferred income at 1 October 2018 was recognised as revenue during the year. Other than business-as-usual movements there were no significant changes in contract liability balances during the year.

## 9 Provisions

This note provides details of the provisions recognised by the Group, where a liability exists of uncertain timing or amount. The main estimates in this area relate to legal exposure, employee severance, onerous leases and dilapidation charges.

This section also explains the accounting policies applied and the specific judgements and estimates made by the Directors in arriving at the value of these liabilities.

### Accounting policy

A provision is recognised only when all three of the following conditions are met:

- The Group has a present obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the present value of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, i.e. the present value of the amount that the Group would rationally pay to settle the obligation at the balance sheet date or to transfer it to a third party.

	Restructuring £m	Legal £m	Building £m	Other £m	Total £m
At 1 October 2018	<b>2</b>	<b>11</b>	<b>22</b>	<b>2</b>	<b>37</b>
– Additional provision in the year	<b>1</b>	<b>4</b>	<b>13</b>	–	<b>18</b>
– Provision utilised in the year	<b>(2)</b>	<b>(4)</b>	<b>(19)</b>	–	<b>(25)</b>
– Unused amounts reversed	–	<b>(1)</b>	–	–	<b>(1)</b>
– Exchange movement	–	<b>(1)</b>	–	–	<b>(1)</b>
– Transfer to held for sale	–	<b>(2)</b>	–	–	<b>(2)</b>
At 30 September 2019	<b>1</b>	<b>7</b>	<b>16</b>	<b>2</b>	<b>26</b>

	Restructuring £m	Legal £m	Building £m	Other £m	Total £m
<b>Maturity profile</b>					
< 1 year	<b>1</b>	<b>3</b>	<b>5</b>	<b>2</b>	<b>11</b>
1–2 years	–	<b>4</b>	<b>7</b>	–	<b>11</b>
2–5 years	–	–	<b>3</b>	–	<b>3</b>
> 5 years	–	–	<b>1</b>	–	<b>1</b>
At 30 September 2019	<b>1</b>	<b>7</b>	<b>16</b>	<b>2</b>	<b>26</b>

Restructuring provisions are for the estimated costs of Group restructuring activities and relate mainly to employee severance which remains unpaid at the balance sheet date. These provisions will be utilised as obligations are settled which is generally expected to be within one year.

Legal provisions have been made in relation to ongoing disputes with third parties and other claims against the Group. The ageing of legal provisions is assessed regularly, based upon internal and external legal advice, as required.

Building provisions relate to dilapidation charges and onerous lease commitments. The timing of the cash flows associated with building provisions is dependent on the timing of lease agreement termination. This includes the non-recurring property restructuring costs which remain unpaid at the balance sheet date (see note 3.6).

Other provisions comprise mainly those for the costs of warranty cover provided by the Group in respect of products sold to third parties. The timing of the cash flows associated with warranty provisions is spread over the period of warranty with the majority of the claims expected in the first year.

## 10 Post-employment benefits

This note explains the accounting policies governing the Group's pension schemes, analyses the deficit on the defined benefit pension scheme and shows how it has been calculated.

The majority of the Group's employees are members of defined contribution pension schemes. Additionally, the Group operates two small defined benefit schemes in France and Switzerland.

For defined contribution schemes, the Group pays contributions into separate funds on behalf of the employee and has no further obligations to employees. The risks associated with this type of plan are assumed by the member. Contributions paid by the Group in respect of the current period are included within the income statement.

The defined benefit scheme is a pension arrangement under which participating members receive a pension benefit at retirement determined by the scheme rules, salary and length of pensionable service. The income statement charge for the defined benefit scheme is the current/past service cost and the net interest cost which is the change in the net defined benefit liability that arises from the passage of time. The Group underwrites both financial and demographic risks associated with this type of plan.

### Accounting policy

Obligations under defined contribution schemes are recognised as an operating cost in the income statement as incurred.

The Group also operates a small defined benefit pension scheme in Switzerland and other post-employment benefit schemes in France. The assets of these schemes are held separately from the assets of the Group. Under French legislation, the Group is required to make one-off payments to employees in France who reach retirement age while still in employment. The costs of providing benefits under these schemes are determined using the projected unit credit actuarial valuation method.

The current service cost and gains and losses on settlements and curtailments are included in selling and administrative expenses in the income statement. Past service costs should be recognised on the earlier of the date of the plan amendment and the date the Group recognises restructuring-related costs. Interest on the pension plan assets and the imputed interest on pension plan liabilities are included within selling and administrative expenses in the income statement.

Changes in the post-employment benefit obligation due to experience and changes in actuarial assumptions are included in the statement of comprehensive income in full in the period in which they arise.

The liability recognised in the balance sheet in respect of the defined benefit pension scheme is the present value of the defined benefit obligation and future administration costs at the end of the reporting period, less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximate to the terms of the related pension liability.

The calculation of the defined benefit obligation of a defined benefit plan requires estimation of future events, for example salary and pension increases, inflation and mortality rates. In the event that future experience does not bear out the estimates made in previous years, an adjustment will be made to the plan's defined benefit obligation in future periods which could have a material effect on the Group.

A sensitivity analysis has been performed on the significant assumptions. The significant assumptions are deemed to be the discount rate and salary increases, as these are most likely to have a material impact on the defined benefit obligations. The analysis has been performed by the independent actuaries.

Pension costs included in the consolidated income statement	Note	2019 £m	2018 £m
Defined contribution schemes		<b>16</b>	11
Defined benefit plans		<b>2</b>	2
	3.3	<b>18</b>	13

## 10 Post-employment benefits continued

### Defined benefit plans

The most recent actuarial valuations of the post-employment benefit plans were performed by KPMG (France) and PwC (Switzerland) during the year for the year ended 30 September 2019.

	2019 %	2018 %
<b>Weighted average principal assumptions made by the actuaries</b>		
Rate of increase in pensionable salaries	<b>2.0</b>	2.0
Discount rate	<b>0.3</b>	1.0
Inflation assumption	<b>2.0</b>	2.0

	2019 Years	2018 Years
<b>Mortality rate assumptions made by the actuaries</b>		
Average life expectancy for 65-year-old male	<b>21</b>	21
Average life expectancy for 65-year-old female	<b>23</b>	23
Average life expectancy for 45-year-old male	<b>40</b>	40
Average life expectancy for 45-year-old female	<b>43</b>	43

	2019 £m	2018 £m
<b>Amounts recognised in the balance sheet</b>		
Present value of funded obligations	<b>(48)</b>	(41)
Fair value of plan assets	<b>23</b>	19
<b>Net liability recognised in the balance sheet</b>	<b>(25)</b>	(22)

	£m	2019 %	£m	2018 %
<b>Major categories of plan assets as a percentage of total plan assets</b>				
Bonds (quoted)	<b>8</b>	<b>35</b>	6	29
Equities (quoted)	<b>6</b>	<b>26</b>	6	34
Other (unquoted)	<b>9</b>	<b>39</b>	7	37
	<b>23</b>	<b>100</b>	19	100

Expected contributions to post-employment benefit plans for the year ending 30 September 2020 are £1m (2018: expected contributions for the year ending 30 September 2019: £1m).

	2019 £m	2018 £m
<b>Amounts recognised in the income statement</b>		
Net interest costs on obligation	—	—
Current service cost	<b>(2)</b>	(2)
<b>Total included within staff costs – all within selling and administrative expenses</b>	<b>(2)</b>	(2)

	2019 £m	2018 £m
<b>Changes in the present value of the defined benefit obligation</b>		
At 1 October	<b>(41)</b>	(43)
Exchange movement	<b>(1)</b>	—
Service cost	<b>(2)</b>	(2)
Plan participant contributions	<b>(1)</b>	(1)
Interest cost	<b>(1)</b>	—
Benefits paid	<b>2</b>	3
Actuarial (loss)/gain – financial assumptions	<b>(3)</b>	1
Actuarial (loss)/gain – experience	<b>(1)</b>	1
<b>At 30 September</b>	<b>(48)</b>	(41)

<b>Changes in the fair value of plan assets</b>	<b>2019 £m</b>	<b>2018 £m</b>
At 1 October	<b>19</b>	21
Exchange movement	<b>1</b>	–
Employer's contributions	<b>1</b>	1
Plan participant contributions	<b>1</b>	1
Benefits paid	<b>(2)</b>	(2)
Actuarial gain on plan assets	<b>3</b>	(2)
<b>At 30 September</b>	<b>23</b>	19

<b>Analysis of the movement in the balance sheet liability</b>	<b>2019 £m</b>	<b>2018 £m</b>
At 1 October	<b>(22)</b>	(22)
Total expense as recognised in the income statement	<b>(3)</b>	(2)
Benefits paid	–	1
Contributions paid	<b>1</b>	1
Actuarial loss	<b>(1)</b>	–
<b>At 30 September</b>	<b>(25)</b>	(22)

<b>Sensitivity analysis on significant actuarial assumptions</b>	<b>2019 £m</b>	<b>2018 £m</b>
Discount rate applied to scheme obligations	<b>+/- 0.5% pa</b>	<b>3</b>
Salary increases	<b>+/- 0.5% pa</b>	<b>2</b>

## 11 Deferred income tax

Deferred income tax is an accounting adjustment to recognise liabilities or benefits that are expected to arise in the future due to differences in the carrying value of assets and liabilities and their respective tax bases. In this note we outline the accounting policies, movements in the year on the deferred tax account and the net deferred tax asset or liability at the year end.

A deferred tax asset represents a tax reduction that is expected to arise in a future period.

A deferred tax liability represents taxes which will become payable in a future period as a result of a current or an earlier transaction.

### Accounting policy

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

Tax assets and liabilities are offset when there is a legally enforceable right and there is an intention to settle the balances net.

## 11 Deferred income tax continued

**The movement on the deferred tax account is as shown below:**

	2019 £m	2018 £m
At 1 October	<b>26</b>	36
Income statement (charge)/credit	(1)	–
Acquisition of subsidiaries	–	(3)
Disposal of subsidiaries	–	–
Transfer to held for sale	(13)	1
Other balance sheet reclassification	–	(1)
Exchange movement	(1)	(5)
Other comprehensive income/equity movement in deferred tax	(4)	(2)
<b>At 30 September</b>	<b>7</b>	26

**The net deferred tax asset at the end of the year is analysed below:**

	2019 £m	2018 £m
Deferred tax assets	<b>31</b>	51
Deferred tax liabilities	(24)	(25)
<b>Net deferred tax asset</b>	<b>7</b>	26

Deferred tax assets have been recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered. Each of these assets are reviewed to ensure there is sufficient evidence to support their recognition. All underlying temporary differences where a deferred tax liability arising from investments in subsidiaries and associates have been appropriately recognised where it is probable the temporary difference will reverse in the foreseeable future.

In particular, there are tax losses carried forward in respect of Brazilian entities generating a potential net tax asset of £13m. There is sufficient supporting evidence of future profitability which is available to allow for the recognition of this asset. This evidence includes detailed financial projections for each individual entity as adjusted for tax sensitive items. As at 30 September 2019 following a decision to sell the Brazilian entities this asset has been transferred to held for sale and can be recovered on transfer of ownership. See note 15.3.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as required by IAS 12 "Income Taxes", during the year are shown below. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Deferred tax assets and liabilities categorised as "other deferred tax" of £32m (2018: £36m) includes various balances in relation to accounting provisions/accruals (asset £22m) (2018: £31m), goodwill amortisation (liability £21m) (2018: £13m), deferred revenue (asset £17m) (2018: £16m), deferred tax on stock options (asset £7m) (2018: £1m), interest carried forward (asset £3m) (2018: nil), R&D capitalisation (asset £2m) (2018: nil), and other sundry amounts (asset £2m) (2018: £1m).

All underlying temporary differences arising from investments in subsidiaries and associates have been appropriately recognised where it is probable the temporary difference will reverse in the foreseeable future.

<b>Deferred tax</b>	<b>Intangible assets £m</b>	<b>Tax losses £m</b>	<b>Other £m</b>	<b>Total £m</b>
<b>At 1 October 2017</b>	(60)	59	37	36
Income statement credit/(debit)	22	(27)	5	–
Acquisition/disposal	(3)	–	–	(3)
Transferred to assets held for sale	8	(7)	–	1
Other comprehensive income/equity movement in deferred tax	–	–	(2)	(2)
Other balance sheet reclassification	–	–	(1)	(1)
Exchange movement	(1)	(1)	(3)	(5)
<b>At 30 September 2018</b>	<b>(34)</b>	<b>24</b>	<b>36</b>	<b>26</b>
<b>Income statement (debit)/credit</b>	<b>(1)</b>	<b>(5)</b>	<b>5</b>	<b>(1)</b>
Acquisition/disposal	–	–	–	–
Transferred to assets held for sale	2	(10)	(5)	(13)
Other comprehensive income/equity movement in deferred tax	–	–	(4)	(4)
Exchange movement	(2)	1	–	(1)
<b>At 30 September 2019</b>	<b>(35)</b>	<b>10</b>	<b>32</b>	<b>7</b>

The company has unrecognised carried forward losses of £62m (2018: £50m) in the UK and the US available indefinitely to reduce certain future taxable profits. Deferred tax assets have not been recognised in respect of these losses due to uncertainty whether suitable profits will arise in future periods against which the deferred tax asset would reverse.

## NET DEBT AND CAPITAL STRUCTURE

### 12 Cash flow and net debt

This note analyses our operational cash generation, shows the movement in our net debt in the year, and explains what is included within our cash balances and borrowings at the year end.

Cash generated from operations is the starting point of our consolidated statement of cash flows. This section outlines the adjustments for any non-cash accounting items to reconcile our accounting profit for the year to the amount of cash we generated from our operations.

Net debt represents the amount of cash held less borrowings, overdrafts, and cash held on behalf of customers.

Borrowings are mostly made up of fixed-term external debt which the Group has taken out in order to finance acquisitions in the past.

#### 12.1 Cash flow generated from continuing operations

	2019 £m	2018 £m
<b>Reconciliation of profit for the year to cash generated from continuing operations</b>		
Profit for the year	<b>266</b>	295
<b>Adjustments for:</b>		
– Income tax	<b>95</b>	103
– Finance income	<b>(8)</b>	(5)
– Finance costs	<b>29</b>	34
– Amortisation and impairment of intangible assets	<b>44</b>	48
– Depreciation and impairment of property, plant and equipment	<b>37</b>	20
– Impairment and cost of disposal of assets held for sale	<b>19</b>	–
– Loss on disposal of tangible assets	<b>–</b>	1
– R&D tax credits	<b>(2)</b>	(6)
– Equity-settled share-based transactions	<b>32</b>	18
– (Gain)/loss on disposal of subsidiary	<b>(28)</b>	1
– Exchange movement	<b>–</b>	–
<b>Changes in working capital (excluding effects of acquisitions and disposals of subsidiaries):</b>		
– Decrease in trade and other receivables	<b>18</b>	7
– Increase/(decrease) in trade and other payables and provisions	<b>46</b>	(61)
– Increase in deferred income	<b>38</b>	32
<b>Cash generated from continuing operations</b>	<b>586</b>	487

#### 12.2 Net debt

	2019 £m	2018 £m
<b>Reconciliation of net cash flow to movement in net debt</b>		
<b>Increase in cash in the year (pre-exchange movements)</b>	<b>158</b>	107
Cash outflow from movement in loans, and cash held on behalf of customers	<b>142</b>	60
<b>Change in net debt resulting from cash flows</b>	<b>300</b>	167
Acquisitions	<b>1</b>	–
Non-cash movements	<b>(2)</b>	(2)
Exchange movement	<b>(24)</b>	(20)
<b>Movement in net debt in the year</b>	<b>275</b>	145
Net debt at 1 October	<b>(668)</b>	(813)
<b>Net debt at 30 September</b>	<b>(393)</b>	(668)

Analysis of change in net debt	At 1 October 2017 £m	At 1 October 2018 £m	Cash flow £m	Acquisitions £m	Reclassification as held for sale	Disposal of subsidiary £m	Non-cash movements £m	Exchange movement £m	At 30 September 2019 £m
Cash and cash equivalents	231	272	120	1	(4)	(26)	–	8	371
Bank overdrafts	(18)	(8)	5	–	3	–	–	–	–
Cash and bank overdrafts amounts included in held for sale	–	58	33	–	1	(91)	–	–	1
Cash, cash equivalents and bank overdrafts including cash held for sale	213	322	158	1	–	(117)	–	8	372
<i>Liabilities arising from financing activities</i>									
Loans due within one year	(37)	–	–	–	–	–	(115)	(7)	(122)
Loans due after more than one year	(914)	(913)	181	–	–	–	113	(24)	(643)
Cash held on behalf of customers	(75)	(19)	(6)	–	–	26	–	(1)	–
Cash held on behalf of customers included in held for sale	–	(58)	(33)	–	–	91	–	–	–
	(1,026)	(990)	142	–	–	117	(2)	(32)	(765)
<b>Total</b>	<b>(813)</b>	<b>(668)</b>	<b>300</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>(2)</b>	<b>(24)</b>	<b>(393)</b>

Included in cash above is £nil (2018: £77m) relating to cash held on behalf of customers. The reduction in the year is due to the disposals made in the current year, see note 15.3.

### 12.3 Cash and cash equivalents (excluding bank overdrafts and cash amounts included in held for sale)

#### Accounting policy

For the purpose of preparation of the consolidated statement of cash flows and the consolidated balance sheet, cash and cash equivalents include cash at bank and in hand and short-term deposits with an original maturity period of three months or less. Bank overdrafts that are an integral part of a subsidiary's cash management are included in cash and cash equivalents where they have a legal right of set-off and there is an intention to settle net, against positive cash balances, otherwise bank overdrafts are classified as borrowings. Cash and cash equivalents are measured at amortised cost.

	2019 £m	2018 £m
Cash at bank and in hand	370	252
Cash held on behalf of customers	–	19
Short-term bank deposits	1	1
	<b>371</b>	<b>272</b>

In line with contractual obligations or Company practice, cash held on behalf of customers is held in separate bank accounts by the Group until such time as these amounts are paid.

The credit risk on liquid funds is considered to be low, as the Board-approved Group treasury policy limits the value that can be invested with each approved counterparty to minimise the risk of loss. The Group policy is to place cash and cash equivalents with counterparties which are well established banks with high credit ratings where available. In some jurisdictions there is limited availability of such counterparties.

Cash and cash equivalents are classified and measured at amortised cost under IFRS 9 and are therefore subject to the expected loss model requirements of that standard. However, no material expected credit losses have been identified. At 30 September 2019, 93% (2018: 80%) of the cash and cash equivalents balance was deposited with financial institutions rated at least A3 by Moody's Investors Service. The investment instruments utilised are money market funds, money market term deposits and bank deposits.

The Group's maximum exposure to credit risk in relation to cash and cash equivalents is their carrying amount in the balance sheet.

## 12 Cash flow and net debt continued

### 12.4 Borrowings (excluding borrowings included in held for sale)

#### Accounting policy

Interest-bearing borrowings are recognised initially at fair value less attributable issue costs, which are amortised over the period of the borrowings. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of borrowing on an effective interest basis.

	2019 £m	2018 £m
<b>Current</b>		
Bank overdrafts	–	8
US senior loan notes – unsecured	<b>122</b>	–
	<b>122</b>	8
<b>Non-current</b>		
Bank loans – unsecured	<b>243</b>	416
US senior loan notes – unsecured	<b>400</b>	497
	<b>643</b>	913

Included in loans above is £765m (2018: £913m) of unsecured loans (after unamortised issue costs).

In the table above, bank loans and loan notes are stated net of unamortised issue costs of £2m (2018: £2m). Unsecured bank loans attract an average interest rate of 2.6% (FY18: 2.1%).

<b>Borrowings</b>	Year issued	Interest coupon	Maturity	<b>Loan value</b>	
				2019 £m	2018 £m
US private placement					
– USD 150m loan note	2013	3.08%	20-May-20	<b>122</b>	115
– USD 150m loan note	2013	3.71%	20-May-23	<b>122</b>	115
– USD 50m loan note	2013	3.86%	20-May-25	<b>40</b>	38
– EUR 55m loan note	2015	1.89%	26-Jan-22	<b>49</b>	49
– EUR 30m loan note	2015	2.07%	26-Jan-23	<b>27</b>	27
– USD 200m loan note	2015	3.73%	26-Jan-25	<b>162</b>	153

Unsecured bank loans comprises a fixed term loan of £200m (2018: £nil) expiring in September 2021 and £45m drawings (2018: £418m) under the multi-currency revolving credit facility of £720m (2018: £686m) expiring in February 2024, which consists both of US\$719m/£585m (2018: US\$719m/£551m) and of £135m (2018: £135m) tranches.

## 13 Financial instruments

This note shows details of the fair value and carrying value of short and long-term borrowings, trade and other payables, trade and other receivables, short-term bank deposits and cash at bank and in hand. These items are all classified as "financial instruments" under accounting standards. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In order to assist users of these financial statements in making an assessment of any risks relating to financial instruments, this note also sets out the maturity of these items and analyses their sensitivity to changes in key inputs, such as interest rates and foreign exchange rates. An explanation of the Group's exposure to, and management of, capital, liquidity, credit, interest rate and foreign currency risk is set out in the financial risk management section at the end of this note.

### Accounting policy

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the rights to receive cash flows from the asset have expired, or when the Group has transferred those rights and either has also transferred substantially all the risks and rewards of the asset or has neither transferred nor retained substantially all the risks and rewards of the asset but no longer has control of the asset.

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

The amounts in the consolidated balance sheet that are accounted for as financial instruments, and their classification under IFRS 9, are as follows:

As at 30 September 2019	Note	IFRS9 classification		Total £m
		At amortised cost £m	At fair value through profit or loss £m	
<b>Non-current assets</b>				
Other financial assets		3	1	4
Trade and other receivables: other receivables	8.1	1	3	4
<b>Current assets</b>				
Trade and other receivables: trade receivables	8.1	257	–	257
Trade and other receivables: other receivables	8.1	13	2	15
Cash and cash equivalents	12.3	371	–	371
<b>Current liabilities</b>				
Trade and other payables excluding other tax and social security	8.2	(254)	–	(254)
Borrowings		(122)	–	(122)
<b>Non-current liabilities</b>				
Borrowings	12.4	(643)	–	(643)
		(374)	6	(368)

### 13 Financial instruments continued

For the year ended 30 September 2018, financial instruments are reported under IAS 39. The amounts in the consolidated balance sheet at that date that are accounted for as financial instruments, and their classification under IAS 39, are as follows. The changes resulting from the adoption of IFRS 9 are explained in note 1.

As at 30 September 2018	Note	IAS 39 classification					Total £m
		Loans and receivables £m	Available -for-sale £m	At fair value through profit or loss £m	At amortised cost £m		
<b>Non-current assets</b>							
Fixed asset investment		–	17	–	–	–	17
Other financial assets	2	–	–	1	–	–	3
<b>Current assets</b>							
Trade and other receivables: trade receivables	8.1	370	–	–	–	–	370
Trade and other receivables: other receivables	8.1	23	–	–	–	–	23
Cash and cash equivalents (excluding bank overdrafts)	12.3	272	–	–	–	–	272
<b>Current liabilities</b>							
Trade and other payables: trade payables	8.3	–	–	–	(29)	(29)	
Trade and other payables: other payables	8.3	–	–	–	(31)	(31)	
Trade and other payables: cash held on behalf of customers	8.3	–	–	–	(19)	(19)	
Borrowings	12.4	–	–	–	(8)	(8)	
<b>Non-current liabilities</b>							
Borrowings	12.4	–	–	–	(913)	(913)	
Trade and other payables		–	–	–	(8)	(8)	
		666	17	1	(1,008)	(324)	

#### 13.1 Fair values of financial instruments

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

##### Borrowings

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

	Note	2019		2018	
		Book value £m	Fair value £m	Book value £m	Fair value £m
<b>Long-term borrowing</b>	12.4	(643)	(660)	(913)	(906)
<b>Short-term borrowing</b>	12.4	(122)	(122)	(8)	(8)

##### Fixed asset investment

At 30 September 2018, the Group had a US\$ fixed asset investment in an unquoted equity instrument which was classified as an available-for-sale financial asset under IAS 39 and carried at its fair value of £17m. During the year ended 30 September 2019, the investment was derecognised on its redemption by the issuer. The fair value of the investment at the date of derecognition was £17m, and no gain or loss arose on disposal. On transition to IFRS 9, the Group elected to classify the investment as held at fair value through other comprehensive income as the investment was not considered to be held for trading. As a result, changes in the fair value of the investment continued to be recognised in the statement of other comprehensive income when they arose. However, in a change to the previous treatment, the cumulative gain was not reclassified to profit for the period when the investment was derecognised. At 30 September 2018, the fair value of the investment was determined using a discounted cash flow valuation technique. The main inputs to the calculation for which assumptions were made were the discount rate, the timing of future cash flows and the period over which the investment would continue to be held. The gain on revaluation of £1m was recognised in other comprehensive income in the year ended 30 September 2018. The remaining movement was due to foreign currency exchange. This was a level 3 fair value as defined within IFRS 13.

### **Contingent consideration receivable**

On the disposal of Sage Payroll Solutions during the year, the Group recognised contingent consideration receivable of £5m. This is classified as a financial asset measured at fair value through profit or loss. An explanation of the measurement basis applied is set out in note 15.3.

### **13.2 Maturity of financial liabilities**

The maturity profile of the undiscounted contractual amount of the Group's financial liabilities at 30 September was as follows:

	2019		
	Borrowings £m	Trade and other payables excluding other tax and social security £m	Total £m
In less than one year	148	255	403
In more than one year but not more than two years	217	1	218
In more than two years but not more than five years	278	–	278
In more than five years	206	–	206
	849	256	1,105

	2018		
	Borrowings £m	Trade and other payables excluding other tax and social security £m	Total £m
In less than one year	36	197	233
In more than one year but not more than two years	144	3	147
In more than two years but not more than five years	667	5	672
In more than five years	202	–	202
	1,049	205	1,254

The maturity profile of provisions is disclosed in note 9.

### **13.3 Borrowing facilities**

The Group has the following undrawn committed borrowing facilities available at 30 September in respect of which all conditions precedent had been met at that date:

	2019 £m	2018 £m
Expiring in more than two years but not more than five years	675	268

The facilities have been arranged to help finance the expansion of the Group's activities. All these facilities incur commitment fees at market rates. In addition, the Group maintains overdraft and uncommitted facilities to provide short-term flexibility and has also utilised the US private placement market.

## 13 Financial instruments continued

### 13.4 Market risk sensitivity analysis

Financial instruments affected by market risks include borrowings and deposits.

The following analysis, required by IFRS 7 "Financial Instruments: Disclosures", is intended to illustrate the sensitivity to changes in market variables, being sterling, US Dollar and Euro interest rates, and sterling/US Dollar and sterling/Euro exchange rates.

The sensitivity analysis assumes reasonable movements in foreign exchange and interest rates before the effect of tax. The Group considers a reasonable interest rate movement in LIBOR to be 1%, based on interest rate history. Similarly, sensitivity to movements in sterling/US Dollar and sterling/Euro exchange rates of 10% are shown, reflecting changes of reasonable proportion in the context of movement in those currency pairs over the last year.

Using the above assumptions, the following table shows the illustrative effect on the consolidated income statement and equity resulting from changes in market interest rates.

	2019		2018	
	Income (losses)/gains £m	Equity (losses)/gains £m	Income (losses)/gains £m	Equity (losses)/gains £m
1% increase in market interest rates	(2)	(2)	(3)	(3)
1% decrease in market interest rates	2	2	3	3

The following table shows the illustrative effect on equity resulting from changes in Sterling/US Dollar and Sterling/Euro exchange rates:

	2019		2018	
	Equity gains/(losses) £m	Equity gains/(losses) £m	Equity gains/(losses) £m	Equity gains/(losses) £m
10% strengthening of sterling versus the US Dollar	41		38	
10% strengthening of sterling versus the Euro	7		7	
10% weakening of sterling versus the US Dollar	(50)		(47)	
10% weakening of sterling versus the Euro	(8)		(8)	

### 13.5 Hedge accounting

#### Accounting policy

On transition to IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39. The Group applies hedge accounting to external borrowings that are designated as a hedge of a net investment in foreign operations.

The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation which is determined to be an effective hedge is recognised in other comprehensive income. The ineffective portion is recognised immediately in profit or loss. On disposal of the net investment, the foreign exchange gains and losses on the hedging instrument are recycled to the income statement from equity.

The Group hedges the risk exposure to foreign currency exchange movements of its net investment in its subsidiaries in the US and Eurozone. A proportion of the Group's external US Dollar denominated borrowings, and the total of its Euro denominated borrowings, are designated as the hedging instruments. The underlying risk of the hedging instruments exactly matches the hedged risk as the borrowings and net investments in subsidiaries are denominated in the same currencies, giving a hedge ratio of 1:1. Hedge ineffectiveness will arise if the carrying amount of the net investment falls below the carrying amount of the designated borrowings.

The impact of the hedging instrument on the consolidated balance sheet is:

		Nominal amount	Carrying amount £m	Change in carrying amount as a result of foreign currency movements in the year recognised in OCI £m
Current borrowings	USD loan notes	USD 133m	108	
Non-current borrowings	USD loan notes	USD 400m	324	
		USD 533m	432	25
Non-current borrowings	EUR loan notes	EUR 85m	76	-
			508	25

The impact of the hedged item on the statement of financial position is as follows:

	Change in value of hedged item used to determine hedge effectiveness £m	Foreign currency translation reserve £m
Net investment in foreign subsidiaries – USD	25	82
Net investment in foreign subsidiaries – EUR	–	12
	<b>25</b>	<b>94</b>

The hedging movement recognised in other comprehensive income is equal to the change in value for measuring effectiveness. No ineffectiveness is recognised in profit or loss.

On disposal of Sage Payroll Solutions during the year, an exchange difference of £6m related to hedge instruments was recycled through the income statement in proportion to the disposed net investment.

Further information on the Group's exposure to foreign currency risk and how the risk is managed is included in note 13.6.

### 13.6 Financial risk management

The Group's exposure to and management of capital, liquidity, credit, interest rate and foreign currency risk are summarised below.

#### Capital risk

The Group's objectives when managing capital (defined as net debt plus equity) are to safeguard our ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders, while optimising returns to shareholders through an appropriate balance of debt and equity funding. The Group manages its capital structure and makes adjustments to it with respect to changes in economic conditions and our strategic objectives. The Group has set a long-term minimum leverage target of 1.0x net debt to EBITDA and will work to maintain this going forward.

#### Liquidity risk

The Group manages its exposure to liquidity risk by reviewing cash resources required to meet business objectives through both short and long-term cash flow forecasts. The Group has committed facilities which are available to be drawn for general corporate purposes including working capital. The Treasury function has responsibility for optimising the level of cash across the business.

#### Credit risk

The Group's credit risk primarily arises from trade and other receivables. The Group has a very low operational credit risk due to the transactions being principally of a high volume, low value and short maturity. The Group has no significant concentration of operational credit risk, with the exposure spread over a large number of 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.

Further information on the credit risk management procedures applied to trade receivables is given in note 8.1 and to cash and cash equivalents in note 12.3. The carrying amounts of trade receivables and cash and cash equivalents shown in those notes represent the Group's maximum exposure to credit risk.

#### Interest rate risk

The Group is exposed to interest rate risk on floating rate deposits and borrowings. The Group's borrowings comprise principally US private placement loan notes which are at fixed interest rates, and a bank revolving credit facility and a term loan, which are subject to floating interest rates. At 30 September 2019, the Group had £371m (2018: £272m) of cash and cash equivalents.

The Group regularly reviews forecast debt, cash and cash equivalents and interest rates to monitor this risk. Interest rates on debt and deposits are fixed when management decides this is appropriate.

At 30 September 2019, the Group's borrowings comprised US private placement loan notes of £522m (2018: £497m), which have an average fixed interest rate of 3.33% (2018: 3.31%); and unsecured bank loans of £243m (2018: £416m), comprising a fixed term loan and a bank revolving credit facility, which have an average interest rate of 2.6% (2018: 2.1%).

## 13 Financial instruments continued

### 13.6 Financial risk management continued

#### Foreign currency risk

Although a substantial proportion of the Group's revenue and profit is earned outside the UK, operating companies generally only trade in their own currency. The Group is therefore not subject to any significant foreign exchange transactional exposure within these subsidiaries.

The Group's principal exposure to foreign currency lies in the translation of overseas profits into sterling; this exposure is not hedged.

The Group's external Euro denominated borrowings and a proportion of its US Dollar borrowings are designated as a hedge of the net investment in its subsidiaries in the US and Eurozone. The foreign exchange movements on translation of the borrowings into sterling have therefore been recognised in the translation reserve. Certain of the Group's intercompany balances have been identified as part of the Group's net investment in foreign operations. Foreign exchange effects on these balances that remain on consolidation are also reflected in the translation reserve. The Group's other currency exposures comprise those currency gains and losses recognised in the income statement, reflecting other monetary assets and liabilities of the Group that are not denominated in the functional currency of the entity involved. At 30 September 2019 and 30 September 2018, these exposures were immaterial to the Group.

## 14 Equity

This note analyses the movements recorded through shareholders' equity that are not explained elsewhere in the financial statements, being changes in the amount which shareholders have invested in the Group.

The Group utilises share award schemes as part of its employee remuneration package. Share option schemes for our employees include The Sage Group Performance Share Plan for Directors and senior executives and The Sage Group Savings-related Share Option Plan (the "SAYE Plan") for all qualifying employees. The Group incurs costs in respect of these schemes in the income statement, which is set out below along with a detailed description of each scheme and the number of options outstanding.

This note also shows the dividends paid in the year and any dividends that are to be proposed and paid post-year end. Dividends are paid as an amount per ordinary share held.

### 14.1 Ordinary shares

#### Accounting policy

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the owners of the Company until the shares are cancelled or reissued.

	2019 shares	2019 £m	2018 shares	2018 £m
Issued and fully paid ordinary shares of 14/77 pence each				
At 1 October	<b>1,120,789,295</b>	<b>12</b>	1,120,638,121	12
Shares issued	–	–	151,174	–
At 30 September	<b>1,120,789,295</b>	<b>12</b>	1,120,789,295	12

#### Issues of ordinary shares

No new shares were issued during the year (2018: Executive Share Option Scheme – 23,179 14/77p ordinary shares; Savings-related Share Option Scheme – 127,995 14/77p ordinary shares).

## 14.2 Share-based payments

### Accounting policy

Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest allowing for the effect of non market-based vesting conditions.

Fair value is measured using the Black-Scholes or the Monte Carlo pricing models, based on observable market prices. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

All outstanding Sage Performance Share Plans ("PSPs") are subject to some non-market performance conditions. These are organic revenue, EPS and annualised recurring revenue growth. The element of the income statement charge relating to market performance conditions is fixed at the grant date.

At the end of the reporting period, the Group revises its estimates for the number of options expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The total charge for the year relating to employee share-based payment plans was £32m (2018: £18m), all of which related to equity-settled share-based payment transactions.

Scheme	2019 £m	2018 £m
Performance Share Plan	6	1
Restricted Share Plan	23	9
Share options	3	8
Total	32	18

### The Sage Group Performance Share Plan

Annual grants of performance shares will normally be made to Executive Directors and senior executives across the Group after the preliminary declaration of the annual results. Under the Performance Share Plan 3,690,288 (2018: 2,704,069) awards were made during the year.

### Awards from 2016-2018

These performance shares are subject to a service condition and two performance conditions. Performance conditions are weighted one half on the achievement of a revenue growth target and one half on the achievement of a TSR target. The revenue growth target is subject to two underpin performance conditions relating to EPS growth and organic revenue growth.

The revenue growth target is based on the Company's compound annual recurring revenue growth. Where the Company's annual recurring revenue growth is between 8% and 10% or 10% and 12%, the extent to which the revenue performance condition is satisfied will be calculated on a straight-line pro rata basis between 10% and 40% or between 40% and 50% respectively. Notwithstanding the extent to which the revenue performance condition has been satisfied, the revenue tranche will not be released and will lapse on the Board's determination that (i) the compound growth of the Company's underlying EPS over the performance period is less than 8% per annum; or (ii) the compound growth of the Company's organic revenue over the performance period is less than 6% per annum.

The performance target relating to TSR measures share price performance against a designated comparator group. Where the Company's TSR is between median and upper quartile, the TSR vesting percentage will be calculated on a straight-line pro-rata basis between 10% and 40% and where the Company's TSR is between upper quartile and upper decile, the TSR vesting percentage will be calculated on a straight-line pro-rata basis between 40% and 50%.

The comparator group for awards granted from 2016 onwards is the companies comprised in the FTSE 100 Index at the start of the performance period, excluding financial services and extraction companies.

### Awards from 2019

These performance shares are subject to a service condition and two performance conditions. Performance conditions are weighted 70% on the achievement of a revenue growth target and 30% on the achievement of a TSR target.

## 14 Equity continued

### 14.2 Share-based payments continued

The revenue growth target is based on the Company's compound annualised recurring revenue growth. Where the Company's annualised recurring revenue growth is between 8% and 10% or 10% and 11%, the extent to which the revenue performance condition is satisfied will be calculated on a straight-line pro rata basis between 14% and 56% or between 56% and 70% respectively.

The performance target relating to TSR measures share price performance against a designated comparator group. Where the Company's TSR is between median and upper quartile, the TSR vesting percentage will be calculated on a straight-line pro-rata basis between 6% and 24% and where the Company's TSR is between upper quartile and upper decile, the TSR vesting percentage will be calculated on a straight-line pro-rata basis between 24% and 30%.

The comparator group for awards granted from 2019 onwards is the companies comprised in the FTSE 100 Index at the start of the performance period, excluding financial services and extraction companies.

Awards were valued using the Monte Carlo option pricing model. Performance conditions were included in the fair value calculations, which were based on observable market prices at grant date. All options granted under performance share awards have an exercise price of nil. The fair value per award(s) granted and the assumptions used in the calculation are as follows:

<b>Grant date</b>	<b>December 2018</b>	<b>February 2019</b>	<b>May 2019</b>	<b>September 2019</b>
Share price at grant date	<b>5.78/5.86</b>	<b>6.61</b>	<b>7.39</b>	<b>6.71</b>
Number of employees	<b>94</b>	<b>8</b>	<b>2</b>	<b>1</b>
Shares under award	<b>2,921,885</b>	<b>712,414</b>	<b>45,526</b>	<b>10,463</b>
Vesting period (years)	<b>1-3</b>	<b>3</b>	<b>3</b>	<b>3</b>
Expected volatility	<b>22.7%</b>	<b>25.1%</b>	<b>22.6%</b>	<b>22.7%</b>
Award life (years)	<b>1-3</b>	<b>3</b>	<b>3</b>	<b>3</b>
Expected life (years)	<b>1-3</b>	<b>3</b>	<b>3</b>	<b>3</b>
Risk-free rate	<b>0.75%</b>	<b>0.85%</b>	<b>0.71%</b>	<b>0.46%</b>
Fair value per award	<b>4.88</b>	<b>5.58</b>	<b>6.84</b>	<b>5.88</b>

<b>Grant date</b>	<b>December 2017</b>	<b>May 2018</b>
Share price at grant date	£7.59	£6.73
Number of employees	84	14
Shares under award	2,561,092	142,977
Vesting period (years)	3	3
Expected volatility	20.9%	21.4%
Award life (years)	3	3
Expected life (years)	3	3
Risk-free rate	0.95%	0.83%
Fair value per award	6.10	4.64

The expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed award life.

A reconciliation of award movements over the year is shown below:

	2019		2018	
	Number '000s	Weighted average exercise price £	Number '000s	Weighted average exercise price £
Outstanding at 1 October	<b>6,245</b>	—	7,627	—
Awarded	<b>3,690</b>	—	2,704	—
Forfeited	<b>(2,085)</b>	—	(2,392)	—
Exercised	<b>(482)</b>	—	(1,694)	—
<b>Outstanding at 30 September</b>	<b>7,368</b>	—	6,245	—
<b>Exercisable at 30 September</b>	—	—	—	—
	2019		2018	
	Weighted average remaining life years		Weighted average remaining life years	
Range of exercise prices	Expected	Contractual	Expected	Contractual
N/A	<b>1.3</b>	<b>1.3</b>	1.3	1.3

### The Sage Group Restricted Share Plan

The Group's Restricted Share Plan is a long-term incentive plan used in limited circumstances and usually on a one-off basis, under which contingent share awards are usually made only with service conditions. Executive Directors are not permitted to participate in the plan and shares are either purchased in the market or treasury shares are utilised to satisfy vesting awards. During the year 5,258,827 (2018: 2,609,526) awards were made. These awards only have service conditions and their fair values are equal to the share price on the date of grant, ranging from 579-739p.

A reconciliation of award movements over the year is shown below:

	2019		2018	
	Number '000s	Weighted average exercise price £	Number '000s	Weighted average exercise price £
Outstanding at 1 October	<b>2,734</b>	—	740	—
Awarded	<b>5,259</b>	—	2,610	—
Forfeited	<b>(423)</b>	—	(226)	—
Exercised	<b>(794)</b>	—	(390)	—
<b>Outstanding at 30 September</b>	<b>6,776</b>	—	2,734	—
<b>Exercisable at 30 September</b>	—	—	—	—
	2019		2018	
	Weighted average remaining life years		Weighted average remaining life years	
Range of exercise prices	Expected	Contractual	Expected	Contractual
N/A	<b>1.5</b>	<b>1.5</b>	1.6	1.6

### Share options

Share options comprise The Sage Global Save and Share Plan (the "Save and Share Plan") and acquisition options.

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, five or seven years on the assumption that 5% of options will lapse over the service period as employees leave the Group.

In the year, 1,002,584 (2018: 1,363,310) options were granted under the terms of the Save and Share Plan.

## 14 Equity continued

### 14.2 Share-based payments continued

As part of certain acquisitions, the Group awards certain employees with options proportional to previously held options in the company acquired. Nil (2018: nil) options have been granted in the year. The awards granted in 2017 only have service conditions with the fair value portion of the options relating to pre-acquisition services being included as part of the purchase consideration and the remaining fair value of options being expensed over the service period ranging from 1-36 months.

A reconciliation of award movements over the year is shown below:

	2019		2018	
	Number '000s	Weighted average exercise price £	Number '000s	Weighted average exercise price £
Outstanding at 1 October	<b>5,319</b>	<b>1.92</b>	6,542	1.85
Awarded	—	—	—	—
Forfeited	(97)	3.41	(292)	2.93
Exercised	(1,006)	1.35	(931)	1.09
<b>Outstanding at 30 September</b>	<b>4,216</b>	<b>2.03</b>	5,319	1.92
<b>Exercisable at 30 September</b>	<b>3,282</b>	<b>1.65</b>	3,396	1.34
Range of exercise prices	2019		2018	
22p-681p	Expected	Contractual	Expected	Contractual
	<b>1.7</b>	<b>6.0</b>	1.1	7.0

### 14.3 Other reserves

	Translation reserve £m	Merger reserve £m	Total other reserves £m
At 1 October 2017	70	61	131
Exchange differences on translating foreign operations	15	—	15
<b>At 30 September 2018</b>	<b>85</b>	<b>61</b>	<b>146</b>
Exchange differences on translating foreign operations	42	—	42
Exchange differences recycled through income statement on sale of foreign operations	(4)	—	(4)
<b>At 30 September 2019</b>	<b>123</b>	<b>61</b>	<b>184</b>

#### Translation reserve

The translation reserve represents the accumulated exchange differences arising since the transition to IFRS from the following sources:

- The impact of the translation of subsidiaries with a functional currency other than sterling; and
- Exchange differences arising on hedging instruments that are designated hedges of a net investment in foreign operations, net of tax where applicable.

Exchange differences arising prior to the IFRS transition were offset against retained earnings.

#### Merger reserve

Merger reserve brought forward relates to the merger reserve which was present under UK GAAP and frozen on transition to IFRS.

#### 14.4 Retained earnings

Retained earnings	2019 £m	2018 £m
At 1 October	<b>621</b>	477
Adjustment on initial application of IFRS 15 net of tax	<b>24</b>	–
Adjustment on initial application of IFRS 9 net of tax	<b>(5)</b>	–
Profit for the year	<b>266</b>	295
Actuarial loss on post-employment benefit obligations (note 10)	<b>(1)</b>	–
Gain on available-for-sale fixed asset investment	–	1
Value of employee services including deferred tax	<b>33</b>	16
Proceeds from issuance of treasury shares	<b>3</b>	3
Dividends paid to owners of the parent (note 14.5)	<b>(181)</b>	(171)
<b>Total</b>	<b>760</b>	621

#### Treasury shares

##### *Purchase of treasury shares*

Shares purchased under the Group's buyback programme are not cancelled but are retained in issue and represent a deduction from equity attributable to owners of the parent. During the year the Group agreed to satisfy the vesting of certain share awards, utilising a total of 3,781,720 (2018: 3,022,375) treasury shares.

At 30 September 2019 the Group held 31,699,170 (2018: 35,480,890) treasury shares.

##### *Employee Share Trust*

The Group holds treasury shares in a trust which was set up for the benefit of Group employees. The Trust purchases the Company's shares in the market or is gifted these by the Company for use in connection with the Group's share-based payments arrangements. The Trust holds 35,792 ordinary shares in the Company (2018: 254,525) at a cost of £nil (2018: £2m) and a nominal value of £nil (2018: £nil).

During the year, the Trust agreed to satisfy the vesting of certain share awards, utilising a total of 368,733 (2018: 707,190) shares held in the Trust. The Trust received £2m (2018: £nil) additional funds for future purchase of shares in the market (2018: nil funds received).

The costs of funding and administering the scheme are charged to the profit and loss account of the Company in the period to which they relate. The market value of the shares at 30 September 2019 was £nil (2018: £1m).

#### 14.5 Dividends

##### **Accounting policy**

Dividends are recognised through equity when approved by the Company's shareholders or on payment, whichever is earlier.

	2019 £m	2018 £m
<b>Final</b> dividend paid for the year ended 30 September 2018 of 10.85p per share (2018: final dividend paid for the year ended 30 September 2017 of 10.20p per share)	<b>118</b>	–
	–	110
<b>Interim</b> dividend paid for the year ended 30 September 2019 of 5.79p per share (2018: interim dividend paid for the year ended 30 September 2018 of 5.65p per share)	<b>63</b>	–
	–	61
	<b>181</b>	171

In addition, the Directors are proposing a final dividend in respect of the financial year ended 30 September 2019 of 11.12p per share which will absorb an estimated £121m of shareholders' funds. If approved at the AGM, it will be paid on 2 March 2020 to shareholders who are on the register of members on 7 February 2020. These financial statements do not reflect this proposed dividend payable.

### 15 Acquisitions and disposals

The following note outlines acquisitions and disposals during the year and the accompanying accounting policies. Each acquisition or disposal during the year is discussed and the effects on the results of the Group are highlighted. Additional disclosures are presented for disposals and planned disposals that qualify as businesses held for sale or for presentation as discontinued operations.

#### Accounting policy

##### Acquisitions:

The 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 re-measured, and its subsequent settlement is accounted for within equity.

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's total identifiable net assets acquired. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the difference is recognised directly in the consolidated income statement. Any subsequent adjustment to reflect changes in consideration arising from contingent consideration amendments is recognised in the consolidated income statement.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Acquisition-related items such as legal or professional fees are expensed to the income statement as incurred.

##### Businesses held for sale and discontinued operations:

The Group classifies the assets and liabilities of a business as held for sale if their carrying amounts will be recovered principally through a sale of the business rather than through continuing use. These assets and liabilities are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for classification as held for sale are met only when the sale is highly probable and the business is available for immediate sale in its present condition. Actions required to complete the sale must indicate that it is unlikely that significant changes will be made to the plan or that the decision to sell will be withdrawn. Management must be committed to the sale and completion must be expected within one year from the date of the classification. Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the consolidated balance sheet.

A business qualifies as a discontinued operation if it is a component of the Group that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations; and
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations.

Discontinued operations are excluded from the results of continuing operations in both the current and prior years and are presented as a single amount in the consolidated income statement as profit or loss on discontinued operations.

## 15.1 Acquisitions

### Acquisitions made during the current year

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

Summary of acquisition	Provisional fair values £m
Purchase consideration	
Cash	42
Provisional fair value of identifiable net assets	1
<b>Goodwill</b>	<b>41</b>

The provisional fair value of identifiable net assets comprises cash and cash equivalents of £1m. Provisional fair values have been determined as the purchase price allocation exercise is incomplete because of the short period between the acquisition date and the approval of the Annual Report. Pending completion of the fair value exercise, the residual excess of consideration over the net assets acquired has been provisionally recognised entirely as goodwill. Goodwill is expected to reflect benefits from the assembled workforce and growth opportunities. No goodwill is expected to be deductible for tax purposes.

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

	£m
Cash consideration	(42)
Cash and cash equivalents acquired	1
<b>Net cash outflow</b>	<b>(41)</b>

Costs of £2m directly relating to the completion of the business combination have been included in selling and administrative expenses in the consolidated income statement as other M&A activity-related items and relate to advisory, legal and other professional services. Arrangements have been put in place for retention payments to remunerate employees of Ocrex for future services. The costs of these arrangements will be recognised in future periods over the retention period. No amounts have been recognised to date in respect of these arrangements. The consolidated income statement does not include any revenue or profit or loss reported by Ocrex for the period due to the acquisition date being close to the year end date. The revenue and profit of the Group for the year ended 30 September 2019 would not have been materially different if Ocrex had been included in the Group for the whole of the year.

## 15.2 Costs relating to business combinations in the year

Costs directly relating to completion of the business combinations in the year of £2m (2018: £1m) have been included in selling and administrative expenses in the consolidated income statement. These acquisition-related items relate to completed transactions and include advisory, legal, accounting, valuation and other professional or consulting services.

## 15 Acquisitions and disposals continued

### 15.3 Disposals and discontinued operations

#### Disposals made during the current year

On 21 February 2019, the Group completed the sale of Sage Payroll Solutions, the US-based payroll outsourcing business ("SPR") for total consideration of £76m. On 18 July 2019, the Group completed the sale of its South African payments business for £5m. The gain on disposal is calculated as follows:

<b>Gain on disposal</b>	SPR £m	South African payments £m	Total £m
Cash consideration	71	3	74
Deferred consideration	–	2	2
Contingent consideration	5	–	5
<b>Gross consideration</b>	<b>76</b>	<b>5</b>	<b>81</b>
Transaction costs	(4)	–	(4)
<b>Net consideration</b>	<b>72</b>	<b>5</b>	<b>77</b>
Net assets disposed	(51)	(2)	(53)
Cumulative foreign exchange differences reclassified from other comprehensive income to the income statement	6	(2)	4
<b>Gains on disposal</b>	<b>27</b>	<b>1</b>	<b>28</b>

Net assets disposed comprise:

	SPR £m	South African payments £m	Total £m
Goodwill	28	1	29
Other intangible assets	25	–	25
Trade and other receivables	1	1	2
Cash and cash equivalents	91	26	117
<b>Total assets</b>	<b>145</b>	<b>28</b>	<b>173</b>
Trade and other payables	(93)	(26)	(119)
Deferred income tax liabilities	(1)	–	(1)
<b>Total liabilities</b>	<b>(94)</b>	<b>(26)</b>	<b>(120)</b>
<b>Net assets</b>	<b>51</b>	<b>2</b>	<b>53</b>

The gains are reported within continuing operations, as an adjustment between underlying and statutory results. The contingent consideration is measured at its fair value 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.

Prior to the disposals, SPR formed part of the Group's North America reporting segment and South African payments part of the International segment. The inflow of cash and cash equivalents on the disposal is calculated as follows:

<b>Inflow of cash and cash equivalents on disposal</b>	SPR £m	South African payments £m	Total £m
Cash consideration	71	3	74
Transaction costs	(4)	–	(4)
<b>Net consideration received</b>	<b>67</b>	<b>3</b>	<b>70</b>

### 15.3 Disposals and discontinued operations continued

#### Discontinued operations and assets and liabilities held for sale

The Group had no discontinued operations during the years ended 30 September 2019 or 30 September 2018. Assets and liabilities held for sale at 30 September 2019 relate to the subsidiaries forming the Group's Sage Pay and Brazilian businesses, which were classified as held for sale during the year. The sale of the Group's Brazilian businesses is expected to be finalised during the year ending 30 September 2020. An agreement was signed on 18 November 2019, for the sale of the Sage Pay business to Elavon Inc., a subsidiary of U.S. Bancorp (as disclosed in note 19). The transaction is subject to regulatory approval with completion and loss of control expected to occur in Q2 FY20. The Sage Pay business forms part of the Group's Northern Europe reportable segment, and the Brazilian business is part of the International segment.

On classification of the Brazilian business as held for sale, the Group recognised a write down of net assets of £19m, comprising £14m impairment of assets and £5m provision for future selling costs, to reduce the carrying value of the business to its fair value less costs to sell. This is included within selling and administrative expenses in the income statement as an adjustment between underlying and statutory operating profit (see note 3.6). Note that the fair value less costs of sale of the disposal groups held for sale was determined using observable inputs that required some adjustments using unobservable data, leading to level 3 classification when considering the fair value hierarchy under IFRS 13.

Upon disposal, the income in relation to cumulative foreign exchange differences that have been recognised in other comprehensive income relating to the assets and liabilities of these businesses from the date of their acquisition to the date of disposal will be recycled to the income statement. Assets and liabilities held for sale at 30 September 2018 relate to the Group's subsidiary Sage Payroll Solutions which was sold on 21 February 2019.

Assets and liabilities held for sale comprise:

	Brazil 2019 £m	Sage Pay 2019 £m	Total 2019 £m	Total 2018 £m
Goodwill	–	<b>26</b>	<b>26</b>	32
Other intangible assets	–	<b>1</b>	<b>1</b>	20
Property, plant and equipment	–	<b>2</b>	<b>2</b>	–
Deferred income tax asset	<b>7</b>	–	<b>7</b>	–
Inventory	–	<b>1</b>	<b>1</b>	–
Trade and other receivables	<b>16</b>	<b>6</b>	<b>22</b>	3
Cash and cash equivalents	–	<b>4</b>	<b>4</b>	58
<b>Total assets</b>	<b>23</b>	<b>40</b>	<b>63</b>	113
Trade and other payables		<b>(8)</b>	<b>(4)</b>	<b>(12)</b>
Borrowings		<b>(3)</b>	–	<b>(3)</b>
Current income tax liabilities		<b>(1)</b>	–	<b>(1)</b>
Provisions		<b>(6)</b>	–	<b>(6)</b>
Deferred income		<b>(10)</b>	<b>(1)</b>	<b>(11)</b>
<b>Total liabilities</b>		<b>(28)</b>	<b>(5)</b>	<b>(33)</b>
<b>Net (liabilities)/assets</b>		<b>(5)</b>	<b>35</b>	<b>30</b>
				50

### 16 Related party transactions

This note provides information about transactions between the Group and its related parties. A group's related parties include any entities over which it has control, joint control or significant influence, and any persons who are members of its key management personnel.

The Group's related parties are its subsidiary undertakings and its key management personnel, which comprises the Group's Executive Committee members and the Non-executive Directors. Prior to 17 March 2018, related parties also included the Group's investment in its associated undertaking. Transactions and outstanding balances between the parent and its subsidiaries within the Group and between those subsidiaries have been eliminated on consolidation and are not disclosed in this note. Compensation paid to the Executive Committee is disclosed in note 3.3.

No other related party transactions occurred during the current year or the prior year.

## 17 IFRS 15

This note provides information on the changes resulting from the adoption of IFRS 15, quantitative information on their impact at 1 October 2018 and a reconciliation for the year ending 30 September 2019 between the primary financial statements under IFRS 15 and the financial position and performance that would have been reported in accordance with IAS 18.

### Differences between IFRS 15 and previous accounting policies

There are several differences between the Group's accounting policies under IFRS 15 and its previous accounting policies under IAS 18. The most significant of these are as follows.

#### *- Unbundling of subscription software and related maintenance and support contracts for on-premise products*

IFRS 15 introduces a new concept of performance obligations. This requires changes to the way the transaction price is allocated to separately identifiable components of a bundle within a contract, which can impact the timing of recognising revenue. As a result, the revenue recognition pattern changes for certain on-premise subscription contracts, which combine the delivery of software and support services and the obligation to deliver, in the future, unspecified software upgrades under a maintenance contract. Under IAS 18 policies, the Group recognised the entire price as revenue on a straight-line basis over the subscription term. Under IFRS 15, a portion of the transaction price is recognised upon delivery of the initial software at the outset of the arrangement with the remainder recognised over the term of the contract due to the fact that these are deemed to be separate performance obligations.

#### *- Non-refundable contract sign-up fees*

In some cases, customers pay a non-refundable contract sign-up fee when they enter into a new initial contract for a software product, and no equivalent fee is payable on subsequent renewals. As a result of paying the contract sign-up fee, the customer has an option to renew the contract and to pay a lower price on renewal than would have been the case had the contract sign-up fee not been paid. Under IFRS 15, the fee is considered to provide the customer with a material right that the customer would not receive without having entered into the initial contract. Therefore, the upfront fee is recognised as revenue over the anticipated period of benefit to the customer, which ranges from four to seven years and takes account of the likelihood of the customer renewing the contract. Under IAS 18 policies, the full amount of the contract sign-up fee was recognised as revenue on a straight-line basis over the initial contract term.

#### *- Costs of obtaining customer contracts*

Under IFRS 15, all incremental costs of obtaining a contract with a customer, including commission to internal sales employees, are recognised as an asset on the balance sheet, within trade and other receivables, if the Group expects to recover those costs. The costs 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. The amortisation periods range from one year to ten years depending on the type of offering. Amortisation is reported within selling and administrative expenses. Under previous policies, costs to obtain a contract were recognised as assets, within trade and other receivables, and amortised only if they were payable to a third-party agent and related to a contract where revenue was recognised over time. As a result, compared to previous policies the amount recognised as an asset under IFRS 15 increases and the recognition of costs is deferred.

#### *- Business partner arrangements*

Under IFRS 15, the Group is required to assess whether it controls a good or service before it is transferred to the end customer to determine whether it is principal or agent in that transaction. This is in contrast to the previous guidance which was focused on assessing whether the Group had the risks and rewards of a principal. For Sage, the application of IFRS 15 results in a change in principal versus agent assessment for a number of business partner arrangements. The Group has therefore identified an increase in the number of business partner arrangements where Sage is considered to be the principal under IFRS 15 with respect to the end customer. As a result, there is an increase in the gross revenue recognised for these arrangements as the amounts payable to business partners are classified as a cost of sale rather than a deduction from revenue. On the balance sheet, the unamortised amounts payable to business partners which were previously netted within deferred income are now presented as part of customer acquisition costs.

#### *- Timing of recognising a receivable*

Under IFRS 15, a receivable is recognised when the right to consideration is unconditional. Typically, for a non-cancellable contract this happens when the Group starts providing the service. Under IAS 18 receivables were recognised based on the billing arrangement agreed under the contract, even where the contract was not unconditional or the group had not started providing services under the contract. As a result, compared to previous policies the amount recognised as a receivable decreased with a corresponding decrease in deferred income.

## Quantitative impact of policy changes on consolidated balance sheet at 1 October 2018

The financial impact of the policy changes explained above on the Group's consolidated balance sheet on initial application is as follows:

	As at 1 October 2018							
	Unbundling of subscription software £m	Non-refundable contract sign-up fees £m	Costs of obtaining customer contracts £m	Business partner arrangements £m	Timing of recognising a receivable £m	Other adjustments £m	Tax impact £m	Total Impact £m
<b>Non-current assets</b>								
Trade and other receivables	–	–	34	–	–	–	–	34
Deferred income tax assets	–	–	–	–	–	–	(4)	(4)
<b>Current assets</b>								
Trade and other receivables	–	–	4	16	(43)	–	–	(23)
<b>Current liabilities</b>								
Deferred income	21	(21)	–	(16)	43	(6)	–	21
<b>Non-current liabilities</b>								
Deferred income tax liabilities	–	–	–	–	–	–	(4)	(4)
<b>Net assets</b>	<b>21</b>	<b>(21)</b>	<b>38</b>	<b>–</b>	<b>–</b>	<b>(6)</b>	<b>(8)</b>	<b>24</b>
<b>Total equity</b>	<b>21</b>	<b>(21)</b>	<b>38</b>	<b>–</b>	<b>–</b>	<b>(6)</b>	<b>(8)</b>	<b>24</b>

### Primary statements under IAS 18

The Group's consolidated financial statements for the year ended 30 September 2019 are prepared in accordance with IFRS 15; comparative periods have not been restated. Where there are differences between the primary consolidated financial statements presented in accordance with IFRS 15 and comparable presentation under the Group's previous revenue accounting policy (in accordance with IAS 18 "Revenue"), the effects are disclosed below. The Group's consolidated statement of cash flows is not affected by the implementation of IFRS 15 and so is not re-presented.

**Consolidated income statement (reconciliation to IAS 18)**

Year ended 30 September 2019	IFRS 15 basis £m	Adjustments £m	IAS 18 basis £m
<b>Revenue</b>	1,936	(8)	1,928
Cost of sales	(138)	(6)	(144)
<b>Gross profit</b>	1,798	(14)	1,784
Selling and administrative expenses	(1,416)	7	(1,409)
<b>Operating profit</b>	382	(7)	375
Finance income	8	–	8
Finance costs	(29)	–	(29)
<b>Profit before income tax</b>	361	(7)	354
Income tax expense	(95)	2	(93)
<b>Profit for the year</b>	266	(5)	261
<b>Profit attributable to:</b>			
Owners of the parent	266	(5)	261
<b>Earnings per share attributable to the owners of the parent (pence)</b>			
– Basic	24.49p		24.03p
– Diluted	24.29p		23.83p

Under IFRS 15 basis revenue from software licence and support showed a net increase of £8m, with most of the difference resulting from an increase in the number of business partner arrangements where the end user is considered to be the customer for the Group and by upfront recognition of software for certain on-premise subscription contracts. This is mitigated by a revised revenue pattern for non-refundable contract sign-up fees which are spread over the anticipated period of benefit to the customer.

Cost of sales showed a net decrease of £6m, with most of the difference resulting from business partner arrangements where there is a change in principal versus agent assessment for third-party products.

Selling and administrative expenses showed a net increase of £7m, with most of the difference resulting from an increase in the number of business partner arrangements where the end user is considered to be the customer under IFRS 15. This is mitigated by higher capitalisation of sales commissions offset by the related amortisation charge.

**Consolidated balance sheet (reconciliation to IAS 18)**

30 September 2019

	IFRS 15 basis £m	Adjustments £m	IAS 18 basis £m
<b>Non-current assets</b>			
Goodwill	2,098	–	2,098
Other intangible assets	228	–	228
Property, plant and equipment	117	–	117
Fixed asset investment	–	–	–
Other financial assets	4	–	4
Trade and other receivables	73	(65)	8
Deferred income tax assets	31	1	32
	2,551	(64)	2,487
<b>Current assets</b>			
Trade and other receivables	364	11	375
Current income tax asset	3	–	3
Cash and cash equivalents (excluding bank overdrafts)	371	–	371
Assets classified as held for sale	63	(1)	62
	801	10	811
<b>Total assets</b>	3,352	(54)	3,298
<b>Current liabilities</b>			
Trade and other payables	(291)	–	(291)
Current income tax liabilities	(32)	2	(30)
Borrowings	(122)	–	(122)
Provisions	(11)	–	(11)
Deferred income	(637)	16	(621)
Liabilities classified as held for sale	(33)	–	(33)
	(1,126)	18	(1,108)
<b>Non-current liabilities</b>			
Borrowings	(643)	–	(643)
Post-employment benefits	(25)	–	(25)
Deferred income tax liabilities	(24)	7	(17)
Provisions	(15)	–	(15)
Trade and other payables	(7)	–	(7)
Deferred income	(8)	–	(8)
	(722)	7	(715)
<b>Total liabilities</b>	(1,848)	25	(1,823)
<b>Net assets</b>	1,504	(29)	1,475
<b>Equity attributable to owners of the parent</b>			
Ordinary shares	12	–	12
Share premium	548	–	548
Other reserves	184	–	184
Retained earnings	760	(29)	731
<b>Total equity</b>	1,504	(29)	1,475

## 17 IFRS 15 continued

Under IFRS 15 basis non-current trade and other receivables are higher by £65m (FY18: higher by £34m) due to the higher capitalisation of sales commissions.

Current trade and other receivables are lower by £11m (FY18: £23m) resulting from changes in the timing of and amounts recognised as receivables and the capitalisation of business partner commissions where the end user is considered to be the customer under IFRS 15, with corresponding impact in current deferred income.

Current deferred income is higher by £16m (FY18: £21m), resulting from revised revenue pattern for non-refundable contract sign-up fees which are spread over the anticipated period of benefit to the customer and the capitalisation of business partner commissions where the end user is considered to be the customer under IFRS 15, with corresponding impact in current deferred income. This is mitigated by changes in the timing of and amounts recognised as receivables and by upfront recognition of software for certain on-premise subscription contracts.

Deferred income tax assets are lower by £1m (FY18: £4m), current income tax liabilities and deferred income tax liabilities are higher by £2m and £7m (FY18: £nil and £4m respectively) due to the tax impact of the above adjustments.

## 18 Group undertakings

While we present consolidated results in these financial statements, our structure is such that there are a number of different operating and holding companies that contribute significantly to the overall result.

Our subsidiaries are located around the world and each contributes to the profits, assets and cash flow of the Group.

The entities listed below and on the following pages are subsidiaries of the Company or the Group. The Group percentage of equity capital and voting rights is 100% for all subsidiaries listed below. The results for all of the subsidiaries have been consolidated within these financial statements.

Country	Name	Registered address
Australia	Handisoft Software Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy, Chatswood, 2067, Australia
Australia	Ocrex Australia Pty Ltd	7 Catherine Ct, Yarra Glen, Vic 3775, Australia
Australia	Sage Australia Holdings Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy, Chatswood, 2067, Australia
Australia	Sage Business Solutions Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy, Chatswood, 2067, Australia
Australia	Sage Intacct Australia Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy, Chatswood, 2067, Australia
Australia	Sage One Pty. Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy, Chatswood, 2067, Australia
Australia	Sage Software Australia Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy, Chatswood, 2067, Australia
Australia	Snowdrop Systems Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy, Chatswood, 2067, Australia
Australia	Softline Australia Holdings Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy, Chatswood, 2067, Australia
Austria	Sage GmbH	Stella-Klein-Löw-Weg 15, 1020 Wien, Austria
Bahamas	Intelligent Apps Holdings Ltd	Providence House, East Hill Street, Nassau, Bahamas
Belgium	Sage S.A.	Buro & Design Center, Esplanade 1, 1020, Brussels, Belgium
Botswana	Sage Software Botswana (Pty) Ltd	Plot 50371, Fairground Office Park, Gaborone, Botswana
Brazil	IOB Informações Objetivas Publicações Jurídicas Ltda.	Rua Antonio Nagib Ibrahim, 350, São Paulo, São Paulo, CEP 05036-60, Brazil
Brazil	Sage Brasil 3 Empreendimentos e Participações Ltda	Rua Antônio Nagib Ibrahim, 350, Part A, Água Branca, São Paulo, São Paulo, CEP 05036-060, Brazil
Brazil	Sage Brasil Software S.A.	Rodovia Luiz de Queiroz (SP 304), Km 127,5, Bairro Nova Americana, São Paulo, CEP 13466-170, Brazil
Brazil	Syntax Sistemas S.A.	Rua Antonio Nagib Ibrahim, 350, Part B, São Paulo, São Paulo, CEP 05036-060, Brazil
Canada	Sage Software Canada Ltd.	111, 5th Avenue SW, Suite 3100-C, Calgary AB T2P 5L3, Canada
France	Sage Holding France SAS	Atrium Defense, Paris la Défense, 10 Place de Belgique, 92250, Le Garenne Colombes, Paris, France
France	Sage Overseas Limited (Branch Registration)	Atrium Defense, Paris la Défense, 10 Place de Belgique, 92250, Le Garenne Colombes, Paris, France

Country	Name	Registered Address
France	Sage SAS	Atrium Defense, Paris la Defense, 10 Place de Belgique, 92250, Le Garenne Colombes, Paris, France
Germany	Best Software (Germany) GmbH	Franklinstraße 61-63, 60486, Frankfurt am Main, Germany
Germany	eWare GmbH	Untere Weidenstr. 5, c/o RAè Becker & Koll., 81543, München, Germany
Germany	Sage bärer 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 Pay GmbH	Franklinstraße 61-63, 60486, Frankfurt am Main, Germany
Germany	Sage Services GmbH	Karl-Heine-Straße 109-111, 04229, Leipzig, Germany
India	Intacct Software Private Limited	No. 26/1 3rd Floor, Esteem Arcade, Devaraju Urs Road, Race Course Road, Bangalore, 560001, India
India	Ocrex Entreprises Private Limited	House No 546, Sector-10D, Chandigarh 160011, Chandigarh, India
India	Sage Software India Private Ltd (In Liquidation)	N-34, Lower Ground Floor, Kalkaji, New Delhi, 110 019, India
Ireland	Ocrex Limited	11/12 Warrington Place, Dublin 2, Ireland
Ireland	Sage Global Services (Ireland) Limited	Number One Central Park Leopardstown, Dublin 18, Ireland
Ireland	Sage Hibernia Limited	Number One Central Park Leopardstown, Dublin 18, Ireland
Ireland	Sage Irish Finance Company Unlimited Company	Number One Central Park Leopardstown, Dublin 18, Ireland
Ireland	Sage Pay (Dublin) Limited	Number One Central Park Leopardstown, Dublin 18, Ireland
Ireland	Sage Pay Ireland Limited	Number One Central Park Leopardstown, Dublin 18, Ireland
Ireland	Sage Technologies Limited	Number One Central Park Leopardstown, Dublin 18, Ireland
Ireland	Sage Treasury Ireland Unlimited Company	Number One Central Park Leopardstown, Dublin 18, Ireland
Ireland	TAS Software Limited	Number One Central Park Leopardstown, Dublin 18, Ireland
Ireland	Tonwomp Unlimited Company	Number One Central Park Leopardstown, Dublin 18, Ireland
Israel	Budgeta Technologies Ltd	Derech Menachem Begin 144, Tel Aviv-Yafo, 6492102, Israel
Kenya	Sage Software East Africa Limited	LR No. 1870/IX/96, 114 & 115 Nivina Towers, Westlands Road, Westlands, Nairobi, P.O Box 38283, Kenya
Malaysia	Creative Purpose Sdn Bhd (In Liquidation)	Suite B13A-4, Tower B, Level 13A, Northpoint Offices, Mid Valley City, No. 1 Medan Syed Putra Utara, 59200 Kuala Lumpur
Malaysia	Sage Software Sdn Bhd	Suite B13A-4, Tower B, Level 13A, Northpoint Offices, Mid Valley City, No. 1 Medan Syed Putra Utara, 59200 Kuala Lumpur
Morocco	Sage Software	Tour Crystal 1, Niveau 9, Bd Sidi Mohammed Ben Abdellah, Casablanca, 20030, Morocco
Namibia	Sage Software Namibia (Pty) Ltd	3rd Floor, 344 Independence Avenue, Windhoek, P O BOX 1571, Namibia
Nigeria	Sage Software Nigeria Limited	Landmark Towers, 5B Water Corporation Road, Victoria Island, Lagos, Nigeria
Poland	Sage sp. z o.o.	Aleje Jerozolimskie 132, 02-305 Warsaw, Poland
Portugal	Sage Portugal – Software, S.A.	Edifício Olympus II, Av. Dom Afonso Henriques 1462, 4450 013, Matosinhos, Portugal
Romania	Intacct Development Romania SRL	Cluj-Napoca, Bd. 21 Decembrie 1989 no. 77, 1st floor, room C.1.2 building C-D, The Office, Cluj county, Romania
Singapore	Sage Singapore Holdings Pte. Limited	12 Marina View, #25-02/03 Asia Square Tower 2, 01896, Singapore
Singapore	Sage Software Asia Pte. Limited	12 Marina View, #25-02/03 Asia Square Tower 2, 01896, Singapore
South Africa	Sage Alchemex (Pty) Ltd	23A Flanders Drive, Mount Edgecombe, Durban, 4321, South Africa
South Africa	Sage South Africa (Pty) Ltd*	Floor 6 Gateway West, 22 Magwa Crescent, Waterfall 5-1R, Midrand, Gauteng, 2066, South Africa

**18 Group undertakings continued**

<b>Country</b>	<b>Name</b>	<b>Registered Address</b>
Spain	Sage Pay S.L.U.	C/ Labastida, 10-12 28934, Madrid, Spain
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.	Moraleja Building One – Planta 1, Parque Empresarial de La Moraleja, Avenida de Europa no19, 28108 Alcobendas, Madrid, Spain
Switzerland	KHK Software AG	Platz 10, Root D4, CH-6039, Switzerland
Switzerland	Sage Bäurer AG	Platz 10, Root D4, CH-6039, Switzerland
Switzerland	Sage Schweiz AG	Platz 10, Root D4, CH-6039, Switzerland
Tunisia	Ulysoft	Immeuble Mélika, rez de chausse, rue Lac Windermere, Berge du Lac, 1053, Tunisia
United Arab Emirates	Sage Software Middle East FZ-LLC	Suite 118, Building No. 11, Dubai Internet City, Dubai (U.A.E)
United Kingdom	ACCPAC UK Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Interact UK Holdings Limited*	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	KCS Global Holdings Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Multisoft Financial Systems Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Ocrex UK Ltd	Quatro House, Frimley Road, Frimley, Camberley, Surrey, GU19 5EW, United Kingdom
United Kingdom	Protx Group Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Protx Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage (UK) Ltd	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Brazilian Investment One Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Brazilian Investment Two Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage CRM Solutions Limited	Sage House, Wharfedale Road, Winnersh, Wokingham, Berkshire, RG41 5RD, United Kingdom
United Kingdom	Sage Euro Hedgeco 1	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Euro Hedgeco 2	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Far East Investments Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Global Services Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Hibernia Investments No.1 Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Hibernia Investments No.2 Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Holding Company Limited*	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Holdings Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Intacct UK Limited	North Park, Newcastle Upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Irish Investments LLP	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Irish Investments One Limited*	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Irish Investments Two Limited*	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Online Holdings Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Overseas Limited.	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Pay (GB) Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Pay Europe Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Payments (UK) Ltd.	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage People Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Software Ltd	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage Treasury Company Limited*	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage US LLP	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage USD Hedgeco 1	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sage USD Hedgeco 2	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom

Country	Name	Registered Address
United Kingdom	Sage Whitley Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Sagesoft	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	Snowdrop Systems Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United Kingdom	TAS Software Limited	North Park, Newcastle upon Tyne, NE13 9AA, United Kingdom
United States	Ocrex, Inc.	15 John Poulter Road, Lexington, MA 02421, United States
United States	Sage Budgeta, Inc.	300 Park Avenue, Suite 300, San Jose, CA 95110, United States
United States	Sage Global Services US, Inc.	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Sage Intacct, Inc.	300 Park Avenue, Suite 300, San Jose, CA 95110, United States
United States	Sage People, Inc.	270 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Sage Software Holdings, Inc.	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Sage Software International, Inc.	272 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Sage Software North America	273 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Sage Software, Inc.	274 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Sage Tempus, Inc.	275 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Softline Holdings USA, Inc.	276 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Softline Software USA, LLC	277 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	Softline Software, Inc.	278 17th Street NW, Suite 1100 Atlanta, Georgia 30363, United States
United States	South Acquisition Corp.	C/O Corporation Service Company, 251 Little Falls Drive, Wilmington, New Castle, Delaware, 19808, United States

\* Direct subsidiary

## 19 Post-balance sheet events

An agreement was signed on 18 November 2019, for the sale of the Group's Sage Pay business for £232m (subject to customary debt and working capital adjustments) to Elavon Inc., a subsidiary of U.S. Bancorp. Sales proceeds are payable in cash upon completion. The business was classified as held for sale at 30 September 2019 (see note 15.3) and is part of the Group's Northern Europe reportable segment. Completion of the transaction and loss of control is expected to occur in Q2 FY20, subject to Elavon Inc. obtaining regulatory approval by the Board of Governors of the Federal Reserve System in the United States as well as the Central Bank of Ireland. The statutory gain on the transaction is expected to be approximately £180m on completion.

The board has approved a capital return of £250m, largely reflecting the expected proceeds from the disposal of Sage Pay.

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Company financial statements

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**COMPANY BALANCE SHEET**

At 30 September 2019

	Note	2019 £m	2018 £m
Non-current assets: investments	2	<b>3,088</b>	3,088
Current assets			
Cash at bank and in hand	3	<b>2</b>	1
Debtors – amounts due greater than one year £418m (2018: £378m)	4	<b>1,120</b>	1,052
		<b>1,122</b>	1,053
Creditors: amounts falling due within one year			
Trade and other payables	5	<b>(1,420)</b>	(1,219)
<b>Net current liabilities</b>		<b>(298)</b>	(166)
Total assets less current liabilities		<b>2,790</b>	2,922
<b>Net assets</b>		<b>2,790</b>	2,922
<b>Capital and reserves</b>			
Called up share capital	7.1	<b>12</b>	12
Share premium account		<b>548</b>	548
Other reserves	7.2	<b>(77)</b>	(94)
Profit and loss account		<b>2,307</b>	2,456
<b>Total shareholders' funds</b>		<b>2,790</b>	2,922

The Company's profit for the year was £14m (2018: £103m).

The financial statements on pages 207 to 213 were approved by the Board of Directors on 19 November 2019 and are signed on its behalf by:



**Jonathan Howell**  
Chief Financial Officer

# COMPANY STATEMENT OF CHANGES IN EQUITY

	Called up share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Attributable to owners of the parent Total equity £m
<b>At 1 October 2018</b>	<b>12</b>	<b>548</b>	<b>(94)</b>	<b>2,456</b>	<b>2,922</b>
<b>Profit for the year</b>	—	—	—	14	14
<b>Total comprehensive income for the year ended</b>	—	—	—	14	14
<b>30 September 2019</b>					
<b>Transactions with owners:</b>					
Employee share option scheme:					
Value of employee services	—	—	—	32	32
Utilisation of treasury shares	—	—	17	(17)	—
Proceeds of issuance of treasury shares	—	—	—	3	3
Dividends paid to owners of the parent	—	—	—	(181)	(181)
<b>Total transactions with owners for the year ended 30 September 2019</b>	—	—	17	(163)	(146)
<b>At 30 September 2019</b>	<b>12</b>	<b>548</b>	<b>(77)</b>	<b>2,307</b>	<b>2,790</b>

	Called up share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Attributable to owners of the parent Total equity £m
<b>At 1 October 2017</b>	<b>12</b>	<b>548</b>	<b>(107)</b>	<b>2,516</b>	<b>2,969</b>
<b>Profit for the year</b>	—	—	—	103	103
<b>Total comprehensive income for the year ended</b>	—	—	—	—	—
<b>30 September 2018</b>	—	—	—	103	103
<b>Transactions with owners:</b>					
Employee share option scheme:					
Value of employee services, net of deferred tax	—	—	—	18	18
Utilisation of treasury shares	—	—	13	(13)	—
Proceeds of issuance of treasury shares	—	—	—	3	3
Dividends paid to owners of the parent	—	—	—	(171)	(171)
<b>Total transactions with owners for the year ended 30 September 2018</b>	—	—	13	(163)	(150)
<b>At 30 September 2018</b>	<b>12</b>	<b>548</b>	<b>(94)</b>	<b>2,456</b>	<b>2,922</b>

## COMPANY ACCOUNTING POLICIES

### Company accounting policies

#### Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 (FRS 102) "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

#### Basis of accounting

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006. A summary of the more important Company accounting policies, which have been consistently applied, is set out below. These accounting policies have been consistently applied to all periods presented.

The Company is deemed a qualifying entity under FRS 102, and so may take advantage of the reduced disclosures permitted under the standard. As a result, the following disclosures have not been provided:

- a statement of cash flows and related disclosures under Section 7 Statement of Cash Flows and Section 3 Financial Statement Presentation paragraph 3.17(d);
- disclosures about financial instruments under Section 11 Basic Financial Instruments and Section 12 Other Financial Instruments Issues paragraphs 12.26 (in relation to those cross-referenced paragraphs from which a disclosure exemption is available), 12.27, 12.29(a), 12.29(b), and 12.29A; this exemption is permitted as equivalent disclosures are included in the consolidated financial statements of The Sage Group plc;
- disclosures about share-based payments under Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23; this exemption is permitted as the Company is an ultimate parent, the share-based payment arrangements concern its own equity instruments, its separate financial statements are presented alongside the consolidated financial statements of The Sage Group plc and equivalent disclosures are included in those consolidated financial statements; and
- key management personnel compensation in total under Section 33 Related Party Disclosures paragraph 33.7.

#### Foreign currencies

The UK is the home country of The Sage Group plc. Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange prevailing at the balance sheet date. Transactions in foreign currencies are converted into sterling at the rate prevailing at the dates of the transactions. All differences on exchange are taken to the profit and loss account.

#### Investments

Fixed asset investments are stated at cost less provision for any diminution in value. Any impairment is charged to the profit and loss account as it arises.

#### Parent Company profit and loss account

No profit and loss account is presented for the Company as permitted by section 408 of the Companies Act 2006.

Details of the average number of people employed by the parent Company and the staff costs incurred by the Company are as follows.

Average monthly number of people employed (including Directors)	2019 number	2018 number
By segment:		
Northern Europe	<b>27</b>	112
Staff costs (including Directors on service contracts)	2019 £m	2018 £m
Wages and salaries	<b>6</b>	10
Social security costs	<b>2</b>	2
Post-employment benefits	–	1
Share-based payments	–	2
	<b>8</b>	15

Staff costs are net of recharges to other Group companies.

#### Auditor's remuneration

The audit fees payable in relation to the audit of the financial statements of the Company are £30,000 (2018: £30,000).

#### Directors' remuneration

Details of the remuneration of Executive and Non-executive Directors and their interest in shares and options of the Company are given in the audited part of the Directors' Remuneration Report on pages 96 to 123.

#### 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 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.

## NOTES TO THE COMPANY FINANCIAL STATEMENTS

### 1 Dividends

	2019 £m	2018 £m
Final dividend paid for the year ended 30 September 2018 of 10.85p per share (2018: final dividend paid for the year ended 30 September 2017 of 10.20p per share)	<b>118</b>	– 110
Interim dividend paid for the year ended 30 September 2019 of 5.79p per share (2018: interim dividend paid for the year ended 30 September 2018 of 5.65p per share)	<b>63</b>	– 61
	<b>181</b>	171

In addition, the Directors are proposing a final dividend in respect of the financial year ended 30 September 2019 of 11.12p per share which will absorb an estimated £121m of shareholders' funds. If approved at the AGM, it will be paid on 2 March 2020 to shareholders who are on the register of members on 7 February 2020. These financial statements do not reflect this proposed dividend payable.

### 2 Fixed assets: investments

Equity interests in subsidiary undertakings are as follows:

	£m
<b>Cost</b>	
At 1 October 2018	3,224
<b>At 30 September 2019</b>	<b>3,224</b>
<b>Provision for diminution in value</b>	
At 1 October 2018	136
<b>At 30 September 2019</b>	<b>136</b>
<b>Net book value</b>	
<b>At 30 September 2019</b>	<b>3,088</b>
At 30 September 2018	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 2019, are shown in note 18 of the Group financial statements. All of these subsidiary undertakings are wholly-owned. All subsidiaries are engaged in the development, distribution and support of business management software and related products and services for small and medium-sized businesses.

All operating subsidiaries' results are included in the Group financial statements. The accounting reference date of all subsidiaries is 30 September, except for Brazilian subsidiaries which have an accounting reference date of 31 December due to Brazilian statutory requirements.

### 3 Cash at bank and in hand

	2019 £m	2018 £m
Cash at bank and in hand	<b>2</b>	1

**4 Debtors**

	2019 £m	2018 £m
Prepayments and accrued income	1	1
Other debtors	2	–
Amounts owed by Group undertakings	<b>1,117</b>	1,051
	<b>1,120</b>	1,052

Of amounts owed by Group undertakings £418m (2018: £378m) is due greater than one year, on which interest is charged at 4.2% and is repayable in full on 21 October 2023 but may be repaid, in whole or in part, in advance of this date at the option of the borrower.

**5 Trade and other payables**

	2019 £m	2018 £m
Amounts owed to Group undertakings	<b>1,414</b>	1,216
Accruals and deferred income	<b>6</b>	3
	<b>1,420</b>	1,219

Amounts owed to Group undertakings are unsecured and attract a rate of interest of between 0.0% and 6.8% (2018: 0.0% and 8.3%).

**6 Obligations under operating leases**

Total future minimum lease payments under non-cancellable operating leases falling due for payment as follows:	2019 £m	2018 £m
Within one year	2	1
Later than one year and less than five years	5	5
After five years	<b>20</b>	3
	<b>27</b>	9

The Company leases various offices under non-cancellable operating lease agreements. These leases have various terms, escalation clauses and renewal rights.

## 7 Equity

### 7.1 Called up share capital

Issued and fully paid ordinary share of 14/77 pence each	2019 shares	2019 £m	2018 shares	2018 £m
At 1 October	<b>1,120,789,295</b>	<b>12</b>	1,120,638,121	12
Proceeds from shares issued	–	–	151,174	–
<b>At 30 September</b>	<b>1,120,789,295</b>	<b>12</b>	1,120,789,295	12

### 7.2 Other reserves

	Treasury shares £m	Merger reserve £m	Capital redemption reserve £m	Total other reserves £m
At 1 October 2018	(157)	61	2	(94)
Utilisation of treasury shares	<b>17</b>	–	–	<b>17</b>
<b>At 30 September 2019</b>	<b>(140)</b>	<b>61</b>	<b>2</b>	<b>(77)</b>

	Treasury shares £m	Merger reserve £m	Capital redemption reserve £m	Total other reserves £m
At 1 October 2017	(170)	61	2	(107)
Utilisation of treasury shares	13	–	–	13
At 30 September 2018	(157)	61	2	(94)

#### Treasury shares

##### Purchase of treasury shares

Shares purchased under the Group's buyback programme are not cancelled but are retained in issue and represent a deduction from equity attributable to owners of the parent, during the year the Group purchased no treasury shares (2018: none).

During the year the Group agreed to satisfy the vesting of certain share awards, utilising a total of 3,781,720 (2018: 3,022,375) treasury shares. The Group gifted nil shares (2018: nil) to the Employee Share Trust.

At 30 September 2019 the Group held 31,699,170 (2018: 35,480,890) of treasury shares.

##### Employee Share Trust

The Company holds treasury shares in a trust which was set up for the benefit of Group employees. The Trust purchases the Company's shares in the market or is gifted them by the Company for use in connection with the Group's share-based payments arrangements. The Trust holds 35,792 ordinary shares in the Company (2018: 254,525) at a cost of £nil (2018: £2m) and a nominal value of £nil (2018: £nil).

During the year, the Trust agreed to satisfy the vesting of certain share awards, utilising a total of 368,733 (2018: 707,190) shares held in the Trust. The Trust received £2m (2018: £nil) additional funds for future purchase of shares in the market (2018: nil funds received).

The costs of funding and administering the scheme are charged to the profit and loss account of the Company in the period to which they relate. The market value of the shares at 30 September 2019 was £nil (2018: £1m).

## GLOSSARY

### Non-GAAP measures

Measure/Description	Rationale
<b>Underlying (revenue and profit) measures</b>	
<p>Underlying measures are adjusted to exclude items which would distort the understanding of the performance for the year or comparability between periods:</p> <ul style="list-style-type: none"> <li>- Recurring items include purchase price adjustments including amortisation of acquired intangible assets and adjustments made to reduce deferred income arising on acquisitions, acquisition-related items, FX on intercompany balances and fair value adjustments; and</li> <li>- 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.</li> </ul> <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 potentially distorting effects of foreign exchange movements, one-off or non-operational 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&amp;A decisions on earnings per share growth can be evaluated.</p>
<b>Organic (revenue and profit) measures</b>	
<p>In addition to the adjustments made for Underlying measures, Organic measures:</p> <ul style="list-style-type: none"> <li>- Exclude the contribution from discontinued operations, disposals and assets held for sale of standalone businesses in the current and prior period; and</li> <li>- Exclude the contribution from acquired businesses until the year following the year of acquisition, at which point they are included for the full current and prior period; and</li> </ul> <p>For FY19 this includes the impact of IFRS15. FY18 is restated to reflect proforma adjustments for the areas of impact of IFRS 15 adoption assuming the same contractual basis as FY19.</p> <p>Acquisitions and disposals which occurred close to the start of the opening comparative period where the contribution impact would be immaterial are not adjusted. Please note that organic operating profit margin as reported is not necessarily comparable from period to period.</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> <p>During FY19, the organic measure adjusts the prior period (FY18) for IFRS15 to enable like-for-like comparison across the periods.</p>
<b>Underlying Cash Flow from Operating Activities</b>	
Underlying Cash Flow from Operating Activities is Underlying Operating Profit adjusted for non-cash items, net capex (excluding business combinations and similar items) and changes in working capital.	To show the cashflow generated by the operating activities and calculate underlying cash conversion.
<b>Underlying Cash Conversion</b>	
Underlying Cash Flow from Operating Activities divided by Underlying 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.
<b>EBITDA</b>	
EBITDA is Underlying Operating Profit excluding depreciation, amortisation and share based payments.	To calculate the Net Debt to EBITDA leverage ratio and to show profitability before the impact of major non-cash charges.
<b>Annualised recurring revenue</b>	
Annualised recurring revenue ("ARR") is the normalised reported organic recurring revenue in the last month of the reporting period, adjusted consistently period to period, multiplied by twelve. Adjustments to normalise reported recurring revenue include those components that management has assessed should be excluded in order to ensure the measure reflects that part of the contracted revenue base which (subject to ongoing use and renewal) can reasonably be expected to repeat in future periods (such as non-refundable contract sign-up fees).	ARR represents the annualised value of the recurring revenue base that is expected to be carried into future periods, and its growth is a forward-looking indicator of reporting recurring revenue growth.
<b>Renewal Rate by Value</b>	
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.
<b>Free Cash Flow</b>	
Free Cash Flow is Cash Flow from Operating Activities minus non-recurring cash items, interest paid, tax paid and adjusted for profit and loss foreign exchange movements.	To measure the cash generated by the operating activities during the period that is available to repay debt, undertake acquisitions or distribute to shareholders.

Measure/Description	Rationale
% Subscription Penetration	Organic software subscription revenue as a percentage of organic total revenue
	To measure the progress of migrating our customer base from licence and maintenance to a subscription relationship.
% Sage Business Cloud Penetration	Organic recurring revenue from the Sage Business Cloud (native and connected cloud) as a percentage of the organic recurring revenue of the Future Sage Business Cloud
	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:	As an indicator of the current period financial return on the capital invested in the company. ROCE is used as an underpin in the FY19 PSP awards.
<ul style="list-style-type: none"> <li>- Underlying Operating Profit; minus</li> <li>- Amortisation of acquired intangibles; the result being divided by</li> <li>- The average (of the opening and closing balance for the period) total net assets excluding net debt, provisions for non-recurring costs and tax assets or liabilities (i.e. capital employed).</li> </ul>	
Revenue Type	Description
Recurring revenue	
Subscription contracts	Recurring revenue is revenue earned from customers for the provision of a good or service over a contractual term, with the customer being unable to continue to benefit from the full functionality of the good or service without ongoing payments.
Maintenance and support contracts	Subscription revenue is recurring revenue earned from customers for the provision of a good or service over a contractual term. In the event that the customer stops paying, they lose the legal right to use the software and the Group has the ability to restrict the use of the product or service.
	Subscription revenue and maintenance and support revenue are usually recognised on a straight-line basis over the term of the contract as control is transferred to the customer (including non-specified upgrades, when included). An exception is revenue from term licences embedded within a subscription contract for software with significant standalone functionality which are expected to recur upon renewal of the subscription offering. Revenue for these term licences is recognised when control is transferred at inception of each subscription contract period.
Software and software-related services	
Perpetual software licences	Perpetual software licences with significant standalone functionality and specified upgrades revenue are recognised when the control relating to the licence has been transferred. This is when the goods have left the warehouse to be shipped to the customer or when electronic delivery has taken place.
Upgrades to perpetual licences	
Professional services	
Training	Other product revenue (which includes hardware and stationery) is recognised as the products are shipped to the customer.
Hardware and stationery	Other services revenue (which includes the sale of professional services and training) is recognised when delivered, or by reference to the stage of completion of the transaction at the end of the reporting period. This assessment is made by comparing the proportion of contract costs incurred to date to the total expected costs to completion.
Processing revenue	
Payment processing services	Processing revenue is revenue earned from customers for the processing of payments or where Sage colleagues process our customers' payroll.
Payroll processing services	Processing revenue is recognised at the point that the service is rendered on a per transaction basis.

<b>A&amp;RC</b> Audit and Risk Committee	<b>ERP</b> Enterprise Resource Planning	<b>LSE</b> London Stock Exchange
<b>AAMEA</b> Africa Australia Middle East Asia	<b>ESOS</b> Executive Share Operating Scheme	<b>LTIP</b> Long Term Incentive Plan
<b>AGM</b> Annual General Meeting	<b>EU</b> European Union	<b>NED</b> Non-Executive Director
<b>API</b> Application Program Interface	<b>FCF</b> Free Cash Flow	<b>NPS</b> Net Promoter Score
<b>C4L</b> Customer For Life	<b>FY16</b> Financial year ending 30 September 2016	<b>PBT</b> Profit Before Tax
<b>CAGR</b> Compound Annual Growth Rate	<b>FY17</b> Financial year ending 30 September 2017	<b>PSP</b> Performance Share Plan
<b>CDP</b> Carbon Disclosure Project	<b>FY18</b> Financial year ending 30 September 2018	<b>R&amp;D</b> Research and Development
<b>CFO</b> Chief Financial Officer	<b>FY19</b> Financial year ending 30 September 2019	<b>SBC</b> Sage Business Cloud
<b>CGU</b> Cash Generating Unit	<b>G&amp;A</b> General and Administrative	<b>S&amp;M</b> Sales and Marketing
<b>CMD</b> Capital Markets Day	<b>GAC</b> Global Accounting Core	<b>SaaS</b> Software as a Service
<b>CR</b> Corporate Responsibility	<b>GHG</b> Green House Gas	<b>SSRS</b> Software & Software Related Services
<b>CRM</b> Customer Relationship Management	<b>HR</b> Human Resources	<b>TSR</b> Total Shareholder Return
<b>DTR</b> Disclosure Guidance and Transparency Rules	<b>HCM</b> Human Capital Management	<b>VSGM</b> Vision, Strategy, Goals, Measures
<b>EBITDA</b> Earnings Before Interest Taxes Depreciation and Amortisation	<b>IFRS</b> International Financial Reporting Standards	
<b>EBT</b> Employee Benefit Trust	<b>ISV</b> Independent Software Vendor	
<b>ED</b> Executive Director	<b>KPI</b> Key Performance Indicator	
<b>EPS</b> Earnings Per Share		

## SHAREHOLDER INFORMATION

### Financial calendar

#### Annual General Meeting

#### Dividend payments

Final payable – year ended 30 September 2019	2 March 2020
Interim payable – period ending 31 March 2020	12 June 2020

#### Results announcements

Interim results – period ending 31 March 2020	13 May 2020
Final results – year ending 30 September 2020	20 November 2020

### Shareholder information online

The Sage Group plc's registrars are able to notify shareholders by email of the availability of an electronic version of shareholder information. Whenever new shareholder information becomes available, such as The Sage Group plc's interim and full year results, Equiniti will notify you by email and you will be able to access, read and print documents at your own convenience.

To take advantage of this service for future communications, please go to [www.shareview.co.uk](http://www.shareview.co.uk), where full details of the shareholder portfolio service 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 change your mind at a later date, you may amend your request to receive electronic communication by entering your shareview portfolio online and amending your preferred method of communication from "email" to "post". If you wish to continue receiving shareholder information in the current format, there is no need to take any action.

Our corporate website has more information about our business, products, investors, media, sustainability, and careers at Sage Group.

**Stay up to date at [www.sage.com](http://www.sage.com)**

### Advisers

#### Corporate brokers and financial advisers

Citigroup Global Markets,  
33 Canada Square, Canary  
Wharf, London, E14 5LB

Morgan Stanley & Co.  
International plc  
25 Cabot Square  
Canary Wharf  
London, E14 4QA  
United Kingdom

#### Solicitors

Allen & Overy LLP,  
1 Bishops Square,  
London, E1 6AD

#### Principal Bankers

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Monday to Friday.

#### Information for investors

Information for investors  
is provided on the internet  
as part of the Group's  
website which can be found  
at: [www.sage.com/investors](http://www.sage.com/investors)

#### Investor enquiries

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our Investor Relations  
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#### The Sage Group plc

#### Registered office:

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NE13 9AA

Registered in England  
Company number 2231246



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