Annual Report

for 01.07.2018 - 30.06.2019

Sitecore Holding II A/S
Vester Farimagsgade 3, 1606 Copenhagen V
CVR No. 37 62 40 71

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Chairman of the ordinary general meeting: Richard M. Foehr

Contents

Company information

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Daniel Edwin Griggs

Audit
ERNST & YOUNG
Godkendt Revisionspartnerselskab

Company profile

Sitecore provides a digital experience platform that enables brands to deliver meaningful digital experiences that foster lifelong customer relationships. We are the only company that brings together content, customer data, personalization, and commerce in one connected platform. Our customers rely on Sitecore to manage the end-to-end content lifecycle and provide more engaging, personalized experiences that drive their competitive advantage.

Our Vision

Create a world where everyone feels like a preferred customer.

Our Mission

Deliver innovation that connects brands with their customers for lifelong relationships.

Our Purpose

Create human connections in a digital world.

Our Core Values

- Customers First
- Foster Collaboration
- Cultivate Community
- Push Boundaries
- Take Ownership

Our market

Customer experience is the new battleground for business. With their unprecedented access to information, today's more demanding and discerning customers determine market winners not on the basis of brand muscle or product quality but, rather, on a company's ability to treat every customer like a preferred customer. And these constantly-connected customers now decide at their own discretion when and where to engage with a brand. As a result, traditional marketing strategies have lost their effect; the new imperative for every company is to deliver consistent, personalized experiences that give customers the information they need, when they need it, in the way they want it.

Turning this imperative from aspiration to reality comes down to three elements: customer data, content, and channels. Customer data and analytics applied to such data allows organizations to understand who their customers are and what they care about. Relevant content enables them to give their customers what they really want—contextual information that helps them make a purchase decision, learn something new, make their life easier, or reward their loyalty. Finally, organizations need a place to deliver that information to create a compelling experience, whether that is via a website, mobile application, email, or even voice assistants or artificial/augmented reality devices. Each of these three elements is critical; however, one rises above the others, content. Regardless of how many customer segments a marketing team can identify or how many channels they can deliver on, organizations cannot personalize any digital experience without content that speaks to the wants and needs of each individual customer.

Considering that differentiated content is the centerpiece of delivering personalized experiences, it's not surprising that marketers spend significant resources to create the volume of assets needed to tailor experiences for each individual. More than 80% of marketers say their organization views content as a business asset and more than half of enterprise marketers say their organization increased spending on content creation more than other areas of content marketing in the last 12 months. However, 42% of marketers report their organization hasn't acquired the right technology to manage content across the enterprise and, of the 58% who have, only 16% are using it to its potential.

With the increasing volume and velocity of content needed to fuel personalized digital experiences, it's clear that marketing organizations need a plan, process, and technology to help them deliver against heightened expectations.

Our products and services

Sitecore Experience Cloud™ is the marketer's answer to solving the "content crisis" that has arisen out of customers' demands for personalized experiences that offer a consistent experiences across channels and devices; provide continuity throughout their customer journey; and deliver value by presenting information, products, or services that are relevant and meaningful to their individual wants and needs.

Sitecore Experience Cloud encompasses Sitecore's overall set of solutions and capabilities for content planning, creation, collaboration, management, and omnichannel delivery; digital commerce; and digital marketing tools – with unmatched ability to leverage rich data and machine learning-generated insights to personalize customer experiences. Sitecore Experience Cloud includes:

- **Sitecore® Experience Manager (XM),** our market-leading WCM system, supports global, multilingual content and provides the flexibility that enterprises demand to deliver the right content to the right person at the right time, on any channel and device, at scale.

- **Sitecore® Experience Accelerator (SXA)** is fully integrated into XM's editing environment, reducing time-to-market by allowing content teams to design, assemble, and deploy web content across channels with fewer development resources.

  Sitecore® Experience Platform™ (XP) builds on the powerful content management capabilities of Sitecore XM with the addition of Sitecore Experience Database™ (xDB), Sitecore Experience Analytics, Sitecore Cortex™ machine learning, and marketing automation capabilities. xDB is a single marketing repository of customer intelligence that creates complete, individual customer profiles based on historical interaction, behavior, and transactional data. Using this profile data, Sitecore Experience Analytics applies a sophisticated blend of web analytics, testing and optimization, and path analysis functionality to drive personalization and reveal which campaigns, channels, and traffic sources are performing best. In addition, the Sitecore Cortex data processing engine allows organizations to process the data in Sitecore xDB using their choice of machine learning algorithms or platforms, enabling marketers to automate mundane tasks and surface intelligent insights — such as patterns, complex relationships, recommendations, and outcomes based on predictive scoring and other factors — to help marketing teams make better, more informed decisions that ultimately lead to better business outcomes.

  Sitecore XP's marketing automation capabilities let businesses orchestrate automated customer engagement strategies based on how customers are interacting with their brand in the moment. Solutions for email marketing and mobile applications deliver a connected experience that flows seamlessly from one channel to the next.

  As a modular, open, and integrateable platform, Sitecore provides customers with the choice to start with basic content management and expand to add other integrated solutions such as commerce, email automation, and other omnichannel options to fit any environment and budget.

  Customers also have a wide array of deployment options with Sitecore XP, including cloud, hybrid cloud, and on-premises Fully optimized for Microsoft Azure, Sitecore XP in a platform-as-a-service (PaaS) configuration delivers faster time to market for marketing users as well as reliability, speed, and scale for IT users. Sitecore XP also can be deployed as infrastructure-as-a-service (IaaS) on Amazon Web Services, Google Cloud Platform, and Azure. Additionally, managed hosting options allow users to either deploy Sitecore themselves or work with their certified Solution Partner for hosting.

- **Sitecore Content Hub™** is a single, software-as-a-service (SaaS)-delivered platform that supports content strategy, planning, creation, collaboration, and management. Consisting of Digital Asset Management (DAM) and Product Content Management (PCM), Content Marketing Platform (CMP), and Marketing Resource Management (MRM) capabilities, content marketers can set up content creation and delivery as a connected process with a single, unified solution.

- **Sitecore Experience Commerce™ (XC)** enables brands to blend relevant content with data from product catalog, pricing and promotion, and merchandising management capabilities to deliver content rich, experience-first commerce experiences that go beyond merely managing a transaction to win customers and bring them back time and time again. Using XC optimizes business results by reducing cart abandonment, boosting order size, increasing re-buy percentages, and delivering more completed online sales.

Sitecore Value Realization Services blend technology and digital marketing expertise so that our customers can achieve higher implementation quality, reduce risk, and maximize the value of their overall project investment. Sitecore offers three Technical Consulting service packages: (1) Stepstone Review, to help ensure optimal implementation aligned to recommended practices and overall launch readiness; (2) Stepstone XP Activate; and (3) Stepstone Commerce Activate. These Stepstone service packages help the customer to define their architecture at the content, application, and system level, provide reviews to assess the solution as the implementation progress, and provide technical expertise to help the customer to better understand their platform.

In addition, Sitecore Business Optimization Strategies (SBOS™) supports Sitecore customers and implementation partners through a global certification process focused on Digital Marketing execution and strategy specific to Sitecore Experience Platform. Customers and partners gain certification through participation in the SBOS Optimization Insights Workshop, which provides the insights, methods, and best practices to deliver successful Sitecore Experience Platform projects, develop new services, and add value to customer engagements. Partners learn how to use SBOS methodologies including how to evaluate the Customer Experience Maturity Model, map strategic objectives, create the Engagement Value Scale, and more.

Sitecore has allocated substantial resources to the ongoing development of its technology platform and is committed to differentiated innovation. In particular, we continue to evolve our capabilities for artificial intelligence (AI) and machine learning (ML), commerce, and cloud delivery, all of which are integral components of our platform today, as well as usability enhancements that lower the barrier to entry for business users and reduces time to value.

Our community

Sitecore is driven by a customer-centric strategy focused on helping our customers accelerate the transformations of their business to meet the demands of a digital economy. With operations spanning more than 20 offices around the globe, we effectively service clients in more than 50 countries. Our own capabilities are complemented by nearly 800 partners who provide services ranging from implementation to digital strategy and creative design to managed services. The Sitecore community also includes more than 12,000 Sitecore-certified developers and more than 20,000 active community participants worldwide, as well as 315 Sitecore Most Valuable Professionals—representing 30 countries and 150 companies— who actively share their mastery of the Sitecore platform with Sitecore's customers, partners, and prospects. The company also has 45 user groups around the globe.

Our go-to-market strategy

Sitecore licenses its products and services through and with its partners to marketers and technologists across a broad range of industries including consumer goods, education, finance, government, healthcare, manufacturing, retail, technology, and travel, as well as associations and non-profits.

Since its inception in 2001, Sitecore has generated strong revenue and customer growth through an uncompromising commitment to excellence via:

- Executing against a "land-and-expand" sales strategy that focuses on acquiring new customers and building on existing customer relationships;

- Extending the market reach and footprint of the Sitecore platform by expanding into strategic adjacent markets such as digital asset management, commerce, marketing campaign management, and content marketing; and

- Investing in cutting edge areas of technology, such as machine learning and artificial intelligence, that promise to help marketers make faster decisions and deliver more compelling digital experiences.

Our ownership

EQT holds approximately 75% of the shares of the company through Dynamite Holding I S.á.r.l. The remaining ownership consists of the company founders, members of the Board of Directors, the Executive Management team, and a small number of senior and key Sitecore employees.

Highlights 2019

Our Business Performance

Throughout fiscal year 2019, Sitecore further strengthened its competitive position by leveraging its leadership in the web content management and digital experience platform markets, as well as continuously launching new products, services, and partnerships that advance the company's capabilities.

- In October 2018 Sitecore announced its acquisition of Stylelabs NV, creator of the Marketing Content Hub®, a unified platform including digital asset management and product content management, content marketing platform, and marketing resource management capabilities. With the addition of Stylelabs, Sitecore is uniquely able to help companies solve their content crisis by streamlining the entire content lifecycle – from planning to publishing – so they can deliver personalized, engaging experiences at scale.

- Sitecore unveiled version 9.1 of Sitecore Experience Platform in October 2018. The release underscored our focus on empowering our customers with tools that enhance and scale their expertise, with new features including Sitecore JavaScript Services (JSS) and Sitecore Cortex™, several capabilities to help customers better govern their email campaigns, and a preview of the Horizon content editing environment.

- In January 2019, Sitecore announced a new global partnership with IBM iX, one of the world's largest digital agencies and global business design partners. The partnership makes Sitecore's web content management, commerce, and marketing solutions available to customers via IBM iX designers, technology experts, and industry strategists in 40 IBM Studios worldwide.

- In May 2019, Sitecore announced its acquisition of Hedgehog Development LLC, a high performing, customer-focused digital consultancy that bolsters the people, technology, and services resources supporting Sitecore Solution Partners as they continue to help customers speed deployment time and overcome complexity in their IT environment. In particular, Hedgehog enables Sitecore to broaden the capabilities of Sitecore Professional Services and Sitecore Business Optimization Strategies that augment Sitecore Solution Partners' design, strategy, and implementation services; enhance training capabilities to rapidly accelerate Sitecore Solution Partners' time-to-proficiency and simplify the path to become Sitecore experts on newer product offerings; and add capacity to enable partners across geographies, particularly in areas including improved documentation and training on best practices.

- In June 2019, Sitecore expanded the functionality of Sitecore Connect for Salesforce Marketing Cloud, providing easy access to content, images, and data from Sitecore Experience Platform to enhance Salesforce Marketing Cloud campaigns, as well as increased synchronization between platforms to deliver a single view of each customer, with no need to cross-reference. Through the expanded integration of Sitecore and Salesforce Marketing Cloud, customers receive an enhanced experience across channels that enables them to better personalize the customer experience, regardless of language, site, or country.

Our Financial Performance

- Sitecore continued its business model transition during fiscal year 2019 from predominantly distributing and supporting perpetual license software to more subscription services or term licenses with revenue recognition spread out over time as reported under the IAS 18 accounting standard. This trend contributed to subscription revenues increasing and perpetual license revenue declining in the year ended 30 June 2019. The expansion of Sitecore's portfolio helped increase subscription revenue to 183% year over year (123% without the impact of IFRS15). Sitecore's fiscal year 2019 recognized revenue was EUR 254 million (EUR 206 million without adoption of IFRS 15), increase of 42% (15% without adoption of IFRS 15) from FY18 revenue of EUR 178 million.

  With double digit growth in new business added and ongoing transition to subscription model, the annual recurring revenue grew 30%. Annual recurring revenue ("ARR") represents the annualized value of all recurring elements of revenue.

- Under the IAS 18 accounting standard, fiscal year 2019 revenues include the near- term negative impact on revenue recognition from a significant increase in the mix of subscription sales—introduced in FY16—where deals are, on average, recognized at one-third of the value of a perpetual license in the initial year.

- As required under IFRS accounting standards, Sitecore adopted the IFRS15 accounting standard beginning with fiscal year 2019, which primarily impacts revenue recognition and certain expenses relating to sales and partner commissions (see Note 1 to the Consolidated Financial Statements for additional detail and prior year comparable views).

- Gross profit for fiscal year 2019 equaled EUR 231 million (EUR 182 million without adoption of IFRS 15), compared with EUR 164 million in the previous fiscal year. Gross profit was higher due primarily to revenue growth.

- For fiscal year 2019, profit before depreciation and amortization and other special items was EUR 44 million (EUR (10) million without adoption of IFRS 15) against EUR 3 million in the previous fiscal year. The increase in profitability was primarily due to the growth in revenue, offset by the increased investments in research and development, intended to drive technology improvements and cloud infrastructure hosting costs associated with the subscription offering and the general and administrative expenses to support the growth of the business.

- The costs of special items included in operating loss in fiscal year 2019 was EUR 8 million (EUR 8 million without adoption of IFRS 15) compared to EUR 15 million in the previous fiscal year. The decrease of such costs was primarily due to reduction in reorganization costs and decrease in spend for various initiatives started in financial year 2018 and completed in the earlier part of financial year 2019.

- Sitecore generated a cash flow from operations of EUR (5) million in fiscal year 2019 against EUR 10 million the previous year, caused predominantly by the transition to the subscription business model.

Management review

Expanding our market reach and strategic value proposition by cementing our position as the only end-to-end content, commerce, and personalization platform.

Adjusted for transition to our subscription model, Sitecore has experienced revenue growth every year since its founding in 2001. The company also has delivered strong double-digit annualized recurring revenue (ARR) growth in the most recent four years, with the shift to ratable revenue providing for better visibility and predictability.

The transition to subscription licensing and cloud-based deployment models are core to satisfying the increasingly complex needs of our customers. When Sitecore was founded in 2001, web content management software was in its infancy, consumer behavior was very different, and companies were accustomed to acquiring software as a perpetually-licensed, capital expenditure. Technology and buying preferences have evolved significantly since then, driving the shift toward subscription licensing structures, powered by cloud delivery models that enable organizations to consume software as a service (SaaS).

The power of a subscription relationship provides the foundation for Sitecore and its customers to grow and prosper alongside one another. Embracing subscription licensing – particularly as a basis for moving towards a SaaS model –will transform the relationship we have with customers. Increased interaction throughout the year will allow us to understand our customers better and add more value to their business. As a result, they are more likely to stay with Sitecore longer and expand their use of our technologies as their digital maturity increases.

In the past year, Sitecore has made further progress in its evolution towards a cloud-first and subscription-led business. More and more of our customers are opting for the experience of consuming our software through subscription, and approximately 85% of new license sales have been on the subscription licensing model over legacy perpetual licensing structures. Sitecore also has seen continued traction in its strategy to move customers to a cloud-based deployment, and we see much more potential for growth as we continue this strategy into fiscal year 2020.

Sitecore's strong position

Sitecore was the first company to release a digital marketing suite based on a web content management system and, today, the company connects the entire marketing organization to easily define, create, manage, and deliver personalized content across any channel, at every stage of the customer journey. From building the right content to delivering it in the right channel at the right time to drive targeted outcomes and, eventually, measure the effectiveness of content on customer behavior, we create a virtuous loop that enables marketers to maximize the impact of their content investments, deliver great experiences, connect their brands to their customers' needs, and gain a competitive advantage.

In the past year, Sitecore has made significant investments in our go-to-market strategy that further entrench Sitecore at the center of our customers' digital experience initiatives. First, our acquisition of Stylelabs yielded the creation of Sitecore Content Hub, which enables greater agility in the marketing suite for content planning, creation, and asset management. The combination of Sitecore Content Hub, Sitecore Experience Platform, and Sitecore Experience makes Sitecore the only vendor capable of managing the end-to-end content lifecycle, meaning we can optimize not just the delivery of content but the creation of content. This creates a "force multiplier" that both improves the ROI of digital experience and reduces cost due to inefficiency and technology silos.

Second, our acquisition of Hedgehog, a customer-focused digital services agency and longtime Sitecore Solution Partner with deep expertise in Sitecore development, enables us to more effectively assist our partners and customers in developing solutions that utilize more of the Sitecore platform, and properly tie their execution to underlying business goals.

Meanwhile, we have continued to focus on the scalability and performance of our products to further enhance our ability to grow with our customers. We have made our solutions easier to use for developers and marketers alike, including the expansion of artificial intelligence and machine learning capabilities in our core offerings, and also have focused on providing the industry's most connected and connectable platform via the expansion of our Technology Alliance Program and continued development of our strategic alliance with Salesforce Marketing Cloud.

The technological strength, efficiency, and future-oriented characteristics of Sitecore’s products and services offer a strong potential for value creation for our customers that, as a result, allows us to win a growing number of major global customers. In addition, our continuous expansion of offerings and functionalities allows us to grow our business with both net-new and existing customers. To those ends, we believe our competitive advantage in the market and the company’s continued growth is based on:

- WCM and DXP market leadership. As native WCM capabilities expand beyond traditional boundaries – evolving into digital experience platforms (DXPs) that operate as the center of gravity in the martech stacks that deliver a personalized experience to every customer in real time, synchronized across channels – Sitecore’s platform allows organizations to achieve more value in a faster, more automated, and more powerful and intelligent way through integration, cloud, and machine learning capabilities, as well as the flexibility to deliver content to traditional and emerging channels in “headless” and hybrid architectures.

- Expanding digital commerce beyond traditional transactions. Sitecore puts experience first in the commerce environment by seamlessly integrating transaction activity with content and customer data, enabling companies to better understand customers’ behavior and interests so they can respond to their individual goals and needs.

- Integrations to line of business and other customer- facing applications. Sitecore enables any facet of customer intelligence—be it from a CRM system, ERP system, point-of-sale system, or Internet-of-Things (IoT) device—to be imported, analyzed, and then used to create a highly personalized and contextual digital experience.

- Contextual intelligence at scale. Sitecore’s ability to provide real-time insights across both native and third- party customer data enables marketers to uncover new customer segments, identify new revenue opportunities, and foster more engaging multichannel marketing experiences to drive exceptional business results.

As we look to fiscal year 2020, our priority will be to leverage these strengths to fuel the transformation of Sitecore into a SaaS-based business. This transformation is not merely a change in the way our digital marketing technologies are priced and delivered. We intend to reinvent the entire experience of using our software by embracing a closer relationship with our customers – one that puts them at the heart of every conversation and enables them to become the heroes behind customer-focused digital transformations that elevate the human experience. To be successful, Sitecore will continue to focus on innovation, providing the best technology for its customers that is:

- Simple, such that users can exploit the full benefits of the Sitecore platform through an elegant interface that hides the complexity of the underlying technology while tailoring the user experience to their specific needs.
- Agile, so that we can accelerate time-to-market by reducing the costs to design, build, deploy, and support the Sitecore platform, while retaining flexibility and extensibility for customers to develop differentiating capabilities.
- Intelligent, with AI and ML technologies infused throughout the platform that enable our customers to predict behavior and act on this data in a real-time, omnichannel, and automated way so they can engage their customers by speaking to their most fundamental values and create a level of loyalty that most brands are not seeing today.

Industry analyst recognition

During fiscal year 2019, Sitecore received accolades and recognition from leading industry analyst organizations, which we believe helps to promote our brand, increase understanding of our corporate and product strategy, and nurture demand for our offerings.

A leader in web content management

For the tenth consecutive year, Sitecore was positioned in the "Leaders" Quadrant of the Gartner Magic Quadrant for Web Content Management (Irina Guseva and Mick MacComascaigh, 30 July 2019). According to the Gartner Magic Quadrant for Web Content Management:

"Leaders should drive market transformation. They have the highest combined scores for Ability to Execute and Completeness of Vision. They are doing well and are prepared for the future with a clear vision and a thorough appreciation of the broader context of digital business. They have strong channel partners, a presence in multiple regions, consistent financial performance, broad platform support, and good customer support. In addition, they dominate in one or more technologies or vertical markets. Leaders are aware of the ecosystem in which their offerings need to fit. Leaders can:

- Demonstrate enterprise deployments
- Offer integration with other business applications and content repositories
- Support multiple vertical and horizontal contexts." [1]

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[1] NOTE: Gartner does not endorse any vendor, product or service depicted in its research publications, and does not advise technology users to select only those vendors with the highest ratings or other designation. Gartner research publications consist of the opinions of Gartner's research organization and should not be construed as statements of fact. Gartner disclaims all warranties, expressed or implied, with respect to this research, including any warranties of merchantability or fitness for a particular purpose. The Gartner Reports described herein, (the "Gartner Report(s)") represent data, research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. ("Gartner"), and are not representations of fact. Each Gartner Report speaks as of its original publication date (and not as of the date of this Annual Report) and the opinions expressed in the Gartner Report(s) are subject to change without notice.

Sitecore believes this leadership recognition reinforces not only the quality and continued innovation of our platform, but also our strategy, partner network, and the world-class team that helps ensure our customers' success as they transform their digital businesses.

A leader in digital experience platforms

For the second consecutive year, Gartner positioned Sitecore in the "Leaders" Quadrant of the Magic Quadrant for Digital Experience Platforms (Irina Guseva, Gene Phifer, Mike Lowndes, and Gavin Tay, 11 February 2019). We believe our Leader position not only cements our thought leader status and generates loyalty with our current customers, but also signals to large enterprises that Sitecore offers the depth and breadth across our product portfolio and partner ecosystem that makes us an excellent choice in an evolving, competitive, and demanding digital marketing commerce technology landscape.

Validating our expansion into the content marketing platforms marketplace

Following our acquisition of Stylelabs in October of 2018, Sitecore received its first invitation to participate in an evaluation of content marketing platforms. In our initial evaluation, Sitecore was positioned in the "Strong Performers" segment of The Forrester Wave™: Content Marketing Platforms for B2C Marketers, Q2 2019 (Ryan Skinner, 6 May 2019). Notably, Forrester stated that, "Of the CMPs in this analysis, Sitecore presents the most credible vision for supporting omnichannel content, wherein content and assets become reusable and intelligent components of each personalized marketing use case."

We believe this recognition validates our acquisition of Stylelabs and our strategy to provide a platform that can service the complete end-to-end content lifecycle.

Articulating a value proposition in the broader digital experience marketspace

Sitecore continues to engage the industry analyst community to communicate our market understanding, product innovation, and customer momentum across a range of digital marketing capabilities such as marketing automation, marketing analytics, personalization, and more. For example, we believe Sitecore's position in the "Visionaries" Quadrant in the Gartner Magic Quadrant for Multichannel Marketing Hubs (Noah Elkin, Adam Sarner, Benjamin Bloom, Joseph Enever, Colin Reid, 18 April 2019) illustrates the value of our natively integrated customer data platform as the "connective tissue" that unifies our content creation and delivery, personalization, and marketing automation capabilities and enables marketers to orchestrate their company's digital experiences across channels and enable rich, personalized customer experiences without the pain that has plagued suite-oriented solutions.

Major global customers choose Sitecore

Sitecore's customer base is comprised of well-known, global, enterprise brands across all geographies, particularly from B2C and B2B organizations at the high- end of the "mid-market." Sitecore's ability to serve mid-market customers to large global enterprises is a result of the Sitecore platform's ability to address organizations' requirements to deliver rich, content-first experiences as the foundation of reaching their target audience and understanding their interests and preferences on an individual level. In particular, our customers choose Sitecore because they want a strong core — focused on web content management and customer data management — that can be scaled and extended with adjacent application capabilities such as commerce and marketing campaign management, as well as integrated with other technologies such as customer relationship management (CRM), enterprise resource planning (ERP), product information management (PIM), and more. Moreover, Sitecore makes these capabilities easy to use such that business users can fully leverage our platform capabilities with minimal IT involvement and, increasingly, through an agile, software as-a-service architecture.

Global talent

Sitecore finished fiscal year 2019 with 1,317 employees. We have a large and diverse workforce of qualified, passionate, and strongly dedicated employees who are the most important asset in fulfilling our business strategy. We continuously strive to recruit and retain talent across all levels, globally, and we are committed to the ongoing strengthening of our employees through processes and programs that foster their personal and professional development, such as an annual global employee survey, which 83% of employees completed in fiscal year 2019.

Close collaboration with partners

Sitecore's partner-led business model is designed to ease integration and maximize the value of Sitecore solutions to customers. Our partners put Sitecore's powerful mix of marketing and business features, comprehensive development support, and superior flexibility to work every day with phenomenal results. Sitecore aligns processes and offerings with our partner channel around the world—focusing on innovation of the platform and enablement of the partner ecosystem across Strategic, Functional, Technical, and Sales workloads—to strive toward a co-innovative, mutually enabled ecosystem that builds lifetime customers and relationships. Working with the members of the Sitecore Partner Advisory Council, a global group of top-tier solution partners who represent not only our strongest sales and implementation partners but also the voices of many of our largest customers, Sitecore has further refined and consolidated its partner program during the past year to channel efforts and resources into programs focused on customer outcomes. Sitecore continues to engage and strengthen its relationship with its current strategic partners, such as Microsoft and Salesforce, while actively seeking out new and innovative strategic partners for future growth.

Focus on customers

As a technology vendor sitting at the nexus of our customers' digital business transformations, it is critical that we help our customers through the cultural and organizational changes brought by new business models. During the fiscal year, Sitecore continued to build a stronger customer- facing organization with the creation of Sitecore Value Realization Services, which offers three Technical Consulting service packages to help our customers achieve higher implementation quality, reduce risk, and maximize the value of their overall project investment. Sitecore Value Realization Services expands upon Sitecore Business Optimization Strategies (SBOS), which now offers three Marketing Consulting services packages that provide the insights, methods, and best practices to deliver successful Sitecore Experience Platform projects, develop new services, and add value to customer engagements. Sitecore also extended the Technical Account Manager (TAM) role to our partner community. Whether assigned to customers or partners, TAMs bring additional technical expertise to bear when project requirements demand unique product insight or guidance, provide a single point of contact for all Sitecore-related inquiries, and help reduce project risk by involving Sitecore actively and directly in their project plans. In June 2019, Sitecore closed its acquisition of Hedgehog Development, LLC, enabling the company to continue to expand and refine the customer experience by providing expert advice and execution for customer projects.

Finally, Sitecore maintained its Customer Leadership Board, a group of leading Sitecore customers who act as subject matter experts in their field and deliver valuable feedback to the company regarding Sitecore, its technology, and its performance in the marketplace.

Corporate social responsibility

Sitecore seeks to achieve its business objectives by acting in a responsible and ethical way, by ensuring respect for adherence to laws, by creating a safe and inspiring workplace for employees, and by minimizing environmental and climate impact. Sitecore complies with all applicable laws, standards, and guidelines through a strong corporate governance structure and enforcement programs. The company is committed to ensuring good business conduct with a high level of integrity and standards of ethics.

Sitecore adheres to a global Code of Business Conduct (Code), which is reviewed annually by the Board of Directors. This Code together with other corporate policies, rules, standards, guidelines, and procedures, provides a strong governance structure and enforcement mechanism for the company.

The Code is based on the following eight guiding principles: (1) we take ethics and compliance seriously, (2) we ask questions and report concerns, (3) we promote a respectful workplace, (4) we are trustworthy when conducting business, (5) we follow the letter and spirit of the law, (6) we protect Sitecore's assets and reputation, (7) we foster a safe and healthy work environment, and (8) we believe in social responsibility.

The Code is distributed to all new employees and is promoted companywide through annual training campaigns and other internal programs describing its principles. Annually, all company employees receive and certify receipt of a copy of the Code and today it is an integrated part of the hiring process.

In addition, the Code requires Sitecore's employees, contractors, and business partners to protect the company's reputation and integrity in the global marketplace. Through the Code and related policies, programs, rules, and procedures, Sitecore prohibits improper business practices and aims to comply with all applicable laws, including the U.S. Foreign Corrupt Practices Act (FCPA), the UK Bribery Act, and similar laws throughout the world. For example, the Code and the company's intranet site devoted to compliance set forth simple processes to report any violations or potential violations of the Code, enabling employees to report their concerns either with their names attached or anonymously, if preferred. Although Sitecore does not have any specific global policies in place addressing climate change and environmental impact, our board of directors monitors programs related to sustainability, including initiatives to increase gender diversity, reduce greenhouse gases, reduce water use and reduce waste to landfill. Sitecore has not adopted a specific environmental or climate change policy, as our annual materiality assessments have determined that Sitecore's business activities to do not post any significant risks to the environment or the climate. Management reports to the board of directors annually on achievement of sustainability goals. During fiscal year 2019, no breaches of the Sitecore's Anti-bribery or anti-corruption polices were detected.

In fiscal year 2019, Sitecore adopted a Supplier Code of Conduct which contains the company's commitment to human rights and applies to all vendors that engage with Sitecore. Through the adoption of the Supplier Code of Conduct, together with the Code, the company supports the protection of internationally proclaimed human rights. During fiscal year 2019, no breaches of the Supplier Code of Conduct or Sitecore's human rights policy were detected.

Sitecore monitors new developments and practices relating to corporate social responsibility and updates its internal training initiatives, with a particular focus on its obligation to act as a responsible and ethical global corporate citizen. The company acknowledges that there are risks associated with strong social responsibility policies, such as limiting both potential vendors and customers, who may not adhere to the same standards the company requires.

Sitecore's business-driven corporate social responsibility strategy focuses on the following main areas:

- Global business ethics and transparency, including confidentiality, security and privacy commitments
- Employee diversity and well-being, including health, safety, fair treatment, and development
- Recruitment and retention

Business ethics and transparency

In addition to the Code, Sitecore has additional policies related to Data Governance, Privacy, Security, Records Retention, Procurement, Contract Approval and Signature Authority, Human Rights, Vendor Conduct, Intellectual Property Rights, Information Security, and Product Security & Vulnerability. The company also launched the Trust Center on Sitecore.com, allowing customers, partners and vendors access to the latest information on Sitecore's privacy, security and compliance information. As part of the Company's overall compliance program, the Company conducts compliance training for its employees and continually reviews and improves existing policies and programs. During the fiscal year, the company enhanced enforcement programs relating to intellectual property protection and overall product security. The company will continue to broaden the scope of its compliance programs in the coming years.

Diversity and Well-Being

In fiscal year 2019, the company implemented programs to increase diversity in its workforce.

Sitecore has a focused goal of increasing its ratio of female employees. The company continues to build-out and enhance the Women@Sitecore initiative, a program designed to enhance the careers and professional development of women within technology in general and Sitecore specifically. Sitecore's management is 27 percent women, up from 26 percent last year. The ratio of female managers has steadily increased over the past several years. While relevant professional qualifications remain key selection criteria for all positions within Sitecore, Sitecore's management will continue to focus on diversity and will continue to evaluate programs to enhance attracting and developing diversity in its employee base.

During the fiscal year, Sitecore created and sponsored summer internship programs with a particular focus on hiring under-represented minorities and women to encourage greater diversity in the technology industry. In addition, the company continues to offer equal opportunities for men and women throughout its global workforce, and will continue to promote equal opportunities regardless of gender, ethnicity, race, religion, or sexual orientation.

Sitecore continues to attract a diverse workforce will monitor its compliance and people strategy on gender representation, and it will report on any developments in its annual report.

Recruitment and retention

Sitecore aims to offer equal opportunities for men and women throughout its global workforce, and it is company policy to promote equal opportunities regardless of gender, ethnicity, race, religion, or sexual orientation. As part of its overall recruiting strategy, Sitecore desires to attract, educate, and maintain passionate, dedicated, and highly qualified employees. Sitecore has implemented benefit and expanded training programs with the aim of attracting and retaining key talent.

Guidelines issued by the Danish Venture Capital Association

As a private-equity-owned company, Sitecore follows the recommendations of the Danish Venture Capital Association (DVCA) as described at www.dvca.dk.

Status on changes in representation in leadership positions

Board of directors

In late November 2018, Carsten Thoma joined the Board of Directors. Mr. Thoma most recently served as President of SAP Hybris, where he was responsible for SAP's Customer Engagement & Commerce line of business, the company's fastest growing business unit. In this role, he had end-to-end responsibility for SAP Hybris and was part of the SAP Global Executive Team. During his tenure, Thoma led SAP Hybris through a significant shift to the cloud, remodeled the company's development landscape with a microservices-based architecture, and expanded its marketing cloud solution through acquired customer identity and profile management capabilities.

At the end of the fiscal year, the Board consisted of seven (7) members, including Jonas Persson, Bjarne Hansen, Sheila Gulati, Craig Conway, Dominik Vincent Stein, Carsten Thoma and Robert Youngjohns. Sheila Gulati's service on the Board of Directors reflects Sitecore's continued efforts to adhere to its own target to retain the board membership of qualified women to 15 percent, which was set at the general meeting in November 2013. The board now consists of seven board members, with 14.3% percent of the Board members being women.

Executive management board and leadership team

During the fiscal year, there were changes to Sitecore's executive management board and leadership team.

In March 2019, Sitecore appointed Desta Price as Executive Vice President, Product Management. Desta brings over 20 years' experience in product management to Sitecore and will be focused on the company's push into the Artificial Intelligence and Machine Learning. Desta will also be driving the company's SaaS initiatives. Prior to Sitecore, she was Vice President of Product at Litbit and held product leadership roles at Xactly, Calidus, and Selectica.

Proforma Financials (Non-GAAP and Unaudited)[1]
Consolidated Profit and Loss Accounts

	Twelve months ending 30 June 2019 €M	Twelve months ending 30 June 2019 *(Results without adoption of IFRS 15)* €M	Twelve months ending 30 June 2018 * €M
Net revenue	254,0	205,5	178,3
Cost of sales	(23,2)	(23,2)	(14,0)
Gross profit	230,8	182,3	**164,3**
Sales and marketing costs	(123,6)	(128,8)	(114,5)
General and administrative expenses	(35,5)	(35,5)	(27,3)
Research and development costs	(27,6)	(27,6)	(20,0)
EBITDA before special items	**44,1**	**(9,6)**	**2,5**
Amortization and depreciation	(47,1)	(47,1)	(41,6)
Special items included in operating loss	(8,0)	(8,0)	(15,1)
Share Based Payment Cost	(1,5)	(1,5)	(3,4)
Gain on assets sold	-	-	0,3
Operating Loss	**(12,5)**	**(66,2)**	**(57,3)**

[1] Figures are not according to International Financial Reporting Standards as adopted by the EU and additional disclosure requirements of the Danish Financial Statements Act. EBITDA for the periods represent earnings before interest, taxes, depreciation, amortization and share based compensation.

*Not restated for the adoption of IFRS 15

Key Figures – Consolidated accounts

	2018/19	2018/19 *Results without adoption of IFRS 15*	2017/18	18.04.2016 – 30.06.2017	2016/17[1]	2015/16[1]
	€M (Audited unless otherwise stated)	€M (Unaudited)	€M* (Audited unless otherwise stated)	€M* (Audited unless otherwise stated)	€M * (Un-audited 12 month comparable)	

Profit and Loss Accounts

Revenue from contracts with customers	254,0	205,5	178,3	218,9	182,0	190,6
Gross profit	230,8	182,3	164,0	195,1	169,3	178,9
EBITDA before special items (Unaudited)	44,1	(9,6)	2,5	30,5	20,8	47,1
Operating loss	(12,5)	(66,2)	(57,3)	(17,5)	(21,8)	7,3
Financial items, net	(22,8)	(22,8)	(14,8)	(18,5)	(14,9)	(5.8)
Profit/loss for the year	(35,3)	(77,2)	(60,9)	(46,9)	(53,5)	226,7
Total assets	1.241,6	1.157,6	1.131,9	1.180,7	1.180,7	154,3
Equity	732,2	608,7	609,9	665,8	665,8	35,2

Cash flows

Operating activities	(4,7)	(4,7)	9,9	22,4	51,0	14,6
Investment activities	(47,3)	(47,3)	(9,3)	(23,2)	(9,0)	(4,4)
Investments in tangible fixed assets	(3,8)	(3,8)	(4,6)	(2,3)	(1,0)	–
Financing activities	54,2	54,2	(13,5)	(32,3)	(4,0)	(5,9)

Employees

Average number of staff (full-time)	1,079	1,079	907	884	808	938

Key ratios

Gross margin	91%	89%	92%	93%	94%	90%
EBITDA as a % of revenue	17%	(5)%	1%	11%	25%	–

1 Figures are not according to International Financial Reporting Standards as adopted by the EU and additional disclosure requirements of the Danish Financial Statements Act. The figures for FY 16 and prior years include operating results for the full year excluding the impact of the acquisition of Sitecore to provide a meaningful comparison to current year numbers.

EBITDA for the periods represent earnings before interest, taxes, depreciation, amortization and share based compensation.

*Not restated for the adoption of IFRS 15

Consolidated key figures

The Proforma key figures and financial ratios have been prepared on a consolidated basis. The financial ratios have been calculated in accordance with the following definitions:

- Gross margin is calculated as the gross profit divided by net revenue.
- EBITDA as a % of revenue is calculated as the EBITDA divided by net revenue.

Financial review – consolidated accounts

Audited consolidated financial statements

The audited consolidated financial statements for the period 30 June 2018 to 30 June 2019 represent the third-year financials of Sitecore Holding II A/S.

Proforma Financial statements

Profit and loss account

Revenue for the fiscal year aggregated EUR 254 million (EUR 206 million without adoption of IFRS 15) against EUR 178 million in the previous year, reflecting a year-over-year growth of 42% (16% without adoption of IFRS 15) primarily due to new business growth with existing and new customers..

Cost of goods sold consists of royalty costs for third-party products sold, hosting costs associated with our subscription offering, salaries and related expenses of network operations, implementation, technical support personnel, and allocated overhead. We enter into contracts with third parties for the use of their data center facilities, and our data center costs largely consist of amounts we pay to these third parties for rack space, power, and similar items. Cost of goods sold amounted to EUR 23 million (EUR 23 million without adoption of IFRS 15) against EUR 14 million in 2018, resulting in a gross profit of EUR 231 million (EUR 182 million without adoption of IFRS 15), as against EUR 164 million in 2018.

Sales and marketing

Sales and marketing expenses include costs associated with our sales, marketing, and customer success personnel and consist of compensation and benefits, commissions and bonuses, share-based compensation costs, promotional and advertising expenses, travel and entertainment expenses related to these personnel, and allocated overhead. Sales and marketing expenses were EUR 124 million (EUR 129 million without adoption of IFRS 15) against EUR 115 million in 2018.

Research and development

Research and development expenses include costs associated with the development of new products, enhancements of existing products for which technological feasibility has not been achieved, and quality assurance activities. This includes compensation and benefits, share-based compensation costs, consulting costs, cost of software development tools and equipment, and allocated overhead. Research and development expenses for the year were EUR 28 million (EUR 28 million without adoption of IFRS 15) against EUR 20 million in 2018.

General and administrative

General and administrative expenses include costs for executive, finance, human resources, information technology, legal, and administrative support functions. This includes compensation and benefits, share-based compensation, professional services costs, and allocated overhead. General and administrative expenses were EUR 36 million (EUR 36 million without adoption of IFRS 15) as against EUR 27 million in 2018.

EBITDA before special items was (EUR 44 million) (EUR (10) million without adoption of IFRS 15) as against EUR 3 million in 2018.

Operating loss

Operating loss for the year was EUR 13 million (EUR 66 million without adoption of IFRS 15) against EUR 57 million in 2018. The decrease in operating loss was primarily due to the growth in revenue, offset by the increased investments in research and development, intended to drive technology improvements and cloud infrastructure hosting costs associated with the subscription offering and the general and administrative expenses to support the growth of the business. It is expected that the company will have substantially completed the subscription transition by the financial year 2021/22, at which time the company expects to generate positive operating results.

Loss before income tax

Loss before income tax amount to EUR 37 million (EUR 91 million without adoption of IFRS 15) against EUR 72 million in 2018. The main drivers for the decrease in loss before income tax are identical to the ones included above in the section on operation loss.

Loss for the period

Loss for the period amount to EUR 35 million (EUR 77 million without adoption of IFRS 15) against EUR 61 million in 2018. The main drivers for the decrease in loss before income tax are identical to the ones included above in the section on Operation loss.

Balance Sheet

Intangible assets

Intangible assets amount to EUR 1.059 million (2018: EUR 1.047 million). The increase is due to the acquisition of Stylelabs and Hedgehog offset by the amortization during the year Property, plant and equipment Property, plant and equipment amounted to EUR 8 million against EUR 6 million in 2018. The increase is due to increase in capital expenditure resulting from growth in headcount.

Trade Receivables

Total receivables amount to EUR 60 million (EUR 60 million without adoption of IFRS 15) against EUR 51 million in 2018. The increase is primarily due to due to the growth in sales during the current year.

Contract Assets

Total contract assets amount to EUR 62 million (EUR nil without adoption of IFRS 15) against EUR nil in 2018. The contract assets were booked upon adoption of IFRS 15 in the current year.

Non-current liabilities

Total non-current liabilities amount to EUR 368 million (EUR 336 million without adoption of IFRS 15) against EUR 357 million in 2018.

Current liabilities

Total current liabilities amount to EUR 142 million (EUR 214 million without adoption of IFRS 15) against EUR 165 million in 2018. The decrease is primarily due to acceleration of revenue and release of contract liabilities upon adoption of IFRS 15 in the current year.

Parent Company

Net loss for the period

Net loss for the period amount to EUR 2 million (2018: EUR nil). The reason for the increase in Net loss for the period is due to increase in operating and financial expenses.

Follow-up on expectations

The revenue performance reflects Management's expectations of continued shift to subscription revenue model as was expressed in November 2019 in the Annual Report for 2017/2018.

Recognition and measurement

In preparing the annual report, Management makes various accounting estimates and assumptions that form the basis of presentation, recognition, and measurement of Sitecore's assets and liabilities. The most significant accounting estimates and judgments are made in relation to the accounting treatment of:

- Business combinations
- Impairment testing
- Useful lives and residual values for intangible assets with an infinite or finite useful life
- Deferred tax assets
- Receivables
- Share-based compensation
- Research and development costs

There are no other significant uncertainties associated with recognition and measurement in the preparation of the financial accounts, cf. the section on Accounting Policies. Nor have there been unusual circumstances in this context.

Financial outlook for 2019/20

Sitecore's software sales have continued to transition in fiscal 2019 from predominantly perpetual licenses with upfront revenue recognition, to more subscription or term licenses, with revenue recognition spread out over the contract term. This trend contributed to subscription revenues increasing and license revenue declining in the year ended 30 June 2019.

Sitecore's contract liabilities relating to subscription software contracts increased during the year, which will be recognized as revenue during fiscal year 2020 and beyond.

Sitecore anticipates accelerated adoption of the subscription pricing model in fiscal 2020. During this transition, the company does not anticipate a corresponding decrease in expenses, which may adversely affect net income and operating margin in fiscal 2020. However, over time, Sitecore expects this business model transition will significantly increase long- term revenue growth rate by (1) attracting new customers, (2) increasing the percentage of recurring revenue and (3) thereby driving higher average recurring revenue per customer. Additionally, the shift to a subscription model will increase the amount of the company's recurring revenue that is ratably reported.

Current plans and expectations involve building a stronger position in several geographic regions, creating new business model offerings, enhancing the partner network, leveraging strategic alliances and the continued strengthening of Sitecore's products and services through development and acquisition.

Sitecore expects revenue associated with Sitecore Commerce and Content Hub to continue to trend upwards during fiscal 2020 as we start to see the benefit from new product launches and other growth initiatives.

Given the market opportunity, Sitecore will continue to aggressively invest in product development, customer support, and distribution at times in advance of revenue.

Risk factors

Sitecore's short- and long-term outlook is subject to risks and uncertainty that may result in the actual performance differing considerably from expectations. Among other things, the major factors are assessed to be the following:

To address the industry transition to subscription licensing and cloud computing, Sitecore has shifted its business model toward a focus on subscription licensing and cloud deployment of its offerings. While it is expected that total subscription revenue, billings, bookings, ratable, and recurring revenue will increase over time as a result of this business model transition, our ability to achieve these financial objectives is subject to risks and uncertainties. The new offerings require a considerable investment of technical, financial, legal, and sales resources, and a scalable organization. If we are unable to successfully establish these new offerings and navigate our business model transition in light of the foregoing risks and uncertainties, our results of operations could be negatively impacted. The transition to cloud and the hosting of customer data, creates the need for additional security certifications; the risk for data breaches or loss of data; and requires further investment in data privacy and security policies and procedures.

The company's success and ability to invest and grow at the pace we expect depend largely on our ability to attract and retain highly skilled technical, professional, managerial, sales, and marketing personnel. Competition for these key personnel has been intense. The loss of services of any key talent or executives, the inability to retain and attract qualified personnel in the future, or delays in hiring required personnel, particularly engineering and sales personnel, could make it difficult to meet key objectives, such as timely and effective product introductions and financial goals.

As Sitecore's business has expanded globally, the company has increasingly become subject to risks arising from adverse changes in global economic and political situations, particularly in emerging markets, such as the Middle East. The past several years have been characterized by pockets of weak global economic conditions, uncertain political environments, such as United Kingdom's changing relationship with the European Union, and volatile financial markets. As a result, Sitecore's ability to meet its long-term financial targets may also be adversely affected.

As part of its effort to accommodate customers' needs and demands and the rapid evolution of technology, Sitecore evolves its product and service offerings and sales initiatives. Market acceptance of any new product or service is dependent on the ability to match customers' needs at the right time and price. Sitecore may have limited prior experience and operating history in these new areas of emphasis, including cloud services. If any assumptions about expenses, revenue, or revenue recognition principles from these initiatives prove to be incorrect, or attempts to improve efficiency are not successful, actual results may vary materially from those anticipated, and financial results will be negatively impacted.

Dissatisfaction among customers with current or future cloud offerings may impair Sitecore's reputation and could, at worst, lead to legal disputes and claims, which may impact the performance of the company.

Because the vast majority of Sitecore's revenue and costs are outside of Denmark and the company makes certain business and resource decisions based on assumptions about foreign currency, the company faces exposure to adverse movements in foreign currency exchange rates. These exposures may change over time as business practices evolve and economic conditions change, and they could have a material adverse impact on Sitecore's financial results and cash flows.

Management's statement

Management's statement

Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Sitecore Holding II A/S for the financial year 01 July 2018 – 30 June 2019.

The Consolidated Financial Statements and the Separate Financial Statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU, and further requirements in the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements and the Separate Financial Statements give a true and fair view of the assets and liabilities and financial position at 30 June 2019 of the Group and the Company and of the results of the Group and Company's operations and cash flows for the financial year 01 July 2018 – 30 June 2019.

Further, in our opinion, the Management's Review includes a true and fair description of the development in the Group and Company's operations and financial matters and the results of the Group and Company's operations and financial position.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Copenhagen, 6 January, 2020

Executive Board

Mark David Frost CEO
DocuSigned by: mark frost 672528F525ED49C...

Daniel Edwin Griggs CFO
DocuSigned by: Daniel Edwin Griggs 0C1A6E0FC18A48C...

Board of Directors

Jonas Persson Chairman
DocuSigned by: Jonas Persson D445DA97697547C...

Craig Allen Conway
DocuSigned by: Craig Allen Conway AFC744163B2F45F...

Sheila Gulati
DocuSigned by: Sheila Gulati

Bjarne Hansen
DocuSigned by: Bjarne Hansen AD9D902159DE471...

Dominik Vincent Stein
DocuSigned by: Dominik Vincent Stein 527F8B30F27548D...

Carsten Thoma
DocuSigned by: F201649941264D0...

Robert Youngjohns
DocuSigned by: Robert Youngjohns 37F9F60A35DC4F5...

Independent auditors' report

To the shareholders of Sitecore Holding II A/S

Independent Auditors' Report

To the shareholders of Sitecore Holding II A/S

Opinion

We have audited the consolidated financial statements and the parent company financial statements of Sitecore Holding II A/S for the financial year 1 July 2018 – 30 June 2019, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies, for the Group and the Parent Company. The consolidated financial statements and the parent company financial statements are prepared in accordance with International Financial Reporting

Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 30 June 2019 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 July 2018 – 30 June 2019 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements" (hereinafter collectively referred to as "the financial statements") section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Statement on the management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on our procedures, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Management's responsibilities for the financial statements

Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act and for such internal control as Management determines 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, Management is responsible for assessing the Group's and the 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 in preparing the financial statements unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to 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 and additional requirements applicable in Denmark 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 the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Copenhagen, 8 January 2020

Ernst & Young

Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Christian Schwenn Johansen

____

State Authorised Public Accountant
mne33234

Kennet Hartmann

____

State Authorised Public Accountant
mne40036

Consolidated Financial Statements

Consolidated Statement of Profit and Loss

	Note	01.07.2018 - 30.06.2019 €M	01.07.2017 - 30.06.2018 €M *
Revenue from contracts with customers	3	254,0	178,3
Cost of Sales	4,5,6	(23,2)	(14,3)
Gross profit		**230,8**	**164,0**
Sales and marketing costs	4,5,6	(139,4)	(136,2)
General and administrative expenses	4,5,6,7	(45,4)	(38,2)
Research and development costs	4,5,6	(58,5)	(46,9)
Operating loss		**(12,5)**	**(57,3)**
Acquisition related and special items	8	(1,7)	–
Financial income	9	0,2	4,1
Financial expense	10	(23,0)	(18,9)
Loss before income tax		**(37,0)**	**(72,1)**
Income tax benefit	11	1,7	11,2
Loss for the period		**(35,3)**	**(60,9)**

*Not restated for the adoption of IFRS 15. Please see further details on note 1.

Consolidated Statement of Comprehensive Income

	Note	01.07.2018 - 30.06.2019 €M	01.07.2017 - 30.06.2018 €M*
Loss for the period		(35,3)	(60,9)
Other comprehensive income:			
Exchange differences on translation of subsidiaries (net)		(0,1)	(1,2)
Other comprehensive expense for the period, net of tax		**(0,1)**	**(1,2)**
Total comprehensive loss for the period		**(35,4)**	**(62,1)**

*Not restated for the adoption of IFRS 15. Please see further details on note 1.

Consolidated Balance Sheet

	Note	30.06.2019 €M	30.06.2018 €M*
Goodwill		784,7	750,5
Technology, customer base and brand		260,2	282,6
Patents, trademarks and product rights		1,8	2,4
Development projects		8,1	7,8
Development projects in progress		4,4	3,5
Total intangible assets	**12**	**1.059,2**	**1.046,8**
Property, plant and equipment		3,0	1,9
Other operating equipment, etc.		4,4	3,9
Construction in progress		0,2	–
Total property, plant and equipment	**13**	**7,6**	**5,8**
Leasehold deposits		1,9	1,7
Total financial assets		**1,9**	**1,7**
Deferred tax assets	14	0,8	3,4
Contract assets	3	31,7	–
Total other non-current assets		**32,5**	**3,4**
Total non-current assets		**1.101,2**	**1.057,7**
Trade receivables	15	59,8	50,7
Contract assets	3	30,5	–
Other receivables		1,7	1,7
Deferred expenses		19,6	–
Prepayments		8,2	5,3
Income tax receivable	11	2,3	0,2
Total receivables		**122,1**	**57,9**
Cash		**18,3**	**16,3**
Total current assets		**140,4**	**74,2**
Total assets		**1.241,6**	**1.131,9**

* Not restated for the adoption of IFRS 15. Please see further details on note 1.

Consolidated Balance Sheet *(cont'd)*

	Note	30.06.2019 €M	30.06.2018 €M*
Share capital	18	7,7	7,1
Share premium		778,2	701,0
Reserve for exchange rate translation		(1,6)	(1,5)
Retained deficit		(52,1)	(96,7)
Total equity		**732,2**	**609,9**
Bank debt	19	266,8	270,7
Contract liabilities	3	4,4	8,1
Income tax payables		6,8	0,4
Deferred tax liabilities	14	88,5	76,4
Other payables		1,2	1,7
Total non-current liabilities		**367,7**	**357,3**
Bank debt	19	10,0	8,4
Trade payables		16,0	12,7
Other payables		41,1	32,7
Contract liabilities	3	74,6	110,9
Total current liabilities		**141,7**	**164,7**
Total liabilities		**509,4**	**522,0**
Total equity and liabilities		**1.241,6**	**1.131,9**

*Not restated for the adoption of IFRS 15. Please see further details on note 1.

Consolidated Statement of Changes in Equity

	Share capital €M	Share premium €M	Reserve for exchange rate transitions €M	Retained earnings €M	Total €M
Equity at 30.06.2017	**7,1**	**698,2**	**(0,3)**	**(39,2)**	**665,8**
Loss for the period	-	-	-	(60,9)	(60,9)
Exchange differences regarding subsidiaries in another currency	-	-	(1,2)	-	(1,2)
Total comprehensive loss for the period	**-**	**-**	**(1,2)**	**(60,9)**	**(62,1)**
Transactions with owners in their capacity as owners	-	-	-	-	-
Capital increases	-	2,8	-	-	2,8
Share based payment	-	-	-	3,4	3,4
Total transactions with owners in their capacity as owners	-	2,8	-	3,4	6,2
Equity at 30.06.2018	**7,1**	**701,0**	**(1,5)**	**(96,7)**	**609,9**
Adjustment related to IFRS 15	-	-	-	**104,3**	**104,3**
Tax adjustment related to IFRS 15	-	-	-	**(23,8)**	**(23,8)**
Equity at 01.07.2018	**7,1**	**701,0**	**(1,5)**	**(16,2)**	**690,4**
Loss for the period	-	-	-	(35,3)	(35,3)
Exchange differences regarding subsidiaries in another currency	-	-	(0,1)	-	(0,1)
Total comprehensive loss for the period	**-**	**-**	**(0,1)**	**(35,3)**	**(35,4)**
Transactions with owners in their capacity as owners					
Capital increases	0,6	77,2	-	-	77,8
Purchase of treasury shares				(2,1)	(2,1)
Share based payment	-	-	-	1,5	1,5
Total transactions with owners in their capacity as owners	**0,6**	**77,2**	**-**	**(0,6)**	**77,2**
Equity at 30.06.2019	**7,7**	**778,2**	**(1,6)**	**(52,1)**	**732,2**

Consolidated Cashflow Statement

	Note	01.07.2018 - 30.06.2019 €M	01.07.2017 - 30.06.2018 €M
Loss for the period		(35,3)	(60,9)
Depreciation, amortization and impairment	6	47,1	42,7
Other non-cash items		(2,2)	10,1
Change in net working capital	25	6,7	36,1
Cash flow from primary operating activities		**16,3**	**28,0**
Interests paid		(16,1)	(16,9)
Income taxes paid		(4,9)	(1,2)
Net cash flow from operating activities		**(4,7)**	**9,9**
Payment for acquisition of subsidiary, net of cash acquired	22	(34,9)	-
Payments for property, plant and equipment	13	(3,8)	(4,6)
Payments for intangible assets	12	(6,9)	(6,4)
Divestment of shares		-	1,0
Divestment of building		-	0,7
Payments for acquisition related expenses	8	(1,7)	-
Net cash flow from investing activities		**(47,3)**	**(9,3)**
Repayment of bank debt	19	(8,4)	(16,3)
Issuance of equity		63,8	2,8
Treasury stock purchase		(0,3)	-
Tax withholding paid on behalf of employees for net share settlement		(0,9)	-
Cash flow from financing activities		**54,2**	**(13,5)**
Net cash flow for the year		**2,2**	**(12,9)**
Cash and cash equivalents, beginning of the year		16,3	30,6
Unrealized exchange rate gains and losses on cash		(0,2)	(1,4)
Cash and cash equivalents, end of the year		**18,3**	**16,3**

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Notes
Consolidated Financial Statements

1. Accounting policies
General Information

Sitecore Holding II A/S was founded on 18 April 2016. Sitecore Corporation A/S was acquired on 10 May 2016 through Sitecore Holding III A/S. The consolidated accounts include the parent company Sitecore Holding II A/S and subsidiaries in which Sitecore Holding II A/S directly or indirectly holds more than 50% of the voting rights or otherwise has a controlling interest.

The consolidated financial statements of Sitecore Holding II A/S and its subsidiaries (collectively the Group) for the year ended 30 June 2019 were authorized for issue in accordance with a resolution of the board of directors on 6 January 2020.

The Consolidated Financial Statements for Sitecore Holding II A/S ("the group") have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by EU and additional Danish disclosure requirements applying to entities of reporting class C (large).

The annual report is prepared according to standards and interpretations effective for financial years beginning on 1 July 2018. No standards or interpretations have been adopted early.

The Financial Statements have been prepared under the historical cost method, except for the measurement of certain financial instruments at fair value.

Applying materiality

When preparing the annual report, management seeks to improve the value of the information in the report by focusing on information that will help the understanding of Sitecore's performance in the reporting period and the financial position at year-end. The focus is on presenting information that is considered of material importance for our stakeholders, rather than generic descriptions. Disclosures that are required by IFRS are included in the annual report, unless the information is considered of immaterial importance to users of the annual report.

Materiality is not applied for items where disclosures are required for control purposes.

Changes in Accounting Policies

IFRS 15 Revenue from Contracts with Customers

The Group adopted IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15") using the modified retrospective method and applied a contract-by-contract approach for contracts that were not completed as of 1 July 2018. Results for reporting periods beginning after 1 July 2018 are presented under IFRS 15, while prior periods are not adjusted and reported under IAS 11 Construction Contracts ("IAS 11") and IAS 18 Revenue ("IAS 18"). As a result of the adoption, the Company recognized the cumulative effect of initially applying IFRS 15 as a pre-tax adjustment of EUR 87.8m to the opening balance of retained earnings at the adoption date.

Revenue consists of software license fees, software maintenance, hosting, consulting services and education.

Software is licensed to customers via fixed term subscriptions or perpetual licensing agreements. License revenue for on-premise term subscription license agreements are no longer recognized on a straight-line basis over the terms of the agreements, but when the customer has obtained control of the license and has the ability to use and obtain substantially all the benefits from the license. Software license performance obligation is satisfied at the point in time when the software is made available to a customer to download and use. Sitecore has assessed that the customer obtains control of the license when a contract is executed by both parties, the license is delivered, and the customer has the right to use it. The IFRS 15 revenue recognition for perpetual licenses sales is similar to the revenue recognition under the IAS 11 and IAS 18.

For multi-element contracts, the basis for revenue recognition is an assessment of the standalone selling prices for the identified performance obligations, including rebates, discounts, and allowances. The right to use software license is considered a separate and distinct performance obligation and satisfies the following conditions: can be delivered separately from other services, can be installed by a third party, can be used without upgrades, and it functions without upgrades or technical support.

Maintenance revenue and hosting revenue is recognized ratably over the term of the respective contract. Professional services revenue is recognized as the services are delivered. These performance obligations are satisfied over time and accounting for them remains unchanged under IFRS 15 or under IAS 11 and IAS 18.

Commissions earned by the Company's sales force are considered incremental and recoverable costs of obtaining a contract with a customer. Sales commissions for initial contracts are deferred and then amortized on a straight-line basis over a period of benefit that the Company has determined to be four years. As a result of the adoption, the Company recognized the cumulative effect of initially applying IFRS 15 as a pre-tax adjustment of EUR 16.3m to the opening balance of retained earnings at the adoption date.

In the initial year of application, the Group presents revenue both as reported (applying IFRS 15) and adjusted (applying IAS 18 and IAS 11).

The following tables summarize the impact of adopting IFRS 15 on the Group's consolidated financial statements for the year ending 30 June 2019.

Impact on Statement of Profit and Loss and Statement 2018/19:

	(As reported) € M	Adjustments €M	Results without adoption of IFRS 15 €M
Revenue from contracts with customers	254,0	(48,5)	205,5
Cost of sales	(23,2)	–	(23,2)
Gross profit	**230,8**	**(48,5)**	**182,3**
Other costs including costs of obtaining contract	(243,3)	(5.2)	(248,5)
Operating loss	**(12,5)**	**(53,7)**	**(66,2)**
Acquisition related and special items	(1,7)	–	(1,7)
Financial income	0,2	–	0,2
Financial expenses	(23,0)	–	(23,0)
Loss before taxes	**(37,0)**	**(53,7)**	**(90,7)**
Tax on loss for the year *	1,7	11,8	13,5
Net loss for the year	**(35,3)**	**(41,9)**	**(77,2)**

* When presenting the impact of adopting IFRS 15 compared to the previous revenue guidance the Company has applied a 22% tax rate corresponding to the rate of the Parent Company

Impact on Cashflow Statement

	(As reported) € M	Adjustments €M	Cash Flow without adoption of IFRS 15 €M
Loss for the year	(35,3)	(41,9)	(77,2)
Adjustments for non-cash operating items	44.9	(11,8)	33.1
Changes contract assets	(21,0)	(21,0)	–
Changes in working capital *	27.7	32,7	60.4
Cash from operating activities before financial items	**16.3**	**–**	**16.3**
Net cash used in operating activities	**(4,7)**	**–**	**(4,7)**
Net cash used in investing activities	**(47,3)**	**–**	**(47,3)**
Net cash from financing activities	**54,2**	**–**	**54,2**
Net cash flow for the year	**2,2**	**–**	**2,2**
Cash and cash equivalents, beginning of the year	16,3	–	16,3
Unrealized exchange rate gains and losses on cash	(0,2)	–	(0,2)
Cash and cash equivalents, end of the year	**18,3**	**–**	**18,3**

* Changes in working capital include the impact from cost of obtaining a contract EUR 2.5m.

Impact on balance sheet 30 June 2019

	(As reported) € M	Adjustments €M	Balance Sheet without adoption of IFRS 15 €M
Contract assets	62,2	(62,2)	–
Cost of obtaining contract	21,7	(21,7)	–
Other	1.157,6	–	1.151,6
Total assets	**1.241,5**	**(83,9)**	**1.157,6**
Retained earnings	(132,6)	(41,9)	(174,5)
Opening balance adjustment to retained earnings	80,5	(80,5)	–
Other	784,3	–	784,3
Total equity	**732,2**	**(122,4)**	**609,8**
Deferred tax liabilities	89,6	(32,8)	56,8
Contract liabilities	79,0	71.3	150,3
Other	340,7	–	340,7
Total liabilities	**509,3**	**38,5**	**547,8**
Total equity and liabilities	**1.241,5**	**(83,9)**	**1.157,6**

New standards

IFRS 9 Financial Instruments

The Group has adopted IFRS 9 Financial Instruments as of July 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a forward-looking expected credit loss (ECL) impairment model, rather than incurred losses and a revised model for classification and measurement of financial assets.

For trade receivables with no significant financing component, a simplified approach is required. Under this approach, the loss is measured on initial recognition and throughout the lifetime of the receivable at an amount equal to lifetime expected credit loss.

In addition, although contract assets are excluded from the scope of IFRS 9, they are within the scope of the impairment requirements. An entity can elect to apply the simplified approach rather than the approach where expected credit losses are driven by significant changes in credit risk since initial recognition. Sitecore has followed adoption of IFRS substantial contract assets comprising of the unpaid part of the amount attributable to the license part of subscription agreements. Sitecore has elected to apply the simplified approach resulting in up front recognition of the expected credit loss throughout the life of the subscription agreements.

Under IFRS 9, financial assets are classified according to their cash flow characteristics and the business model in which they are managed. The Group has categorized its financial assets to financial assets measured at amortised cost and financial assets at fair market value through profit or loss. As of 30 June 2019, the Group only holds financial assets with the amortised cost category. The application of IFRS 9 did not result in any reclassification of financial assets between measurement categories.

IFRS 9 has been applied retrospectively without restating comparative figures. The adoption of IFRS 9 did not impact the opening equity as of 1 July 2019.

New standard, amendments and interpretations adopted by not yet effective

The IASB has issued a number of new or amended standards and interpretations effective for financial years beginning after 1 July 2019. Most relevant to the Group are the following:

- *IFRIC 23, Uncertainty over income tax treatments:* The interpretation clarifies that it must be determined whether each tax position is to be treated individually or collectively with other uncertain tax positions. The assessment should be based on the assumption that the tax authorities have the same knowledge of the enterprise's circumstances and, therefore, the assessment should disregard any detection risk. The determination may be based on e.g. how tax statements are prepared, or how the enterprise expects the tax authorities to treat uncertain tax positions. The uncertain tax position must be recognized if it is probable that the enterprise will have to pay or receive funds. The uncertain tax position must be measured so as to better reflect the receivable/liability and the related uncertainty.

The amendment will effective for financial years beginning on or after 1 January 2019.

- *IFRS 16, Leases:* Lessees are required to recognize all leases as a lease liability and a corresponding right of use asset in the balance sheet with two expectations: short-term leases (less than 12 months) and leases related to low-value assets. The standard will be effective for financial years beginning on or after 1 January 2019, i.e. for 2019/2020. Sitecore expects to apply the modified retrospective approach under the which the effect of initially applying the standard is recognized in the opening balance as of 1 July 2019. The right of use asset will be recognized at the same amount as the lease liability, determined by applying the respective lessees' incremental borrowing rate.

Adoption of IFRS 16

Rights of Use Assets	7.1.2019 €M
Property Lease Assets	16,9
Other Rights of Use Assets	0,4
Total asset increase	**17,3**

Liabilities increase	7.1.2019 €M
Lease liabilities	17,3
Total liabilities increase	**17,3**

The estimated impact of the adoption may be subject to change until the group presents its financial statements under the new standard.

The impact on the income statement for the financial year ending 30 June 2020 is estimated to be a reduction in rental costs of EUR 5,4m and an increase in amortization of EUR 5,1m. Hence, no material impact on loss before income tax in FY20. Impact on interest expenses is expected to be around EUR 0,8m. Cash flow from operating activities will increase as the substantial portion of lease payments will be classified as financing cash flows.

Basis of consolidation

Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

On consolidation, elimination is made of intra-group income and costs, shareholdings, intra-group balances and dividend and realized and unrealized profits or losses on transactions between the consolidated companies.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

Functional and presentation currency

Items in the financial statements of each of the reporting companies of the Group are measured in the currency of the primary economic environment in which the company operates (the functional currency).

The financial statements are presented in Euros (EUR), due to the Group's international activities. The financial statements have been rounded to the nearest hundred thousand.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs.

Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- Income and expenses for each income statement are translated at average exchange rates.
- All resulting exchange differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange comprehensive income.

Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other net assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- Fair values of the assets transferred.
- Liabilities incurred to the former owners of the acquired business.
- Contingent consideration is measured at fair value at the date of acquisition as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently remeasured to fair market value at each reporting date.
- Equity interests issued by the group are measured at fair value according to the most recent valuation report prepared by an external valuation firm.
- Contingent consideration which are not considered part of the business combination (e.g. renumeration depending on employment) are measured separately in line with other liabilities.

Identifiable assets, liabilities, and contingent liabilities of acquired businesses are measured initially at fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred over the fair value of the net identifiable assets acquired is recorded as goodwill.

Profit and loss

Revenue and Earnings

This section provides information related to the composition of revenue, and operating costs. The notes present details of the Group's profit and earnings for the year. Details include disclosures on revenue, operating costs, and employee costs and other operating profit (EBIT) items.

Revenue from Contracts with Customers per IFRS 15

Revenue is mainly derived from fees charged for software licenses fess, software maintenance fees, and other services comprised of hosting, consulting and education services For software contracts, which are comprised of several components, the total contract fees or transaction price is allocated to the separate performance obligations for the purpose of revenue recognition.

Revenue recognition requires an agreement with the customer, which creates enforceable rights and obligations between the parties, has commercial substance, and identifies payment terms. In addition, it must be probable that the consideration determined in the contract will be collected.

Revenue is recognized when the customer has obtained control of the license or service and has the ability to use and obtain substantially all of the benefits from the license or service.

For multi-element contracts, the basis for revenue recognition is an assessment of the standalone selling prices for the identified performance obligations, including rebates, discounts, and allowances.

Software license:

Software license revenue represents fees earned from the sale or license of software to customers for use on the customer's premises. In other words, where the customer has the right to use and take possession of the software for installation on the customer's premises or on hardware of third-party hosting providers unrelated to Sitecore or hosted in Sitecore's managed cloud environment. Software licenses are sold as perpetual licenses or as term subscription licenses, limiting access to the software to a specified term, typically a period of one to three years. Arrangements with our customers typically do not include general right of returns. Term subscription license is generally offered under renewable, fixed fee contracts where payments are typically due annually in advance and may have a term of one year or multiple years. Perpetual license is typically invoiced in full at contract signing. Invoice payment term for all revenue types typically ranges from 30 to 90 days of invoicing.

On premise software license revenue from term subscription or perpetual licenses is recognized upfront, as the performance obligation is satisfied at the point in time when the software is made available to a customer to download and use.

Maintenance services:

Maintenance revenue represents fees earned from providing customers with support services that comprise of technical product support and unspecified future software updates, upgrades, and enhancements for on-premise software products.

Maintenance revenue is typically recognized ratably over the term of the support arrangement, as the performance obligation is satisfied over time. Maintenance services are a stand ready performance obligation to provide technical product support and unspecified updates, upgrades, and enhancements on a when-and-if-available basis. The Company's customer simultaneously receives and consumes the benefits of these support services as the Company performs. Subsequent annual maintenance related to perpetual license is invoiced annually in advance.

Services and other:

Other services revenue primarily represents fees earned from hosting services, consulting services and education services. Time and material contracts are generally invoiced based upon hours incurred on a monthly basis and fixed fee contracts may be invoiced up-front or as milestones are achieved throughout the project. Services revenue is generally recognized as the services are delivered and performance obligation is satisfied over time.

Transaction price allocation:

Fixed term license and perpetual license performance obligations are sold for a broad range of amounts (that is, selling price is highly variable) and a representative standalone selling price is not discernable from past transactions or other observable evidence. As a result, the standalone selling price for fixed term and perpetual licenses included in a contract with multiple performance obligations is determined by applying a residual approach whereby performance obligations with observable standalone selling prices are first allocated a portion of the transaction price based on their respective standalone selling prices, with the residual amount of the transaction price allocated to the fixed term or perpetual license. Standalone selling price for all maintenance services and other services are determined based on observable pricing.

Our license maintenance contracts are generally priced as a percentage of the net fees paid by the customer to access the license.

Contract balances:

Contract assets represent revenue recognized for contracts that have not yet been invoiced to customers, typically for multi-year arrangements. When we have unconditional rights to consideration, except for the passage of time, a receivable will be recorded on the consolidated balance sheets.

Contract liabilities primarily reflect invoices due or payments received in advance of revenue recognition. Our contract balances will be reported as net contract assets or liabilities on a contract-by-contract basis at the end of each reporting period.

Costs to obtain a contract:

The Group recognizes an asset for the incremental costs of obtaining contracts with customers that are directly associated with the contract if those costs are expected to be recoverable, and records them in "Other assets" in the Consolidated balance sheet. Incremental costs of obtaining contracts are those costs that the Group incurs to obtain a contract with a customer that would not have been incurred if the contract had not been obtained.

The costs capitalized under the new revenue standard are primarily sales commissions paid to our sales force personnel. Capitalized costs may also include portions of fringe benefits and payroll taxes associated with compensation for incremental costs to acquire customer contracts and incentive payments to partners.

Capitalized costs to obtain a contract are amortized over the expected period of benefit, which we have determined, to be 4 years. Amortization of capitalized costs are presented in sales and marketing expense in our consolidated statements of profit and loss.

During the year ended 30 June 2019, the Group had a total of EUR 21.7m capitalized on the Consolidated balance sheet, of which EUR 11.6m related to open contracts as of July 1, 2018. For the year ended 30 June 2019, amortization associated with the assets arising from contract costs was EUR 16.2m.

Cost of sales

Cost of goods sold and services delivered consists of third- party royalty and hosting costs associated with subscription offering, salaries and related expenses of network operations, implementation, technical support personnel, and allocated overhead.

Sales and marketing costs

Sales and marketing expenses include costs associated with sales, marketing and product marketing personnel and consist of compensation and benefits, partner and sales commissions and bonuses, share-based compensation costs, depreciation and amortization, promotional and advertising expenses, travel and entertainment expenses related to these personnel and allocated overhead.

General and administrative

General and administrative expenses include costs for executive, finance, human resources, information technology, legal and administrative support functions. This includes compensation and benefits, share-based compensation, professional services, depreciation and amortization costs, and allocated overhead.

Research and development

Research and development expenses include costs associated with the development of new products, enhancements of existing products for which technological feasibility has not been achieved and quality assurance activities. This includes compensation and benefits, share-based compensation costs, consulting costs, depreciation and amortization costs, the cost of software development tools and equipment.

Acquisition related and special items

Acquisition related and special items consists of costs incurred in relation to the acquisitions (as explained in footnote 22 of the financial statements). This consists of professional fees paid to advisors, lawyers and other service providers who were directly involved in acquisition related activities.

Financial income and expenses

Financial income and expenses comprise interest income and expenses, realized and non-realized capital gains/losses on transactions in foreign currency, on interest rate swaps and interest rate changes, amortization of financial assets and liabilities etc.

Income tax and deferred tax

The Group is part of the mandatory joint taxation scheme in Denmark which covers parent company Sitecore Holding II A/S and the Danish subsidiaries. The Danish income tax payable is allocated between the jointly taxed Danish companies based on their proportion of taxable income (full absorption including reimbursement of tax deficits). The jointly taxed companies are taxed under the Danish tax payment scheme. Additions, deductions, and allowances are recognized under financial income or financial costs.

The income tax expense or credit for the period is the tax effect on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements.

However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available, against which the temporary differences can be utilized.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable that the temporary difference will reverse in the future and that there is sufficient taxable profit available, against which the temporary difference can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Sales tax

Expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Assets

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the group's interest in net fair value of the net identifiable assets, liabilities, and contingent liabilities of the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGU's, or groups of CGU's, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

Customer contracts

The customer contracts were acquired as part of a business combination. They are recognized at their fair value at the date of acquisition and are subsequently amortized on a straight-line basis over their estimated useful lives of 20 years.

Technology, customer base, and brand

Separately acquired technology, customer base, and brand are shown at the cost per the business combination accounting.

Technology, customer base, and brand have a finite useful life and are carried at cost less accumulated amortization.

Amortization is calculated using the straight-line method to allocate the cost of technology, customer base, and brand over their estimated useful lives of 3-5 years for technology and 20 years for customer base and brand.

Development projects

Development projects regarding Sitecore's platform are measured at cost less accumulated amortization and impairment losses.

Development projects on clearly defined and identifiable products and processes, for which the technical rate utilization, adequate resources and a potential future market or development opportunity in the enterprise can be established, and where the intention is to develop, market or apply the product or process in question, are recognized as intangible assets. Other development costs are recognized as costs in the income statement as incurred.

The cost of development projects comprise costs such as salaries and benefits that are directly attributable to the development projects.

Amortization is calculated using the straight-line method to allocate the cost of development projects over their estimated useful lives of 3-5 years.

The amortization begins when the development project is at a stage where its commercial potentials can be utilized in the manner intended by Management.

Impairment of non-financial assets

Intangible assets that have an indefinite useful life (Goodwill) and intangible assets not yet available for use are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairment of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

Tangible assets

Leasehold improvements, other systems, operating equipment, and fixtures and fittings are measured at cost less accumulated depreciation and accumulated impairment losses.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

- Property, plant, and equipment: 2-5 years
- Other operating equipment: 3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses arising from disposal of tangible assets are calculated as the difference between the sales price less sales costs and the carrying amount at the time of sale. Gains and losses are recognized in the profit and loss account under the relevant category.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. An impairment loss is recognized in the income statement when the impairment is identified.

Leasehold deposits

Leasehold deposits are initially recognized at the value paid to the landlord. Deposits are subsequently measured at net realizable value based on the amount the Group expect to receive at the end of the lease.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Sitecore does not have any finance leases.

Receivables

Receivables are initially recognized at fair value adjusted for any transaction costs. Subsequently, receivables are measured at amortized cost, which usually corresponds to the nominal value. A credit loss allowance is made, based on the lifetime expected credit loss.

Prepayments

Prepayments comprise various prepaid expenses such as rent and insurance. Prepayments are measured at cost.

Equity and liabilities

Reserve for share premium

The reserve for share premium consists of the excess amount received above the par value of the shares.

Reserve for currency translation

The reserve for exchange adjustments consists of exchange rate differences that occur when translating the foreign subsidiaries financial statements from their functional currency into the Group's presentation currency. On disposal of the

net investment, the reserve for exchange adjustments of that foreign subsidiary is recognized in the income statement.

Reduction of a net investment in a foreign operation which does not result in loss of control is not treated as a disposal.

Dividend distribution

Dividends are recognized as a liability in the period in which they are adopted at the Annual General Meeting.

Treasury shares
Purchase of Treasury Shares are deducted from retained earnings.

Borrowings

Borrowings are initially recognized at fair value, net of transaction costs. Borrowings are subsequently measured at amortized cost. Any differences between the proceeds and the redemption value are recognized in the income statement over the period of the borrowings using the effective interest method.

Other liabilities

Other debt or liabilities covering trade creditors and other debt are recognized at amortized cost, which is usually equivalent to the nominal value.

Derivative financial instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The gain or loss is recognized immediately in the income statement within other gains/losses - net. The Group does not apply hedge accounting.

Share-based payment

The group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the group. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense and credited to equity. Fair value is determined at grant date. The total amount to be expensed is determined by reference to the fair value of the options granted including any market performance conditions excluding the impact of any service conditions and non-market vesting conditions and including the impact of any non-vesting conditions.

At the end of each reporting period, the group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions and service

conditions. It recognizes the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period

Or

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current. A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period

Or

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Statement of cash flow

The cash flow statement shows the consolidated cash flows during the year distributed on operating, investing, and financing activities, changes in cash and cash equivalents at the beginning and at the end of the year.

Cash flows from operating activities are calculated using the indirect method and comprise operating profit/loss for the year adjusted for non-cash items, changes in working capital, interest paid and received etc., and payments of corporate tax.

Cash flows from investing activities comprise payments in connection with acquisitions and divestment of businesses and purchase and sale of intangible, tangible, and financial assets.

Cash flows from financing activities comprise proceeds from and repayment of loans, proceeds from share issues, and dividends to shareholders.

Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand and other short-term highly liquid investments with original maturities of three months or less.

2. Critical accounting estimates and judgements

The group makes estimates, and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

The judgments, estimates, and assumptions made are based on historical experience and other factors that Management considers to be reliable, but which by their very nature are associated with uncertainty and unpredictability. These assumptions may prove incomplete or incorrect, and unexpected events or circumstances may arise. The most critical judgments, estimates, and assumptions for the individual items are described below.

The Group is also subject to risks and uncertainties that may lead to actual results differing from these estimates, both positively and negatively.

Revenue recognition

Revenue recognition requires management to make judgements which are based on assumptions on historical and forecast information, as well as on regional and industry economic conditions in which we or our clients operate. A short description of main judgments made in relation to revenue recognition follows:

- Assessing whether it is probable that the consideration from contract with clients will be collected requires judgement and might impact the timing and amount of revenue recognition.
- Establishing whether distinct goods or services are considered to be separate performance obligation requires judgement and might impact the timing and amount of revenue recognition.
- The allocation of total transaction fee of a client contract to the distinct deliverables requires judgment in determining an apportionment which reflects the fair value measurement of each performance obligation. This may impact the timing and amount of revenue recognized.
- Determining whether different contracts with the same client are accounted for as one agreement involves the use of judgment as it requires us to assess whether the contracts are negotiated together or linked in any other way. The timing and amount of revenue recognition can vary depending on whether two contracts are accounted for separately or as one single arrangement.

Impairment testing of goodwill

The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 12).

As of 30 June 2019, the Carrying value of Goodwill amount to EUR 784,7m (2017/18: 750,5m).

Business combinations

For acquisitions of entities, the assets, liabilities, and contingent liabilities of the acquiree are recognized using the acquisition method. The most significant assets acquired generally comprise goodwill, trademarks, non-current assets, receivables, and inventories.

No active market exists for the majority of the acquired assets and liabilities, in particular in respect of acquired intangible assets. Accordingly, management makes estimates of the fair value of acquired assets, liabilities, and contingent liabilities. Depending on the nature of the item, the determined fair value of an item may be associated with uncertainty and possibly adjusted subsequently.

Management makes judgements related to the accounting treatment and valuation of contingent considerations which are part of Business combinations. Judgement is related to the likelihood of continued employment criteria and certain R&D milestones being met.

Accordingly, Management makes estimates of the fair value of acquired assets, liabilities, and contingent liabilities. Depending on the nature of the item, the determined fair value of an item may be associated with uncertainty and possibly adjusted subsequently.

Development projects

For development projects in progress, Management estimates on an ongoing basis whether each project is likely to generate future economic benefits for the Group in order to qualify for recognition.

The development projects are evaluated on technical as well as commercial criteria.

As of 30 June 2019, the Carrying value of Development Projects and Development Projects in progress amount to EUR 12,5m (2017/18: EUR 11,3m).

Share-based payments

Determination of fair value of the options requires significant judgment regarding fair value of the underlying shares, expected life, and volatility. Due to EQT's acquisition of Sitecore, uncertainly in respect of determination of fair value of the

underlying shares is in Management's view limited. The expected life of the options is based on the assumption that the holder will exercise the options upon an exit event. Actual exercise patterns may differ from the assumption used herein. The expected volatility is based on peer group data and reflects the assumption that the historical volatility over a period similar to the life of

the equity awards is indicative of future trends, which may not necessarily be the actual outcome. The peer group consists of listed companies that management believes are similar to the Company in respect to industry and stage of development.

Fair value of the options issued and the assumptions applied regarding the valuation is disclosed in note 5.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

For the financial year 2018/19 the expense related to Share-based payments amount to EUR 1,5m (2017/18: EUR 3,4m).

3. Revenue from contracts with customers

	2018/19 €M	Share of Revenue	2017/18 €M	Share of Revenue
Perpetual License	10,7	4%	27,2	15%
Subscription license *	97,3	39%	34,4	19%
Maintenance *	114,7	45%	94,3	53%
Services and other	31,3	12%	22,4	13%
Total revenue	**254,0**	**–**	**178,3**	**–**

(*) for IFRS 15 purposes in Fiscal 2019 subscription license revenue was allocated between subscription license and maintenance. Prior fiscal period has not been restated and both license and maintenance portion included in the subscription license line. Please refer to accounting policy related to 'Revenue from contracts with customers' above for performance obligations under IFRS 15.

Significant changes in the contract assets and the contract liabilities balances are as follows in the table below:

Changes in Contract Assets and Liabilities	**Contract Assets €M**	**Contract Liabilities €M**
1 July 2018	41,3	72,6
Amount transferred to trade receivables from contract assets	(15,9)	–
Contract assets additions	36,6	–
Performance obligations satisfied during the period that were included in the contract liability balance at the beginning of the period	–	(70,9)
Increases due to invoicing prior to satisfaction of performance obligations	–	74,4
Increases from business combination	0,2	2,9
30 June 2019	**62,2**	**79,0**

Remaining performance obligations:

Remaining performance obligations represent contracted revenue that has not yet been recognized, and include contract liabilities, and amounts that will be invoiced and recognized as revenue in future periods. As of 30 June 2019, the Company's remaining performance obligations were EUR 173,1 million, approximately two thirds of which it expects to recognize as revenue over the next 12 months and the remaining balance thereafter.

4. Staff costs:

	2018/19 €M	2017/18 €M
Wages and salaries	116,2	102,9
Pensions, defined contribution plans	3,3	2,9
Share based payments (Note 5)	1,5	3,4
Other staff costs	11,2	7,7
Total staff cost	**132,2**	**116,9**
Average number of full time employees	1,079	907

Staff Costs are recognized in the income statement:	**2018/19 €M**	**2017/18 €M**
Sales and marketing costs	86,4	77,2
General and administrative expenses	21,2	18,3
Research and development costs	24,6	21,4
Total	**132,2**	**116,9**

Key management compensation

Key Management includes Board of Directors (BoD) and Executive Management (EM). The compensation paid to key management for employee services is shown below:

	2018/19 €M BoD	2018/19 €M EM	2017/18 €M BoD	2017/18 €M EM
Wages and salaries	0,3	1,0	0,1	2,1
Pensions	–	–	–	–
Share based payments (Note 5)	0,4	1,1	0,1	1,4
Total key management compensation	**0,7**	**2,1**	**0,2**	**3,5**

5. Share-based payments

New Program

The exercise of the options is subject to continued employment and vest with 1/4 on each anniversary after grant date.

Unvested options will vest upon an exit event.

The exercise of the options is subject to achieving a certain rate of return on the investment upon an exit event. The options expire after 10 years.

Fair value of the options subject to continued employment is determined by applying a Black Scholes option valuation model. Fair value of the options subject to achieving a certain rate of return is determined by a Monte Carlo simulation applying the same assumptions as applied under the Black Scholes option valuation model using the assumptions previously stated.

The calculation of the fair value of the options require the input of subjective assumptions such as:

- The share price is based on the most recent valuation of Sitecore performed by an external valuation firm
- The expected life of the options is based on Management's expectation of future exercises
- The future expected volatility is based on a peer group analysis of publicly listed companies similar to the business of Sitecore
- The risk-free interest rate is based on the yield on a German government EUR-denominated bonds with a time to maturity that matches the option's time to maturity. The German yield is used as the exercise price is denominated in EUR and is considered to be the best proxy for the risk-free rate
- The expected dividend is based on the future cash flow forecasts as approved by Management

FY19 grants

During 2018/19 a total of 6.097.379 stock options were granted under the global stock incentive plan for key management and key personnel. Each option grants the holder the right to buy one share of common stock at the exercise price of EUR 1.25 per share for grants issued prior to 31 March 2019 and EUR 1.61 for grants issued on 1 April 2019 and subsequently.

The following assumptions were applied on the FY19 grants:

Share price	EUR 1,61
Expected life of options	1,7 – 2,3
Expected volatility	37% - 48%
Risk free interest rate	(0,5%) - (0,6%)
Expected dividend	0%

FY18 grants

During 2017/18 a total of 22.270.783 stock options were granted under the global stock incentive plan for key management and key personnel. Each option grants the holder the right to buy one share of common stock at the exercise price of EUR 1 per share.

The following assumptions were applied on the FY18 grants:

Share price	EUR 1
Expected life of options	3,1 – 3,8
Expected volatility	43% - 50%
Risk free interest rate	(0,3%) - (0,6%)
Expected dividend	0%

FY17 grants

During 2016/17 a total of 16.179.861 stock options were granted under the global stock incentive plan for key management and key personnel. Each option grants the holder the right to buy one share of common stock at the exercise price of EUR 1 per share.

The following assumptions were applied on the FY17 grants:

Share price	EUR 1
Expected life of options	2,9 – 3,4
Expected volatility	51% - 55%
Risk free interest rate	(0,3%) - (0,7%)
Expected dividend	0%

Fair value

Fair value of the options subject to continued employment amounts to EUR 8,6m (30 June 2018: EUR 5,9m) while fair value of the options subject to achieving a certain rate of return on the investment upon an exit amounts to EUR 3,5m (30 June 2018: EUR 3,1m).

The expected volatility was determined as the observable volatility for the expected life of the options for a peer group of listed companies.

Former Program

As part of the acquisition of the Sitecore Corporation Group, existing options (24.157.130 options in total) granted to employees and management, were exchanged for options in Sitecore Holding II A/S on similar terms.

Fair value attributable to services provided up until the acquisition date forms part of the cost price for the shares in Sitecore Corporation A/S. Fair value attributable to services to be provided subsequent to the acquisition is accounted for as share-based payment.

Fair value is determined by applying a Black Scholes option valuation model.

The following assumptions were applied:

Share price	EUR 1
Expected life of options	0,3 – 3,4
Expected volatility	50 %
Risk free interest rate	0%
Expected dividend	0%

Share Options	Board of Directors	Executive Management	Average Exercise Price	Other	Weighted Average Price
Outstanding as at 30 June 2017	1.825,000	2.700,963	–	25.386,965	–
Granted during the year	1.900,000	14.419,521	EUR 1	5.951,262	EUR 1
Exercised during the year	–	–	–	(2.918,237)	EUR 0,60
Forfeited during the year	–	–	–	(4.116,993)	EUR 0,63
Outstanding as at 30 June 2018	**3.725.000**	**17.120.484**	–	**24.302.997**	–
Granted during the year	1.280,000	–	EUR 1,25	4.817,379	EUR 1.32
Adjustment related to prior years	–	–	–	(1.605,000)	–
Exercised during the year	–	–	–	(2.146,315)	EUR 0,44
Forfeited during the year	–	–	–	(7.255,289)	EUR 0,80
Outstanding as at 30 June 2019	**5.005,000**	**17.120,484**	–	**18.113,772**	–

Of which 8.224.469 options are currently exercisable.
Share based compensation costs are recognized in the income statement:

	2018/19 €M	2017/18 €M
Sales and marketing costs	0,5	0,9
General and administrative expenses	0,9	2,4
Research and development costs	0,1	0,1
Total share-based compensation	**1,5**	**3,4**

6. Amortization, Depreciation and Impairment

	2018/19 €M	2017/18 €M
Amortization	44,2	39,5
Depreciation	2,9	2,1
Gain on sale of assets	0	1,1
Total amortization, depreciation and impairment	**47,1**	**42,7**

Amortization, depreciation and impairment are recognized in the income statement:

Sales and marketing costs	13,5	13,4
General and administrative expenses	3,0	3,3
Research and development costs	30,6	26,0
Total amortization, depreciation and impairment	**47,1**	**42,7**

7. Audit Fees

	2018/19 €M	2017/18 €M
Statutory audit	0,8	0,2
Other assurance engagements	-	-
Tax assurance services	-	0,1
Other services	-	0,4
Total audit fees	**0,8**	**0,7**

8. Acquisition Related and Special Items

	2018/19 €M	2017/18 €M
Acquisition related special items	1,7	-
Total acquisition related and special items	**1,7**	**-**

Acquisition related special items relate to various non-recurring expenses which are related to the acquisition of Stylelabs and Hedgehog.

9. Financial Income

	2018/19 €M	2017/18 €M
Exchange rate adjustments	-	3,3
Fair value gains on derivatives (see note 17)	0,1	0,3
Other interest income	0,1	0,5
Total financial income	**0,2**	**4,1**

10. Financial Expenses

	2018/19 €M	2017/18 €M
Interest expenses, bank borrowings (see note 19)	16,3	15,6
Amortization of financing fees (see note 19)	2,0	2,0
Other financial expenses, including bank fees	0,3	1,3
Exchange rate adjustments, expenses	3,2	-
Fair value losses on derivatives (see note 17)	1,2	-
Total financial expenses	**23,0**	**18,9**

11. Income Tax

Current tax:	2018/19 €M	2017/18 €M
Current tax on profits for the year	9,2	2,6
Current tax on profits for previous years	–	–
Total current tax expense	**9,2**	**2,6**

Deferred tax:		
Deferred tax benefit for the year and previous years	(10,9)	(13,8)
Total deferred tax	**(10,9)**	**(13,8)**
Income tax benefit for the period	**(1,7)**	**(11,2)**

Income tax benefits are specified as follows:		
Calculated 22,0% tax on profit for the year before income tax	(8,1)	(15,7)

Tax effects of:		
Higher/Lower tax rate in subsidiaries	(0,4)	(0,5)
Non-taxable income	(0,3)	(0,1)
Non-deductible finance expenses	4,9	3,2
Non-deductible expenses	1,6	2,0
Adjustments in respect of prior years	0,5	(0,1)
Other	0,1	–
Total income tax benefit for the period	**(1,7)**	**(11,2)**
Effective tax rate	**4,5%**	**15,5%**

Non-taxable income includes contingent payments received in 201/19 related to divestment of subsidiary in 2017/18 and other non-taxable income.

Non-deductible finance expenses relate to costs which are not deductible under the Danish interest ceiling rules.

Non-deductible expenses relate to the acquisition of Stylelabs and Hedgehog and non-deductible contingent consideration, related to the acquisitions, which are not considered to be part of the purchase consideration. Non-deductible expenses also include share based payment expenses recognized in 2018/19.

12. Intangible Assets

Cost:

	Goodwill €M	Technology, customer base and brand €M	Patents, trademarks & product rights €M	Development Projects €M	Development Projects in Progress €M	Total €M
At 01.07.2017	754,2	360,7	3,1	4,1	4,1	1.126,2
Exchange rate differences	–	–	–	–	–	–
Additions during the year	–	–	–	–	6,4	6,4
Completed Development projects	–	–	–	7,0	(7,0)	-
Disposals	(3,7)	–	–	–	–	(3,7)
At 30.06.2018	**750,5**	**360,7**	**3,1**	**11,1**	**3,5**	**1.128,9**

Amortization:

	Goodwill €M	Technology, customer base and brand €M	Patents, trademarks & product rights €M	Development Projects €M	Development Projects in Progress €M	Total €M
At 01.07.2017	–	41,6	0,1	0,9	–	42,6
Amortization charge	–	36,5	0,6	2,4	–	39,5
At 30.06.2018	**–**	**78,1**	**0,7**	**3,3**	**–**	**82,1**
Carrying amount 30.06.2018	**750,5**	**282,6**	**2,4**	**7,8**	**3,5**	**1.046,8**

Cost:

	Goodwill €M	Technology, customer base and brand €M	Patents, trademarks & product rights €M	Development Projects €M	Development Projects in Progress €M	Total €M
At 01.07.2018	750,5	360,7	3,1	11,1	3,5	1.128,9
Reclass to tangible assets	–	–	–	–	(0,4)	(0,4)
Additions during the year	–	–	–	–	6,9	6,9
Additions through business combination	34,2	15,9	–	–	–	50,1
Completed Development projects	–	–	–	5,6	(5,6)	–
Exchange rate differences	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
At 30.06.2019	**784,7**	**376,6**	**3,1**	**16,7**	**4,4**	**1.185,5**

Amortization:

	Goodwill €M	Technology, customer base and brand €M	Patents, trademarks & product rights €M	Development Projects €M	Development Projects in Progress €M	Total €M
At 01.07.2018	–	78,1	0,7	3,3	–	82,1
Amortization charge	–	38,3	0,6	5,3	–	44,2
At 30.06.2019	–	116,4	1,3	8,6	–	126,3
Carrying amount 30.06.2019	**784,7**	**260,2**	**1,8**	**8,1**	**4,4**	**1.059,2**

Impairment test for goodwill

Goodwill is monitored by management at group level. Goodwill relate to the acquisition of the Sitecore Group in May 2016 and the acquisition of Stylelabs and Hedgehog in 2018/19.

Carrying value of Goodwill:

EURm	2018/19	2017/18
Sitecore	750,5m	750,5m
Stylelabs	25,9m	-
Hedgehog	8,3m	-
Total	**784,7m**	**750,5m**

Carrying value of Technology, customer base and brand:

EURm	2018/19	2017/18
Sitecore	246,2m	282,6m
Stylelabs	9,1m	-
Hedgehog	4,9m	-
Total	**260,2m**	**282,6m**

The group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of the CGU is determined based on the Discounted Cash Flow Method.

The Discounted Cash Flow Method involves value-in-use calculations which require the use of assumptions. The calculations use forecasted cash flow for a five year period approved by management. Cash flows beyond this period are extrapolated using the estimated growth rate stated below. Long term growth rate and discount rate used in the value-in-use calculations are as follows:

Assumptions at 30.06.2018

Long term growth rate	3%
Pre-tax discount rate	20,4%

Assumptions at 30.06.2019

Long term growth rate	3%
Pre-tax discount rate	21,0%

An estimate was made of the future net free cash flow based on a forecast approved by Management. The growth rate in the forecast period and the long term growth

rate is based on the expectation that the current business model transition will significantly increase long-term revenue growth and profitability by attracting new customers and drive higher revenue per customer.

The discount rate used in determining the value in use is determined based on the weighted average cost of capital (WACC). The WACC is determined on a risk free rate of 2,6% (2017/18: 2,9%) and a risk premium of 6,0% (2017/18: 6,0%), assuming a beta of 1,45 (2017/18: 1,40). The risk free rate is based on a 20-year Treasury Bond. In addition to these factors Sitecore applied Country Risk Premium of 0,2% (2017/18: 0,2%), a Small Stock Risk Premium of 1,8% (2017/18: 3,5%) and a Company-Specific Risk Premium of 5,0% (2017/18: 5,0%).

13. Property, Plant and Equipment

Cost:

	Property, plant and equipment	Other operating equipment etc.	Construction in progress	Total
At 01.07.2017	1,8	3,7	-	5,8
Additions during the year	1,3	3,5	-	4,8
Disposals during the year	0,0	(0,7)	-	(0,7)
Exchange differences	0,1	(0,1)	-	-
At 30.06.2018	**3,2**	**6,4**	**-**	**9,6**

Depreciation:

	Property, plant and equipment	Other operating equipment etc.	Construction in progress	Total
At 01.07.2017	0,3	0,9	-	1,2
Depreciation charge	1,0	1,1	-	2,1
Impairment	-	1,1	-	1,1
Reversed depreciation, disposed assets	-	(0,6)	-	(0,6)
At 30.06.2018	**1,3**	**2,5**	**-**	**3,8**
Carrying Amount 30.06.18	**1,9**	**3,9**	**-**	**5,8**

13. Property, Plant and Equipment *(cont'd)*

Cost:

	Production, plant & machinery	Other operating equipment etc.	Construction in progress	Total
At 01.07.2018	3,2	6,4	–	9,6
Additions during the year	2,2	1,2	0,2	3,6
Reclass from intangibles	–	–	0,4	0,4
Transfer	–	0,4	(0,4)	–
Additions from business combination	0,4	0,5	–	0,9
Transfer disposals during the year	(0,3)	(1,6)	–	(1,9)
Exchange differences	–	–	–	–
At 30.06.2019	**5,5**	**6,9**	**0,2**	**12,6**

Depreciation:

	Production, plant and machinery	Other operating equipment etc.	Construction in progress	Total
At 01.07.2018	1,3	2,7	–	3,8
Depreciation charge	1,4	1,5	–	2,9
Additions from business combination	0,2	0,1	–	0,3
Transfer Impairment	–	–	–	–
Reversed depreciation, disposed assets	(0,4)	(1,6)	–	(2,0)
At 30.06.2019	**2,5**	**2,5**	**–**	5,0
Carrying amount 30.06.2019	**3,0**	**4,4**	**0,2**	**7,6**

14. Deferred Tax

	2018/19 €M	2017/18 €M
Deferred tax, beginning of year	73,0	86,8
Deferred tax added as part of the adoption of IFRS 15	22,8	–
Deferred taxes added as part of the acquisition of the Stylelabs and Hedgehog	2,8	–
Deferred tax recognized in the income statement	(10,9)	(13,8)
Deferred tax at end of year	**87,7**	**73,0**

Deferred tax relates to:

	2018/19 €M	2017/18 €M
Intangible assets	72,5	78,5
Property, plant and equipment	0,3	(0,1)
Contract costs and Contract liabilities	15,6	–
Tax loss carry-forwards	(0,2)	(4,6)
Other temporary differences	(0,5)	(0,8)
Total	**87,7**	**73,0**
Of which presented as deferred tax assets	0,8	3,4
Of which presented as deferred tax liabilities	88,5	76,4
Total	**87,7**	**73,0**

Deferred tax liabilities related to intangible assets are mainly associated with the acquisitions of Sitecore and Stylelabs. As part of the adoption of IFRS 15 the Group has recognized deferred tax liabilities related to the Contract Cost and Contract Liability balances.

15. Trade Receivables

	2018/19 €M	2017/18 €M
Trade receivables and other receivables at 30 June	64,1	52,3
Less Revenue reserve	(3,2)	(0,8)
Less provision for impairment of trade receivables	(1,1)	(0,8)
Trade receivables net	**59,8**	**50,7**

Movement on the group provision for impairment of trade receivables are as follows:

	2018/19 €M	2017/18 €M
Bad debt accrual added as part of the acquisition of the Sitecore Group	–	–
Allowances during the year based on expected credit loss model	0,3	0,9
Write-offs during the year	–	(0,7)
Reversed allowances	–	(0,7)
Provision for impairment of trade receivables	**0,3**	**(0,5)**

Allocation of receivables past due but not impaired by maturity period are as follows:

	2018/19 €M	2017/18 €M
Up to 30 days	15,4	6,4
Between 31 and 90 days	4,0	3,2
More than 90 days	2,7	0,7
Overdue net receivables at 30 June	**22,1**	**10,3**

16. Fair Values

Financial instruments measured at fair value can be divided into three levels:

- Level 1 - Quoted prices in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices included in level 1 that are observable for the asset or liability
- Level 3 - Inputs for the asset or liability that are not based on observable market data.

The fair value of interest rate swaps (level 2) is calculated as the present value of the estimated future cash flows based on observable yield curves.

17. Derivative Financial Instruments

The group has derivative financial instruments but does not apply hedge accounting.

The group has entered into interest rate swap on borrowings in USD, swapping a floating rate interest into a fixed rate as well as an interest rate cap on borrowings in EUR.

Information about the group's exposure to price risk is provided in note 23.

	Notional principal €M	Fair value €M	Maturity
Interest rate swap	78,8	1,2	28.06.19
Interest rate cap	115,0	(0,1)	30.06.19
At 30.06.2018	**193,8**	**1,1**	**–**

As of 30 June 2019, the Group has no derivative financial instruments.

18. Share Capital

The share capital comprise 771.340.907 shares of a nominal value of EUR 0,01 each. No shares carry any special rights.

Changes in share capital:	€M	Number of shares
Incorporation on 18.04.2016	0,1	6.717.812
Capital increases	7,0	698.560.259
Share capital at 30.06.2017	**7,1**	**705.278.071**
Capital increases	–	4.222.809
Share capital at 30.06.2018	**7,1**	**709.500.880**
Capital increases	**0,6**	**61.840.027**
Share capital at 30.06.2019	**7,7**	**771.340.907**

Capital Management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital. Any surplus liquidity is used to reduce debt. The board of directors monitors the share and capital structure to ensure that the group's capital resources support the strategic goals.

19. Borrowings

The borrowings comprise of acquisition related loans as well as revolving facilities to fund the ongoing operations. There are covenants attached to the loan facilities.

	Principal amount, €M	Effective interest rate	Currency	Maturity	Carrying amount, 2018/19 €M	Carrying amount, 2017/18 €M
Facility A	60	4,0%	EUR	10 May 2022	43,2	51,6
Facility B1	120	4,6%	EUR	10 May 2023	120,0	120,0
Facility B2	137	6,9%	USD	10 May 2023	120,4	117,4
Capex/Acquisition facility	30	1,4%	EUR	10 May 2022	–	–
Revolving credit facility	30	2,1%	EUR	10 May 2022	–	–
Total bank borrowings					**283,6**	**289,0**

Facility A is repayable in instalments with last payment on 30 June 2022. Facility B is to be paid on 10 May 2023.

Capex/Acquisition Facility is unused.

Revolving Credit Facility is to be repaid no later than 10 May 2022. Utilized funds under the Revolving Credit Facility are subject to repayment 12 months after credit is utilized.

In compliance with IAS 7, the following disclosure aim to enable users of financial statements to evaluate changes in liabilities arising from repayments and currency revaluations:

	2018/19 €M
Total bank borrowings at beginning of year	289,0
Repayment of bank debt	(8,4)
Currency revaluations of debt denominated in USD	3,0
Total bank borrowings at end of year	**283,6**
Fair value of derivatives	0
Amortized loan costs	6,8
Total Bank Debt as presented in the Balance Sheet	**276,8**
Non-current	266,8
Current	10,0
	276,8

There was no Bank Debt derived from business combinations.

20. Related Parties

The group is controlled by Dynamite Holding I S.á r.l. The group's ultimate parent is EQT. VII. "Key management compensation" is disclosed in note 4.

During 2018/19 sales to other companies within the EQT AB fund structures amount to EUR 0.4m (2017/18: EUR 0.0m). Sitecore did not purchase any goods or services from other companies within the EQT AB fund structures in 2018/19 (2017/18: EUR 0.0m).

21. Commitments and Contingent Liabilities

Operating Leases: The group leases offices under operational leasing arrangements which are terminable with 1-60 months' notice. Operating lease commitments:

	2018/19 €M	2017/18 €M
Due within 1 year	7,9	3,2
Due between 1 and 5 years	9,4	4,6
Total operating lease commitments	**17,3**	**7,8**

Amounts recognized in profit or loss:

	2018/19 €M	2017/18 €M
Lease payments	5,3	5,8
Lease provision	0	2,8
Total operating lease commitments	**5,3**	**8,6**

There are no pending court and arbitration cases.

Securities:

As collateral for credit facilities the Group has provided the following securities to Nordea Bank ABL, FILIAL SVERIGE:
Pledge of the following shares:

- Sitecore Deutschland GmbH, Sitecore Australia Pty Ltd, Sitecore Danmark A/S, Sitecore UK Ltd., Sitecore USA Inc. and Sitecore USA Holding Inc.

Owners mortgage of EUR 6m in:

- Sitecore Corporation A/S, Sitecore Danmark A/S and Sitecore International A/S

The following companies have issued a negative pledge:

- Sitecore International A/S, Sitecore Danmark A/S, Sitecore Corporation A/S, Sitecore USA Inc., Sitecore USA Holding Inc. and Sitecore Australia Pty Ltd.

Pledge of Intellectual properties:

- Sitecore Corporation A/S

The aggregate value of assets provided as security for credit facilities amount to EUR 1.087,0m (2017/18: EUR 1.112,1m).

Bank Guarantee:

- The group has issued guarantees with a total of EUR 0,7m (2017/18: EUR 0,4m).

22. Business Combinations

Acquisition of Stylelabs NV

On 25 October 2018 the group acquired 100% of the share capital in Stylelabs NV.

Stylelabs is a software company providing DAM (Digital Asset Management), PIM (Product Information Management) and CM (Content Management). The company was founded in 2001 and is headquartered in Belgium with current operations in Belgium and USA with more than 80 employees. The purpose of the acquisition is to add product and functionalities to the Sitecore Experience product portfolio.

The total consideration of EUR 36,6m consisted of a cash consideration of EUR 25,4m on a debt free basis and Sitecore shares equivalent to EUR 10m. Goodwill of EUR 25,9m arising from the acquisition can mainly be attributed to synergies related to future revenue growth achieved from combining the product offering and strong employee base of Stylelabs with the Global business model applied by Sitecore.

Contingent consideration

As part of the purchase agreement with the previous owners of Stylelabs, a contingent consideration, which are not considered as part of the business combination, has been agreed for a total of up to EUR 12m.

Other acquisition related information

Transaction costs amounted to EUR 1.3m which has been recognized in "Acquisition related and Special items".

Subsequent to the acquisition Stylelabs has been consolidated into the existing operating model of Sitecore and is no longer reporting as a separate business. Had the acquisition happened on 1 July 2018, the estimate is that Stylelabs would have contributed with a net loss.

As of the balance sheet date the Purchase Price Allocation is provisional.

Fair value of the assets and liabilities acquired is summarized in the following table, which discloses recognized amounts of identifiable assets acquired and liabilities assume:

22. Business Combinations *(cont'd)*

Technology, customer base and brand	10,9
Other operating equipment etc.	0,4
Leasehold deposits	0,2
Trade receivables	3,0
Other receivables	0,5
Cash	1,2
Contract liabilities	(0,9)
Deferred tax liabilities	(2,8)
Other debt	(1,8)
Net assets	**10,7**
Consideration paid	**36,6**
Goodwill	**25,9**

Cash flows from operation:	**2018/19 €M**
Consideration paid	36,6
Hereof provided by payment in shares	(10,0)
Less Cash received	(1,2)
Net consideration paid	**25,4**

22. Business Combinations *(cont'd)*

Acquisition of Hedgehog

On 7 June 2019 the group acquired 100% of the Hedgehog Development.

The goodwill of EUR 8,3m arising from the acquisition is attributable to the workforce and expected growth in the acquired business.

Hedgehog is a Sitecore Platinum Partner, who provides digital consultancy services related to the Sitecore Platform. As a complementary offering Hedgehog has developed a tool which help developers work together in teams and maximize efficiency when developing on the Sitecore platform. The company was founded in 2007 and is headquartered in USA. It currently has operations in Bulgaria and USA and has more than 80 employees.

The purpose of the acquisition is to accelerate Sitecore's growth and bolster the people, technology, and services resources supporting Sitecore Solution Partners as they continue to solve customers' most critical digital transformation challenges.

The acquisition of Hedgehog Group was completed with an acquisition date of 7 June 2019. The total consideration of EUR 14,3m consisted of a cash consideration of EUR 9,5m on a debt free basis and Sitecore shares equivalent to EUR 4m.

Goodwill of EUR 8.3m arising from the acquisition can mainly be attributed to synergies related to future growth achieved from combining the product offering and strong employee base of Hedgehog with the Global business model applied by Sitecore.

Contingent consideration

As part of the purchase agreement with the previous owners of Hedgehog, a contingent consideration, which are not considered as part of the business combination, has been agreed for a total of up to EUR 7m.

Other acquisition related information

Transaction costs amounted to EUR 0.4m which has been recognized in "Acquisition related and Special items".

Subsequent to the acquisition Hedgehog contributed with a net profit of EUR 0.1m. Had the acquisition happened on 1 July 2018, the estimated impact would have a net profit of EUR 1.0m.

As of the balance sheet date the Purchase Price Allocation is provisional.

Fair value of the assets and liabilities acquired is summarized in the following table, which discloses recognized amounts of identifiable assets acquired and liabilities assumed:

22. Business Combinations *(cont'd)*

Technology, customer base and brand	5,0
Trade receivables	1,4
Cash	0,8
Contract liabilities	(1,0)
Other debt	(0,2)
Net assets	**6,0**
Consideration paid	**14,3**
Goodwill	**8,3**
Cash flows from acquisition	
Consideration paid	14,3
-Hereof provided by payment in share of EUR 4,0m	(4,0)
Less cash received	(0,8)
Net consideration paid	**9,5**

23. Financial Risk Management

Financial risk factors

The group's activities expose it to a variety of financial risks: market risk (currency and interest risk), credit risk, and liquidity risk. The group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the group's financial performance.

The Financial risks of the group are managed centrally. The overall risk management guidelines and policies have been approved by the board of directors. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. The CFO manages contracts and risk exposures in accordance with the guidelines and policies and reports to the board of directors on a regular basis.

Market Risk

Foreign exchange risk

As a consequence of the Group's structure, most net sales and expenditure in foreign currency are set off against each other, so that the Group is not exposed to major exchange-rate risks.

The foreign exchange risk is related to the USD loan.

The group's revenue and expenses are mostly in the functional currency of the operating entity creating a natural currency hedge. Consequently, the group treasury's risk management policy is to not to hedge foreign exchange rate risks.

The acquisition of Stylelabs and Hedgehog does not change the foreign exchange risk of the Group as the operations of Stylelabs and Hedgehog are mainly carried out through EUR and USD.

Sensitivity analysis

The group is primarily exposed to changes in EUR/USD exchange rate. The sensitivity of profit or loss to changes in the exchange rates arises mainly from USD denominated financial liabilities.

As at 30.06.2018

	Impact on post taxprofit €M	Impact on other components of equity €M
EUR/USD exchange rate – increase 10%	13,3	–
EUR/USD exchange rate – decrease 10%	(10,7)	–

All other variables are held constant

As at 30.06.2019	Impact on post taxprofit €M	Impact on other components of equity €M
EUR/USD exchange rate – increase 10%	13,4	–
EUR/USD exchange rate – decrease 10%	(10,9)	–

All other variables are held constant

23. Financial Risk Management *(cont'd)*

Interest rate risk

The group's interest rate risk arises from long-term borrowings related to the acquisitions. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the group to fair value interest rate risk. Group policy is to hedge at a minimum of 66,67% of the aggregate principal amount outstanding under Facility A and Facility B at all times during the first 3 years. Interest cap and interest swaps are used as instruments for hedging the interest risk. The group does not apply hedge accounting. Refer to note 17 regarding outstanding interest rate derivatives.

Sensitivity analysis

Profit or loss is sensitive to higher/lower interest from borrowings and fair value changes of interest rate derivatives as a result of changes in interest rates.

As at 30.06.2018

	Impact on post taxprofit €M	Impact on other components of equity €M
Interest rates – increase by 100 basis points	(3,5)	–
Interest rates – decrease by 100 basis points	3,5	–

All other variables are held constant

As at 30.06.2019

	Impact on post taxprofit €M	Impact on other components of equity €M
Interest rates – increase by 100 basis points	(3,5)	–
Interest rates – decrease by 100 basis points	3,5	–

All other variables are held constant

Credit risk

Credit risk is managed on group basis, except for credit risk relating to accounts receivable balances. Each local entity is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered.

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. For customers individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilization of credit limits is regularly monitored. The maximum exposure corresponds to the carrying amount of receivables.

The Group has obtained external credit ratings for all significant customers to assess the risk profile of the customers with a view to determine the risk of credit losses.

23. Financial Risk Management *(cont'd)*

Liquidity risk

Cash flow forecasting is performed on group level by management. Management monitors rolling forecasts of the group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the group does not breach borrowing limits or covenants (where applicable) or any of its borrowing facilities. Such forecasting takes into consideration the group's debt financing plans and covenant compliance.

The group has undrawn borrowing facilities of EUR 30m that may be available for future operating activities and to settle capital commitments.

The table below analyses the group's non-derivative and derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

For floating rate borrowings, the rate at the balance sheet date has been applied.

The primary objective of Sitecore's capital management is to ensure that the Group is able to fulfil all its obligations as set out in the Senior Facilities Agreement. Financial covenants are calculated and reported to the syndicate banks with a compliance certificate on a quarterly basis. The following covenants are tested on a quarterly basis:

- Net debt cover: Net Debt / Cash EBITDA
- Interest cover: Cash EBITDA / Net Finance Charges
- Where Cash EBITDA is defined as EBITDA calculated on the basis of billings instead of Revenue from contracts with customers.
- The covenants are all met up to 30 June 2019.

Note that the Bank debts / Borrowings amounts below include both principal and interest payments due over the periods noted.

As at 30.06.2018

	Less than 1 year €M	1-5 years €M	>5 years €M	Total €M
Bank debts / Borrowings	25,0	341,3	-	366,3
Trade payables	12,7	-	-	12,7
Other payables	32,7	1,7	-	34,4
Total	**70,4**	**343,0**	**-**	**413,4**

As at 30.06.2019

	Less than 1 year €M	1-5 years €M	>5 years €M	Total €M
Bank debts / Borrowings	28,0	313,3	-	341,3
Trade payables	16,0	-	-	16,0
Other payables	41,2	1,2	-	42,4
Total	**85,2**	**314,5**	**-**	**399,7**

24. Events After the Balance Sheet Date

There are no significant events after the Balance Sheet Date.

25. Changes in net working capital

	2018/19 €M	2017/18 €M
Changes in trade receivables	9,1	(2,4)
Changes in other receivables	5,3	1,3
Changes in trade and other payables	(21,8)	37,2
Total	**(7,4)**	**36,1**

Profit and Loss (Parent company)

	Note	2018/19 €M	2017/18 €M
General and administrative expenses		(1,4)	(0,3)
Operating loss		**(1,4)**	**(0,3)**
Acquisition related special items	3	(0,2)	-
Financial income	4	-	-
Financial expense	5	(0,2)	(0,1)
Loss before income tax		**(1,8)**	**(0,4)**
Income tax benefit	6	0,1	0,1
Loss for the period		**(1,7)**	**(0,3)**

Statement of comprehensive income (parent company)

	Note	2018/19 €M	2017/18 €M
Loss for the period		(1,7)	(0,3)
Other comprehensive income for the period, net of tax		-	-
Comprehensive loss for the period		**(1,7)**	**(0,3)**

Balance Sheet (Parent company)

	Note	2018/19 €M	2017/18 €M
Assets			
Investment in subsidiaries	7	760,6	704,3
Total financial assets		**760,6**	**704,3**
Total non-current assets		**760,6**	**704,3**
Receivables from related parties		40,2	9,3
Deferred tax receivable		–	0,1
Income tax receivable		0,2	0,9
Total receivables		**40,4**	**10,3**
Cash		0,1	–
Total current assets		**40,5**	**10,3**
Total assets		**801,1**	**714,6**

Equities and Liabilities			
Share capital		7,7	7,1
Share premium		778,2	701,0
Retained earnings		4,1	4,7
Total equity		**790,0**	**712,8**
Other payables		0,9	–
Total non-current payables		**0,9**	–
Trade payables		0,3	0,1
Income Tax Payable		6,2	–
Other Debt		3,0	–
Payables to related parties		0,7	1,7
Total current liabilities		**10,2**	**1,8**
Total liabilities		**11,1**	**1,8**
Total equity and liabilities		**801,1**	**714,6**

Statement of changes in equity (Parent company)

	Share capital €M	Share premium €M	Retained earnings €M	Total €M
Equity at 01.07.2017	**7,1**	**698,2**	**1,6**	**706,9**
Profit for the period	-	-	(0,3)	(0,3)
Total comprehensive income for the period	7,1	698,2	1,3	706,6
Transactions with owners in their capacity as owners				
Capital increase	–	2,8	–	2,8
Share based payment	–	–	3,4	3,4
Total transactions with owners in their capacity as owners	–	2,8	3,4	6,2
Equity at 30.06.2018	**7,1**	**701,0**	**4,7**	**712,8**

	Share capital €M	Share premium €M	Retained earnings €M	Total €M
Equity at 01.07.2018	**7,1**	**701,0**	**4,7**	**712,8**
Loss for the period	–	–	(1,7)	(1,7)
Total comprehensive income for the period	–	–	(1,7)	(1,7)
Transactions with owners in their capacity as owners				
Capital increase	0,6	77,2	–	77,8
Purchase of treasury shares	–	–	(0,4)	(0,4)
Share based payment	–	–	1,5	1,5
Total transactions with owners in their capacity as owners	0,6	77,2	1,1	78,9
Equity at 30.06.2019	**7,7**	**778,2**	**4,1**	**790,0**

Cash flow Statement (Parent company)

	Note	2018/19 €M	2017/18 €M
Operating loss		(1,4)	(0,3)
Acquisition related special items		(0,2)	–
Other non-cash items		–	(0,1)
Changes in net working capital	14	0,8	(2,3)
Cash flows from primary operating activities		**(0,8)**	**(2,7)**
Income taxes (paid)/received		0,6	(0,2)
Net cash flow from operating activities		**(0,2)**	**(2,9)**
Acquisition of companies		(36,9)	–
Net cash flow from investing activities		**(36,9)**	**–**
Capital increases		63,8	2,8
Intercompany funding		(25,4)	–
Purchase of treasury shares		(1,2)	–
Interest paid		–	(0,1)
Net cash flow from financing activities		**37,2**	**2,7**
Net cash flow for the year		0,1	(0,2)
Cash and cash equivalents, beginning of the year		–	0,2
Unrealized exchange rate gains and losses on cash		–	–
Cash and cash equivalents, end of the year		**0,1**	**–**

Notes (Parent company)

1. Accounting policies
2. Critical accounting estimates and judgements
3. Acquisition related special items
4. Financial income
5. Financial expense
6. Tax on profit for the year
7. Investment in subsidiaries
8. Related parties
9. Commitments and contingent liabilities
10. Events after the balance sheet date
11. Capital management
12. Financial instruments
13. Audit fees
14. Changes in net working capital

Notes (Parent company)

1. Accounting policies

The Financial Statements for the parent company, Sitecore Holding II A/S have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union as well as additional Danish disclosure requirements applying to entities of reporting class C (large).

The annual report is prepared according to standards and interpretations effective for financial years beginning on 1 July 2019. No standards or interpretations have been adopted early.

The parent company has the same accounting policies for recognition and measurement as Group. The parent company's accounting policies deviate from the Group's accounting policies as described below. For a detailed description of the group's accounting policies please refer to the consolidated financial statements, Note 1.

Reporting Currency

The financial statements are presented in euros (EUR), as the Company's most significant transactions are settled in EUR.

Share-based payment

Fair value of equity instruments granted as share-based payment to employees of subsidiaries is recognized as an investment in the respective subsidiaries and credited to equity.

Investments in subsidiaries

Investments in subsidiaries are measured at cost.

Dividend

Dividends from investments in subsidiaries are recognized in the income statement in the financial year in which the dividend is declared.

Impairment of investment in subsidiary

Impairment tests are performed on subsidiaries if events or changes in circumstances indicate that their carrying amount may not be recoverable. If cost exceeds the recoverable amount, the carrying amount is written down to the recoverable amount.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

The judgments, estimates, and assumptions made are based on historical experience and other factors that Management considers to be reliable, but which by their very nature are associated with uncertainty and unpredictability. These assumptions may prove incomplete or incorrect, and unexpected events or circumstances may arise. The most critical judgments, estimates, and assumptions for the individual items are described below.

The company is also subject to risks and uncertainties that may lead to actual results differing from these estimates, both positively and negatively.

The group annually tests whether the investment in subsidiaries has suffered any impairment, in accordance with the accounting policy stated in note 1 of consolidated financial statements. As part of the impairment test receivables from investments are evaluated for potential impairment and impaired if the group assess that investment will not be able to repay the loan.

2. Critical accounting estimates and judgements

For a description of other significant accounting estimates, assumptions and uncertainties please refer to the consolidated financial statements, Note 2.

It is the Management's judgement that all critical accounting estimates with respect to the parent company are included in Note 2 of the consolidated financial statements and that there are no critical accounting estimates which are unique to the parent company.

3. Acquisition related special items

Acquisition related special items relate to various non- recurring expenses which are related to the acquisition of Stylelabs and Hedgehog.

4. Financial income

	2018/19 €M	2017/18 €M
Interest income, affiliates	-	-
Total financial income	-	-

5. Financial expense

	2018/19 €M	2017/18 €M
Exchange rate adjustment	0,2	0,1
Total financial expense	0,2	0,1

6. Income tax benefit

Current tax:	2018/19 €M	2017/18 €M
Income tax benefit for the year	0,1	0,1
Income tax benefits are specified as follows:		
Calculated 22.0% tax on loss for the year before income tax	0,4	0,1
Tax effects of:		
Non-deductible expenses	(0,3)	-
Total income tax benefit	0,1	-

7. Investment in subsidiaries

Cost:	2018/19 €M	2017/18 €M
At beginning of year	704,3	700,7
Share-based compensation	3,2	3,6
Acquisition	53,1	-
At end of year	760,6	704,3
Impairment:		
At beginning of year	-	-
Addition during the year	-	-
At end of year	-	-

Owned by Sitecore Holding II A/S:

Subsidiaries	Own	Legal form	Registered office	Voting shares & stakes	Profit (FY18) €M	EQ (FY18) €M
Sitecore Holding II A/S	Sitecore Holding III	A/S	Copenhagen, Denmark	100%	(23,0)	675,6
Sitecore Holding III A/S	Sitecore Corporation	A/S	Copenhagen, Denmark	100%	(6,5)	221,1
Sitecore Holding III A/S	Sitecore USA Holding	LLC	Delaware, USA	100%	-	-
Sitecore Corporation	Sitecore Danmark	A/S	Copenhagen, Denmark	100%	0,3	0,8
Sitecore Corporation	Sitecore International	A/S	Copenhagen, Denmark	100%	0,2	0,6
Sitecore Corporation	Sitecore UK	Ltd.	London, United Kingdom	100%	0,6	5,7
Sitecore Corporation	Sitecore Sverige	AB	Stockholm, Sweden	100%	0,2	0,5
Sitecore Corporation	Sitecore Deutschland	GmbH	Bremen, Germany	100%	0,3	2,4
Sitecore Corporation	Sitecore Nederland	B.V.	Amsterdam, Netherlands	100%	0,3	1,8
Sitecore Corporation	Hedgehog Bulgaria	EOOD	Sofia, Bulgaria	100%	-	-
Sitecore Corporation	Sitecore Middle East	DMCC	Dubai, UAE	100%	0,1	0,1
Sitecore Corporation	Sitecore Japan Co.	Ltd.	Tokyo, Japan	100%	(0,7)	(2,8)
Sitecore Corporation	Sitecore Singapore Pte.	Ltd.	Singapore	100%	0,1	1,1
Sitecore Corporation	Sitecore Software Co	Ltd.	Shanghai, China	100%	0,0	(0,1)
Sitecore Corporation	Sitecore Malaysia Sdn.	Bhd.	Kuala Lumpur, Malaysia	100%	0,5	1,3
Sitecore Corporation	Sitecore Ukraine	Foreign Enterprise	Dniepropetrovsk, Ukraine	100%	0,0	(0,2)
Sitecore Corporation	Sitecore Australia	Pty Ltd.	Sydney, Australia	100%	0,2	(0,4)
Sitecore Corporation	Stylelabs	NV	Brussels, Belgium	100%	-	-
Sitecore Singapore Pte	Sitecore India	Private Limited	Gurgaon, India	100%	(0,1)	0,1
Sitecore USA Holding LLC	Stylelabs	Inc.	Delaware, USA	100%	-	-
Sitecore USA Holding LLC	Sitecore USA	Inc.	Delaware, USA	100%	0,5	2,4
Sitecore USA Holding LLC	Hedgehog	Ltd.	New York, USA	100%	-	-
Sitecore USA Inc.	Sitecore Canada	Ltd.	Nova Scotia, Canada	100%	0,8	3,6

8. Related parties

Compensation paid to Board of Directors and Executive Management.

For Key Management remuneration please refer to note 4 in the consolidated financial statements.

No transactions were carried out with related parties.

9. Commitments and contingent liabilities

Operating leases

The company has no lease obligations.

There are no pending court and arbitration cases.

Mortgage and securities

As collateral for credit facilities in Sitecore Holding III A/S and Sitecore Corporation A/S the Group has issued the following securities to Nordea Bank ABP, FILIAL SVERIGE:

- The Company has provided a negative pledge.

Other contingent liabilities

As Management Company, the Company is jointly taxed with other Danish group entities and is jointly and severally with other jointly taxed group entities liable for payment of income taxes as well as withholding taxes on interest, royalties and dividends falling due for payment.

The Company has issued letters of support to subsidiaries within the Group.

10. Events after the balance sheet date

No significant events happened after the balance sheet date.

11. Capital management

For a description of capital management please refer to the consolidated financial statements

12. Financial instruments

Sitecore Holding II A/S does not have exposure to financial instruments. Financial debt and all operations of the Sitecore Group is carried out through subsidiaries of Sitecore Holding II A/S and affiliated companies.

13. Audit fee

Audit fees are not disclosed with reference to section 96(3) of the Danish Financial Statements Act. The fee is specified in the consolidated financial statements, note 7.

14. Changes in net working capital

	2018/19 €M	2017/18 €M
Changes in other receivables	-	(4,1)
Changes in trade and other payables	0,8	1,8
Total	**0,8**	**(2,3)**