

sage

Annual Report and
Accounts 2016

Business builders

Sage is the market leader for integrated accounting, payroll and payment solutions.

Our Strategy – read more on p16



Customers for life



Winning in the market



Revolutionise business



Capacity for growth



One Sage

Strategic report

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Discover more about Sage online
www.sage.com

2016 Financial highlights

Organic revenue growth

6.1%



Organic operating margin

27.2%



Underlying basic EPS growth

9.0%



Underlying cash conversion

100%



About our non-GAAP measures and why we use them

Throughout the strategic report we quote two kinds of non-GAAP measure: underlying and organic. We use these measures in monitoring performance and incentivising management.

Underlying – underlying measures exclude certain one-off and non-operational items, and prior year underlying measures are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations. Underlying measures allow management and investors to compare performance without the potentially distorting effects of foreign exchange movements.

Organic – in addition to the adjustments made to underlying measures, organic measures exclude part-year contributions from acquisitions, disposals and assets held for sale of standalone businesses in the current and/or prior years. This allows management and investors to understand the like-for-like performance of the business.

Reconciliations of statutory revenue, operating profit and basic earnings per share to their underlying and organic equivalents are in the Financial and operating review starting on page 46.

We serve business builders.

Be Sage

Those who look deeper, reach higher and strive harder, whilst measuring success on relationships, partnerships and communities – not just profit.

Sage helps drive today's business builders with new generation software to manage everything from money to people. Because when business builders do well, we all do.

2016 has been a key year in our transformation and the business continues to perform, delivering consistent returns for our shareholders, whilst ensuring we do business the right way for the benefit of our customers, colleagues and communities.

Our Strategy –
read more on p16



Customers
for life



Winning in
the market



Revolutionise
business



Capacity
for growth



One Sage

of entrepreneurs believe that
in the future, everyone will
work from a mobile device.

Revolutionise business

Be Sage

"Sage One is in my handbag, in my pocket, wherever my tech is – and that's why it's perfect for the business."

Gemma Price
Superfood Market Co-Founder

The world is becoming more mobile and revolutionary technology is freeing business builders from the shackles of their desk. Gemma uses **Sage One Accounting** to manage her business on her PC, tablet or smartphone at home, in the office and on the move.



Our Strategy –
read more on p16



Customers
for life



Winning in
the market



Revolutionise
business



Capacity
for growth



One Sage

The average
small business
owner spends

a week just keeping up with their admin.



Be an entrepreneur

Be Sage

"We've been a customer of Sage since 2000 and I'm a raving fan: I love the software and it's made my business so much easier to run."

Jeremy Corner
CEO of Blue Eyed Sun

As a business owner and entrepreneur, Jeremy has many priorities to juggle. Jeremy uses **Sage 50 Accounts** and **Sage 50 Payroll**, which automate financial and administrative processes, freeing up precious hours to focus on growing his business.



Our Strategy –
read more on p16



Customers
for life



Winning in
the market



Revolutionise
business



Capacity
for growth



One Sage

of entrepreneurs have an ambition
to grow their business in the next
three years.

Build your business

Be Sage

“We would not be where we are today without Sage. Sage is going to help us grow in the next 10 years because it’s developing tools that allow us to scale our business.”

Alan Turanski
President and Beekeeper at GloryBee Foods

GloryBee Foods uses a range of Sage products including **X3**, which provides the company with a suite of the latest accounting and payment solutions to help the business grow.



Business

Sage is enabling the businesses of entrepreneurs...

Our Strategy –
read more on p16



Customers
for life



Winning in
the market



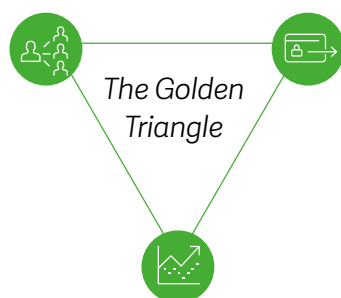
Revolutionise
business



Capacity
for growth



One Sage



Supporting entrepreneurs with the right products

Our new generation software helps to drive today's business builders. The "Golden Triangle" of seamlessly integrated solutions for Accounting, Payroll & Human Capital Management (HCM) and Payments automates workflow and the movement of money. We provide software deployed on desktops and in the cloud to maximise customer choice.

Accounting


Our range of accounting solutions allows customers to issue invoices, analyse business performance and manage cashflow, taxes, stock, budgets and more.

Payroll & HCM

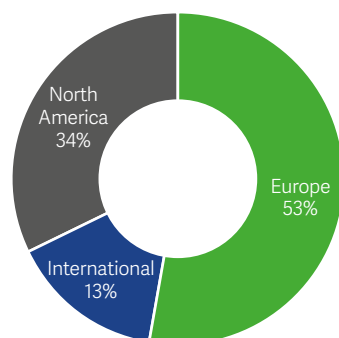
Our Payroll & HCM solutions are simple, secure and efficient; helping our customers to remain compliant, pay their employees accurately and on time, and to deliver a great employee experience.

Payments

Our payments offerings and partnerships enable our customers to receive payments through their websites, in person using a card reader, or directly from electronic invoices, as well as making outgoing payments.


 See our products on p34

Organic revenue by region



Our unrivalled ecosystem

Our ecosystem is the network of partners and platforms which we work with across 23 countries to service our three million customers. Ranging from accountants, value-adding partners, developers and cloud platforms to name a few, this community works seamlessly with us to provide exceptional experiences to our customers.

 See our regional performance on p50


builders

and delivering a compelling investment proposition.

Be Sage

The right strategy for our markets

Our strategy responds directly to the market in order to realise the significant opportunities available. We are transforming our business to grow market share and improve the quality of growth, always ensuring we keep our customers, communities and people at the heart of what we do.

 See our strategy on p16




Delivering sustainable returns

We are focused on doing well by doing right to deliver superior shareholder returns. The transition to ever closer subscription relationships with our customers not only enables us to provide better support but also gives us excellent visibility over our revenue streams.

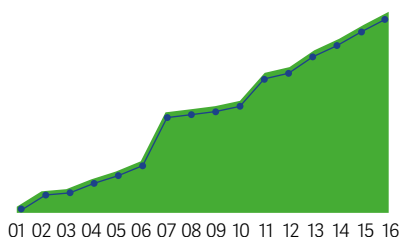
Our attention to resource allocation provides potential for strategic investment in our go to market capability coupled with rigorous cost control to deliver strong operating margins and capacity for growth.

We target free cash conversion of revenue in the 15% – 20% range which supports our progressive dividend policy. We are one of very few businesses in the FTSE 100 that have delivered an increased ordinary dividend every year since 1999.

 See our performance on p46

16 year dividend history

Growing the annual dividend per share



The market opportunity and how we approach it

Small & Medium Businesses

Small & Medium Businesses are the lifeblood of the global economy and make up 99% of all businesses, driving two thirds of new job creation. There is a significant opportunity for growth within the markets in which we operate.

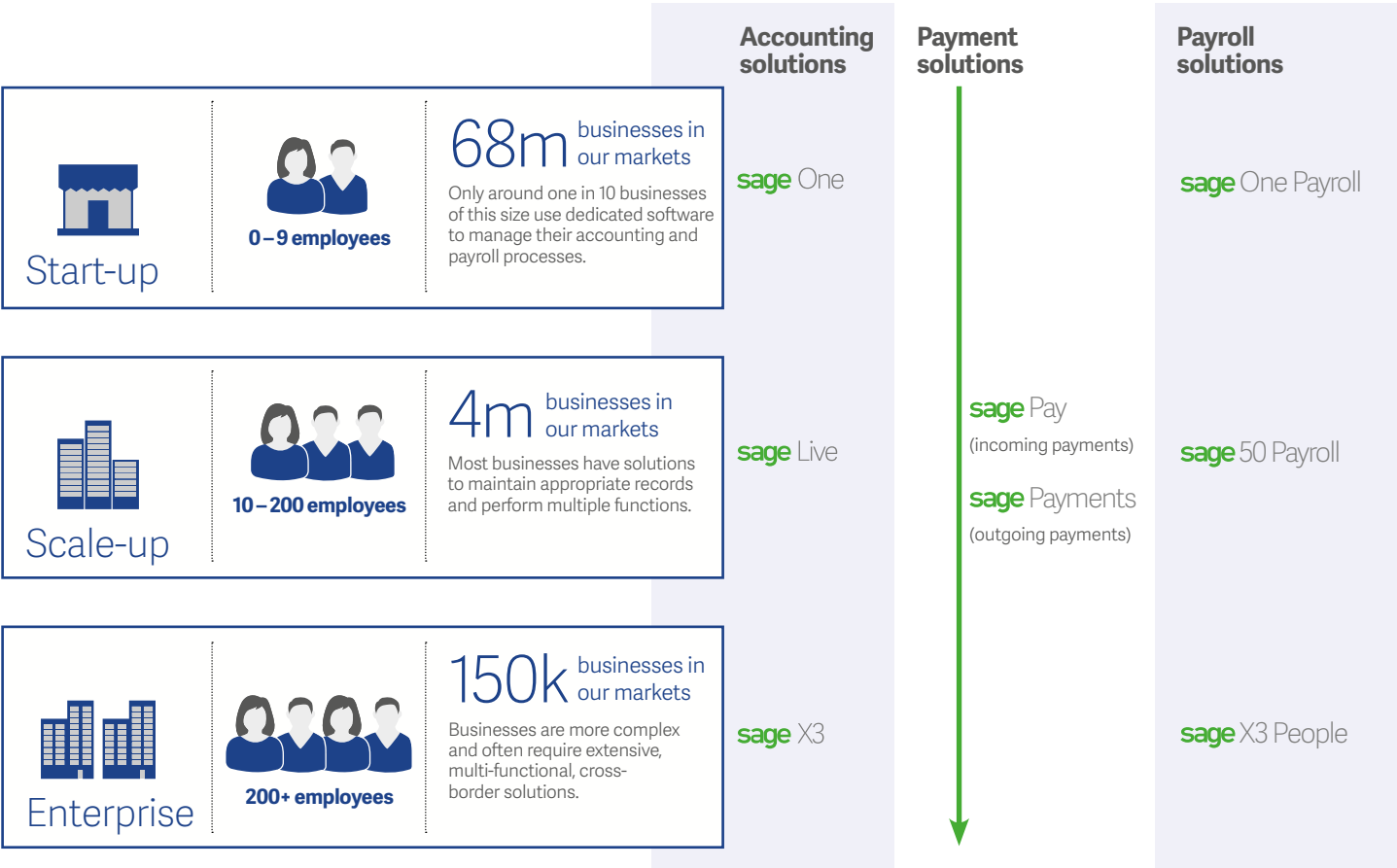
The Small & Medium Businesses market encompasses many types of business with varying complexities and requirements. We constantly strive to understand the characteristics of businesses of different sizes to help us better serve them as they grow and their needs evolve.

Our market

Software solutions in our market comprise Accounting, Payroll & HCM, Payments, or a full suite of business management solutions.

Increasingly, software solutions are hosted on a public server and accessed in the cloud, though we also provide the option of solutions hosted locally and accessed 'on-premise'.

Sage is the only worldwide company who can provide such software solutions to take the business from start-up, to scale-up, through to enterprise, allowing the customer to migrate seamlessly across the product range, as illustrated below.



Growth opportunities

White space

Of the 72 million Small & Medium Businesses in the countries where we operate, only around one in 10 currently uses a purchased software solution to manage their accounting and payroll processes. The others use alternative means such as pen and paper or spreadsheets: these businesses represent the white space opportunity.



The cloud

Cloud applications are key to reaching this white space, allowing the consumer to purchase instantly online, without installation, via a standard web-browser and with limited configuration.

Forecasts show cloud spending growing at a rate of approximately 17% per annum to 2018, largely attributable to expansion in the market: traditional software spending is expected to stay broadly flat.

Analysis indicates that both forms of deployment will remain material components of the overall market for the foreseeable future.

We are committed to our three million customers and will continue to support them by investing in innovative technology for both cloud and on-premise deployment.



Evolving technology

Technology evolves rapidly and business needs are becoming ever more mobile and social led.

The Sage ecosystem allows us to develop the latest applications and also to partner with other technology companies to seamlessly integrate with other best in class applications on leading cloud platforms.



Customer led strategy

Our privileged and trusted position with Small & Medium Businesses is enhanced by over 30,000 conversations we have with our customers each day.

This provides us with a deep understanding of customer demand drivers, which is integral to developing our strategy. We combine this with our knowledge of local markets to develop intuitive, tailored technology solutions and provide exceptional levels of customer support and advice.

Our latest product designs are customer led, including features based on customer requests and demand drivers.



Fragmented market

Sage operates in a relatively fragmented market, with the top three providers accounting for only around one quarter of market spend.

Sage is one of the market leaders in every country in which we operate and our ambition is to grow our position as a global market leader.



Top 3 providers account for only

1/4

of market spend

Our business model

Creating value

Our business model is the means by which we can deliver on our strategic objectives. As with everything we do, the customer is at the heart of our business model, which aligns with the customer journey and experience.

Key inputs to our business model

Talented people

Over 13,000 of our colleagues around the world collaborate to provide technology expertise and an exceptional customer experience.

Trusted brand

Small & Medium Businesses are the engine of our economies and Sage is their champion.

Market and technology insight

We constantly focus on the latest technology to ensure our products remain indispensable to customers in a continually evolving market.

Resource allocation

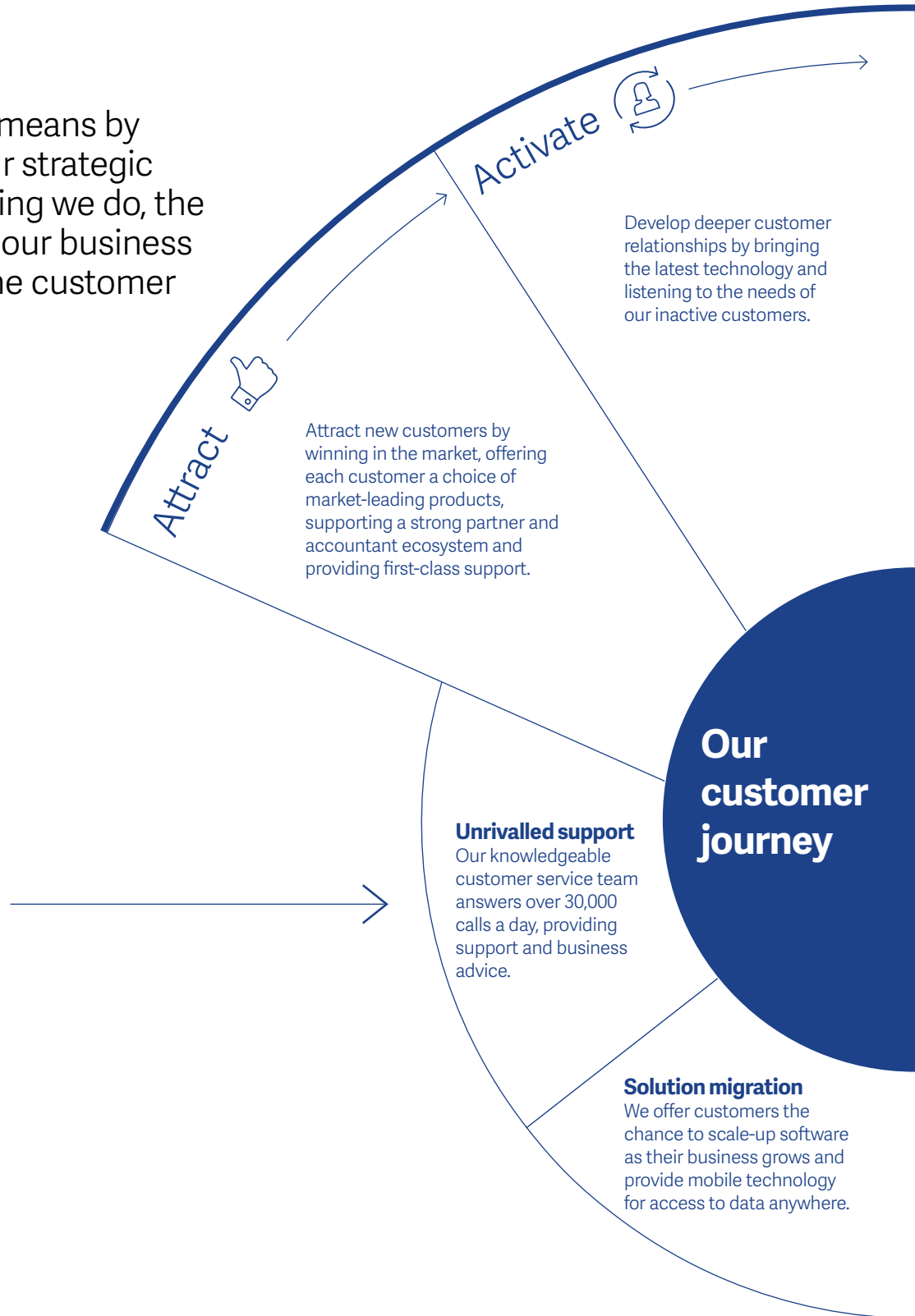
We flex our resources to focus on market-leading growth products.

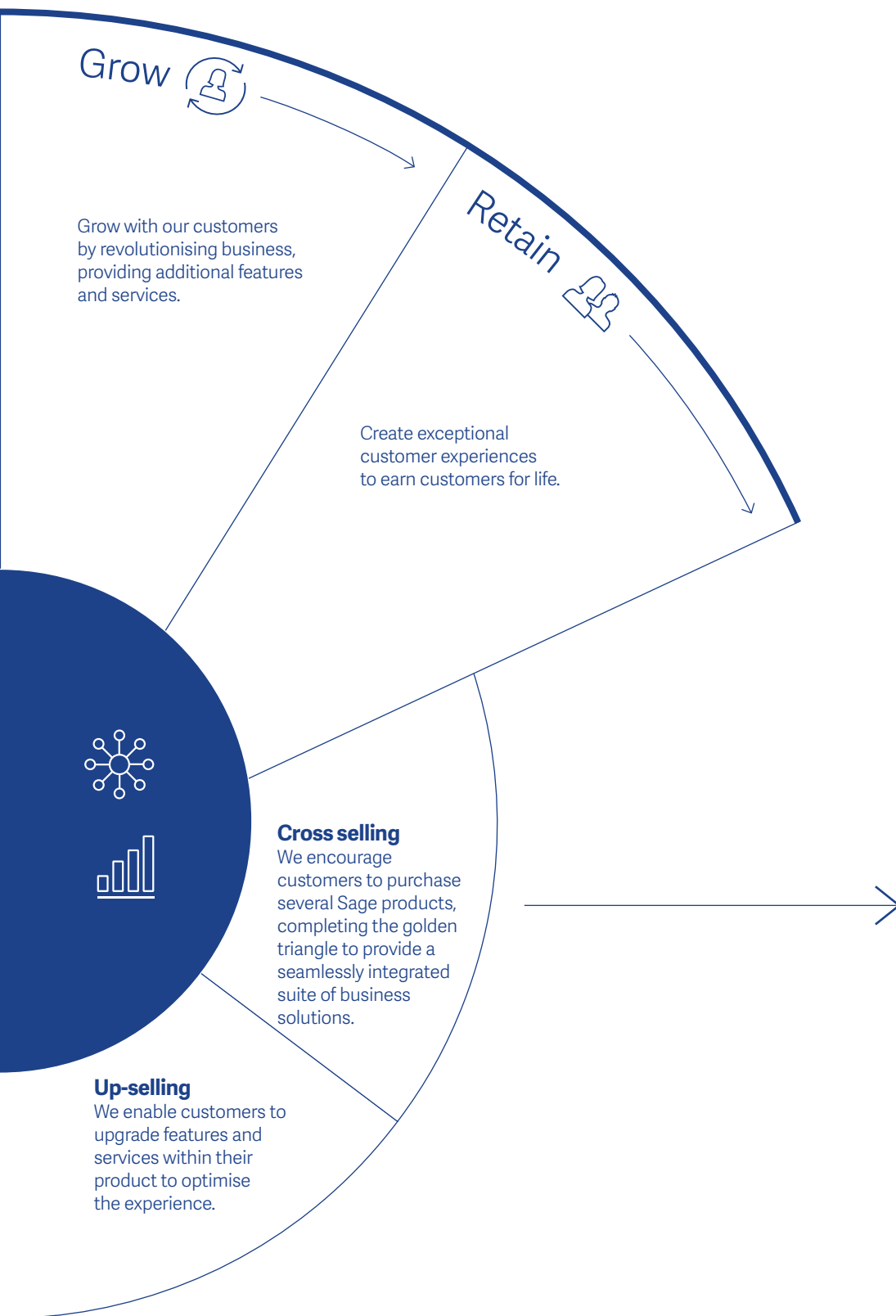
Local knowledge

Our deep knowledge of the regulatory landscapes in which we operate ensures our customers remain compliant and lets us plan for new legislation on the horizon.

Routes to market

Our multi-channel approach is supported by a network of direct sales channels, business partners and accountants.





Value created from our business model

Group organic revenue growth

Organic revenue

£1,567m

Revenue streams:

- **Recurring:** Revenue on a contract basis predominantly for maintenance and support services or bundled subscription services.
- **Software and related services (SSRS):** Software licences and related products and services (e.g. training, implementation or hardware).
- **Processing:** Revenue for processing services which is volume driven (e.g. payments or payroll processing).

Full definitions of our revenue streams are on page 170

Organic operating profit

£427m

Shareholder returns

Dividends paid

£145m

Society

Tax charge for the year

£67m

Community

Colleagues enabled to volunteer

13,000

days given by colleagues in their communities

Delivering value for our shareholders



“The Group continues to meet its shareholder commitments, delivering 6% organic growth and 27% organic operating margin for FY16.”

Donald Brydon
Chairman

This has been an important year in Sage's transformation and a year of sustained performance. I am delighted to report that Sage continues to meet its commitments to shareholders, delivering 6% organic revenue growth and 27% organic operating margin for FY16, whilst taking very important steps to deliver change in the business to support our long term aspirations. In every part of the business I observe a genuine sense of raised ambition from our people and a firm desire to drive our success to new heights.

Since our Capital Markets Day in June 2015, Sage's transformation has continued successfully along the course we committed to at that time. Whilst there is still much to deliver in order to fully realise our strategy, I am very encouraged by the initial progress made under the direction of Stephen Kelly and his new management team. There have been many changes in the senior team bringing together a new operating model with relevant management skills. Sage has increased its pace of decision making and there has been a step change in the speed and scale of innovation and levels of agility in product development. At the same time, customer satisfaction scores have risen in almost all areas.

Our cloud accounting solutions such as Sage One continue to reach a rapidly expanding market, with paying subscribers in Sage One growing by 81% for the year. We are also bringing the power of the cloud to existing customers with connected versions of market leading products such as Sage 50, Sage 100 and Sage 300. Our renewed strategic partnership with Microsoft to combine the deep functionality of Sage 50C with the innovative mobility of Microsoft Office 365 is an example of our commitment to supporting customers for life, however they choose to deploy their software.

"Customers for life" is just one of the clear strategic pillars around which Sage is developing. Elsewhere in this report you will find detail around the others.

In July, we hosted Sage Summit in Chicago. It was one of the largest gatherings of Small & Medium Business owners anywhere in the world. I was delighted to attend with other members of the Board and personally met many inspiring entrepreneurs, business partners and customers. The 15,000 registered attendees were presented with clearly articulated roadmaps for our major products and also got the first glimpse of innovative new solutions, like our chatbot, Pegg. Sage is committed to supporting the success of Small & Medium Businesses everywhere in the world as an indispensable business ally.

The Board has enjoyed a year of continuity and benefits from the collective expertise of members who have all actively engaged with the business over the last 12 months. Ruth Markland will step down from the Board at the AGM in February 2017 after completing over ten years' service. We have all greatly appreciated her dedication, experience and the wealth of knowledge and insight she has brought to Sage. Inna Kuznetsova has also decided not to stand for re-election at the AGM. Although with us for a shorter time than Ruth, she brought a new perspective to our deliberations and we thank her for her service. I am pleased to confirm that Drummond Hall has accepted the appointment of Senior Independent Director and his appointment will take effect from the end of the Annual General Meeting.

The Board has reviewed its composition with respect to both skills and diversity and as a consequence has commenced the search for successors to Ruth and Inna. As reported elsewhere we benefited from a review of our performance by Ffion Hague and continue to find our objective setting process adds value. On 30th September 2016, Michael Robinson retired from his position as Legal Counsel and Company Secretary and I thank him for his calm and unwavering support during his 14 years with Sage.

Perform and Transform

We deliver good governance with our world-class Board of Directors and Executive Committee, who together, provide the leadership to steer us through our transformation whilst ensuring the business continues to perform to a high standard.



Read more about the Board on pages 66 and the Executive Committee on pages 68

The Board wholly supports the initiatives being undertaken to ensure that Sage not only continues to comply with relevant regulations, but develops a market leading system of controls and culture. These are central to ensuring that Sage is scalable and capable of supporting the growth expected of the Group in the coming years. The initiatives' sponsor is Steve Hare and he has our full backing to embed the rigorous principles approved. At the same time the Board has commenced new work to better define the accompanying culture necessary for sustained success. On 30 November 2016 Sage announced a dividend for the year 2015/16 of 14.15p per share, an increase of 8%.

I would like to thank Stephen Kelly and his team for all their endeavours in the past year. The next twelve months will represent another year of tireless efforts to continue on our path of transformation, whilst continuing to deliver to all our stakeholders, including partners, customers, colleagues and shareholders.

Donald Brydon
Chairman

Delivering for our stakeholders

Our strategy responds directly to the market in order to realise the significant opportunities available. We are transforming our business to grow market share and improve the quality of growth, always ensuring we keep our customers, communities and people at the heart of what we do.



Perform...

We introduced our updated strategy at our Capital Markets Day in June 2015, signalling the start of several years of transformation.

2016 has been a pivotal year in our transformation and the business continues to perform, achieving organic revenue growth and organic operating margin in line with guidance:

Organic revenue growth

6%

Organic operating margin

27%



Shareholder.. And transform

Our strategy responds directly to the market in 2017 will be another key year of significant opportunities available. We are transformation, where we grow market share and improve the quality of growth. We expect to maintain organic revenue growth of at least 6% and an organic operating margin of at least 27%, with accelerating momentum as we exit FY17.

Customers for life

Putting our customers at the heart of everything we do to provide exceptional experiences.

See page 18

One Sage

Our people and our culture, working collaboratively with pace and agility to put our customers first.

See page 26

Capacity for growth

Building a single, united operating model, increasing efficiencies and synergy to drive superior quality margins.

See page 24

During 2017 we will focus on reinvesting our savings into sales and marketing ability to win in the market.

Outpacing market growth to gain market share and realise our ambition to be the market leader.

See page 20

Revolutionise business

Using the latest technology within our ecosystem to make our customers' lives easier, so they can focus on doing what they love.

See page 22



Organic revenue growth will make up 80% of the overall bonus weighting for executive directors in 2017. See page 84 for more detail on 2017 bonus.





Customers for life

Providing exceptional experiences

Putting our customers at the heart of everything we do to provide exceptional experiences. This involves providing choice, indispensable advice and the right product for the customer – however they want to deploy their solution.

Our priorities

We want to serve customers for life as their indispensable and trusted ally when facing business issues. Developing ever closer relationships helps us to deliver a superior experience to customers. Our subscription model is central to developing this tighter bond and is mutually beneficial, providing great value and benefits to the customer and increasing our customer retention. We will never force migration and will always offer choice to our customers.

We continue to provide value-adding solutions to the customer, freeing up their time so that they can continue building their business. This means more integrated, complementary solutions, hassle-free migrations for those ready to move to the next product and exceptional levels of customer service and support.

Our latest solutions are customer-led, with features built based on customer requests.

The risks that could impact our success

Failing to recognise the changing needs of our customers and the evolving compliance landscapes faced by customers in our geographies would inhibit our ability to satisfy their needs. If the move to a subscription delivery model is not executed collaboratively then we risk alienating customers. Read more about our market intelligence and licensing model transition principal risks on page 37.

How we will measure our progress

If we succeed in delighting our customers, they will respond by continuing to use our services, so our KPI linked to this pillar is our contract renewal rate. Read more about our KPIs on page 32 and see more about our progress in the CEO report on page 30.

Perform...

Our subscription model in stats:

32%

growth in software subscription revenue year-on-year

46%

increase in software subscription contracts year-on-year

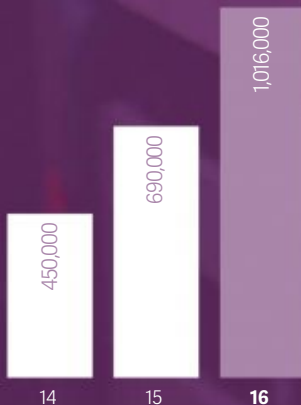
10%

growth in recurring revenue year-on-year

86%

contract renewal rate

Software subscription contracts



See overleaf



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Our latest solutions are customer-led, with features built based on customer requests.

...Transform

Frylite Limited

Our customer for life commitment provides choice and success pathways to support businesses as they expand. As Frylite has grown, the business has migrated up from Sage 50 to Sage 200 to match the increasing complexity of its processes to a capable solution which supports continued successful growth.

The risks that could impact our success

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“We were taking on a lot of new customers every day so we needed a bigger, more powerful package. We have seen a lot of benefits of using Sage 200 – integration with other software packages is key for us and because Sage are established, they have a great support system.”

Justin Barrett

Financial Controller, Frylite Limited



www.sage.com/investors





Winning in the market

Growing our market share

Outpacing the competition to gain market share and sustain our ambition to be the leader in our chosen markets. Our purpose is to serve the world's business builders. Providing the very best technology and services, combined with an emotive brand strategy that puts people at the heart of our operations, will unlock huge opportunities for growth.

Our priorities

We are winning in the market with our range of next-generation cloud accounting, payroll & HCM and payments products (see page 10), providing solutions that cater for all sizes of Small & Medium Businesses from start-up, through scale-up to enterprise. These products will be the default product choice for new customers unless their particular needs are better served by another of Sage's products.

We aim to make the entire customer sales experience from enquiry to product deployment and customer success as seamless as possible. Our regional Customer Business Centres (CBCs) coordinate the sales of our cloud solutions to new customers and maintain relationships with customers as they grow (see page 24 for details).

We are also investing in an always-on, digital marketing platform to ensure a consistent, modern and user-friendly online presence across Sage.

We are uniting all of our sales and marketing under one emotive brand strategy. This integrated approach will differentiate us from the competition whilst creating deeper connections in the market that will increase brand loyalty and advocacy.

The risks that could impact our success

Developing enhanced core product functionality, product integration and a compelling commercial proposition are all features which help to drive a competitive advantage but which present execution risks. Read more about our competitive positioning and product development, and market intelligence principal risks on pages 37 and 38.

How we will measure our progress

As we grow market share, the primary measure for winning in the market is the adoption of our cloud products. Read more about our KPIs on page 32 and see more about our progress in the CEO report on page 30.

Perform...

Growing market share by attracting customers to our latest cloud technologies.

In July 2016 we hosted Sage Summit, the world's largest gathering of entrepreneurs.

Sage Summit in numbers:

15,000

attendee registrations

Over 1bn

social impressions

Over 3,000

news articles written about Sage Summit



...Transform

Check and Balance Firm

We are winning in the market with solutions that are built with a mobile-first and socially-connected mindset.

Check and Balance is a tax preparation and accounting firm that focuses on Small & Medium Businesses. Founder Tiffany Wilson was looking for a mobile accounting solution to service her clients flexibly, on the move with her tablet when she was introduced to Sage One.

“Switching over to Sage One was the best decision I could have ever made for my business. Sage is really helping me to innovate and grow with my business because I’ve got everything in the cloud now. It’s been an awesome experience.”

Tiffany Wilson

Owner, Check and Balance Firm



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Revolutionise business

Simplifying customers' lives

Innovation and exciting technology are at the heart of Sage's strategy. We deliver the latest solutions through our ecosystem of partners and third-party applications to our nations of business builders, giving them the technology they deserve so they can focus on doing what they love.

Our priorities

Revolutionising business at Sage means delivering our new, exciting solutions like Sage One, which can be accessed by smartphone, Sage Live, which won the Salesforce award for most innovative product of 2016, and X3 which we are launching in the cloud, but also revolutionising our much-loved existing suite of products. We are releasing hybrid on-premise / cloud versions of Sage 50, 100 and 300, providing both high-functionality and the flexibility to work from multiple locations and devices.

In 2016 we announced a partnership of Sage 50 and Office 365, bundling the two products to allow enhanced analytics, sharing of documents between colleagues and access to the business anywhere.

We also launched Pegg, the world's first accountancy chatbot, in July 2016 (see overleaf).

We use the most appropriate, industry-leading development platforms for each of our products and select the latest applications to integrate with our software to continue to evolve our ecosystem.

The risks that could impact our success

Working collaboratively and with agility is key to ensuring our product development can outpace a rapidly evolving market. We also need to work tirelessly to support our ecosystem and partner network so that our customers can integrate our products with other solutions to suit. Read more about our strategic partnerships and third party reliance principal risks at page 41.

How we will measure our progress

"Revolutionise business" strongly supports our business model growth drivers of Activate and Grow (see page 12 for the business model).

The lead indicator that we are delivering on our strategy is our annualised software subscription base ("ASB"), given that our very latest features are available on subscription. Read more about our KPIs on page 32 and see more about our progress in the CEO report on page 30.

Perform...

Meet Pegg, the world's first accounting chatbot.



Pegg makes running your business as easy as texting.

Users can log an expense or income, add receipts and check their spending habits all without leaving their favourite messaging apps like Facebook and Slack.

Through Pegg, we're making accounting almost invisible, so business builders can spend more time doing what they love.

1st

accountancy chatbot developed in the world

Over

3,800

users in 85 countries by year end

Featured in over

300

media articles



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...Transform

Kingpin

Kingpin is an integrated marketing agency, helping technology brands connect with audiences. As a fast-growing business, it was important for Kingpin to be able to focus on growing customers and clients.

Sage Live provides Kingpin with access to real-time information on connected devices meaning the company can meet clients and hold board meetings anywhere.

The risks that could impact our success

Working collaboratively and with agility is key to ensuring our product development can outpace a rapidly evolving market. We also need to work tirelessly to support our ecosystem and partner network so that our customers can integrate our products with other solutions to suit. Read more about our strategic partnerships and third party finance principal risks on page 5.

How we will measure our progress

"Revolutionise business" strategy supports our business model growth drivers of Act, Buy, Sell and Grow (SAGE). The lead indicator that we are delivering on our strategy is our annualised software subscription base ("ASB"), given that our very latest features are available on subscription. Read more about our KPIs on page 32 and see more about our progress in the CEO report on page 30.

For us, it's not about saving money, it's about saving time and working smarter. Sage Live enables one single point of a lot of the headache of managing business – I see this as transformational.

CRM system was really hard to find until Sage Live came around."

James Foulkes
Co-Founder, Kingpin



www.sage.com/investors





Capacity for growth

Increasing efficiencies

Building a single, united operating model, increasing efficiencies and synergy to drive superior growth.

Our priorities

Throughout our transformation we are focused on progressing towards a single, united operating model to provide consistently excellent support to both colleagues and customers. We have realigned key functions such as Marketing, Product Delivery and Technology, whilst ensuring the function remains strongly connected to the country and the customer. We ensure the responsibility for the customer remains under the remit of that country, with sales and service provided locally, in local language, by Sage experts.

This united model drives efficiencies and creates synergy across countries. The savings in formerly decentralised back office functions are being reinvested into the business to drive growth.

We are continuing to improve our always-on digital marketing platform. Our customer business centres (CBCs) deploy this platform, staffed 24 hours a day with solutions experts who can nurture the incoming leads to identify which product will best suit the customer's needs, rather than marketing a product and identifying suitable customers.

For instance, on a Sage Live qualified lead, the CBC team takes on all contact from product demos, to post implementation success coaches, ensuring that new users gain maximum value from the product from day one.

The digital marketing and CBC formula can be repeated in other regions from the existing hubs in Dublin and Atlanta, utilising the same best in breed applications and generating standardised management information to aid comparability of performance.

The risks that could impact our success

Business Model transition has been identified as a principal risk, this is considered on page 38.

How we will measure our progress

Our KPI linked to capacity for growth is the ratio of general and administration spending as a percentage of revenue (G&A%). Read more about our KPIs on page 33 and see more about our progress in the CEO report on page 31.

Perform...

By reducing unnecessary cost from back office functions to reinvest in the go-to-market model:

General and admin expense as a proportion of revenue reduced by

2.2%

during FY16

£51m

Annualised cost savings



...Transform

Digital Marketing

We're reallocating resources to invest in a scalable and efficient digital marketing platform to generate demand for our sales teams.

Throughout FY16 we procured and implemented 12 digital marketing systems to provide a new digital platform to leapfrog our competitors. This involved:

P

People

Appointing the best leadership and digital professionals

P

Platform

Creating a perpetual demand engine, across web to lead, delivering 5,000 leads per week

P

Programs

Moving marketing from product to solution-based campaigns

P

Process

Creating a united media strategy, saving £1m per year in agency fees and a 37% reduction in cost per lead





One Sage Working collaboratively

Our people and our culture, working collaboratively with pace and agility to put our customers first. This means keeping customers at the heart of everything we do and focusing on their success, always striving to over-achieve.

Our priorities

Our brand story provides us with a unified culture that will unlock the power of people. Providing our colleagues with an emotive purpose and a set of goals and principles allows us to realise our ambition efficiently – the Sage way. It's a privilege to serve so many business builders and our one Sage culture enables us to delight them all.

We continue to align the values of our colleagues with engagement through All Hands meetings, Sage TV, broadcasting live to all colleagues, and Sage FY17 Kick-Offs, where each major Sage office around the world was visited by management meeting approximately 10,000 colleagues as well as customers, partners and accountants.

Doing business the right way through one Sage also extends to our communities. Sage Foundation has been highly instrumental in achieving this (see page 60), and enables us to support our communities, all the while improving colleague job satisfaction, staff retention and attracting new talent.

The risks that could impact our success

As we introduce new ways of working and increase the pace of execution, there is increased stress on our operating cadence which may impact certain aspects of our principal risks. For example, our control environment, business processes and technology infrastructure must continue to support the efficient and effective operation of the business.

Read more about our supporting control environment principal risk at page 39.

How we will measure our progress

Doing business the right way and giving back to the community is incredibly important to us. Our Foundation Days KPI measures how much time Sage colleagues have spent volunteering at charitable causes throughout the year. Read more about our KPIs on page 33.

Perform...

We strive towards excellence in governance with our refreshed suite of 56 internal policies.

We implemented these policies throughout FY16 with communication and training to support all colleagues to ensure we remain fully committed to good governance throughout the transformation and beyond.



Doing the right thing



See overleaf



...Transform

Working together to achieve our vision.

In order to support this we have launched our new goal-setting process, VSGM.



Goal-setting begins with the CEO and cascades down through leadership. Senior management goals are aligned to strategic pillars and shared throughout Sage.

This transparent approach aligns colleagues to the Sage Way to embed our collaborative culture across the organisation. It also enables our people and managers to have straight-forward conversations about how they are progressing towards their goals and supporting our overall strategy throughout the year.



When business builders do well, we all do



“FY16 saw Sage continue to deliver on the commitment made at our June 2015 Capital Markets Day to perform and transform.”

Stephen Kelly
Chief Executive Officer
@SKellyCEO

Performance

I am pleased that we have made good progress in performance and transformation, consistent with our presentations made at the Capital Markets Day (CMD) back in June 2015. At CMD, we shared with investors the growth strategy underpinned by the five strategic pillars of Winning in the Market (New Customer Acquisition); Customer for Life (C4L); Revolutionise Business; Capacity for Growth and One Sage. FY16 has been a pivotal year in our transformation programme and, most importantly, the business continues to perform. As we have highlighted to investors, FY16 was one of the years of highest potential risk in the transition of the business. At CMD, we clearly outlined our strategy and continue to achieve profitable growth, providing best-in-class support for the Business Builder entrepreneur. We delivered revenue growth of 6% with 27% operating margins in line with

guidance provided last year. I am particularly pleased to note that higher quality recurring revenue was double digit – the first time for a decade. The strategy for Business Builders is delivering in line with our expectations and supports the Sage business model of quality organic growth; superior operating margins; strong free cash generation (enabling a progressive dividend) combined with selective acquisitions to accelerate the strategy.

Strong revenue growth of 7% in Europe (10% recurring revenue) and 8% (16% recurring revenue) in International has been balanced by 4% revenue growth (9% recurring revenue) in North America, due mainly to challenges in the Payments business. Growth in Europe and North America has been led through strong performance in our Customer for Life (C4L), whilst growth in the International region has been driven by Winning in the Market (new customer acquisition).

As part of the C4L strategy, within recurring revenue, software subscription revenue grew by 32% and the number of software subscription contracts grew by 46% to just over one million. Our contract renewal rates grew by 2 percentage points from 84% to 86% for the year coupled with continuing improvement in our Net Promoter Scores (NPS).

Organic processing revenue grew by 6% in the year reflecting strong growth in Europe of 12% driven by Sage Pay in the UKI, and International of 50%, driven by payroll processing, balanced by slower growth in North America of 3% that delivered strong payroll processing growth and a flat year-on-year in payments.

Organic SSRS revenue declined by 8% in the year reflecting the planned transition to a subscription model as explained at our 2015 Capital Markets Day.

Business Transformation

We achieved an operating margin of 27% in FY16 in line with guidance, whilst transforming our business by reducing cost from our back office to reinvest in sales and marketing to support 'Winning in the Market'.

We have reorganised the go-to-market functions and hired a proven leader, Blair Crump, the recently appointed Sage President, to ensure that in FY17 we will see a laser focus on new customer acquisition.

During the year we reduced the general and administrative (G&A) expense as a proportion of revenue to 16% (FY15: 19%). We have secured annualised savings of £51m from G&A and have incurred an exceptional charge of £110m, £76m of which relates to G&A, therefore giving an associated payback period of under two years, in line with our guidance.

The extent of the transformation is substantial. Of our top leadership, 72% has changed in the last two years and half of the new leaders are internal promotions. The overall headcount remained stable during the year and yet 3,000 new colleagues have joined Sage. 32% of the Senior Management Team is now female, up from 25% in the prior year. We will continue to hire people to support our growth plans whilst at the same time driving for productivity, efficiency, high performance and inclusion.

In FY16 as we communicated, there was an exceptional charge of £110m, incurred as part of phase one of the transformation. In FY17 we have identified additional cost saving opportunities of at least £50m which we will reinvest in our go-to-market functions in order to accelerate our ability to acquire new customers. This will create a further exceptional charge, with a targeted payback of under two years.

Success in our technology strategy

Our suite of cloud accounting solutions continues to drive the 'Winning in the Market' strategy to generate revenue and increase market share:

- Sage One paying subscriptions increased by 81% to 313,000 during the year and revenue increased by 54%. The majority of the increase in customers was driven by Europe and in International, which delivered a triple digit increase in paying customer numbers;
- X3 revenue grew by 18%, with particular success in the International region which achieved revenue growth of 74%. Customer numbers in X3 have increased by 25%;
- Sage Live, launched in USA and UK in February 2016 was awarded 'Best Salesforce

Perform and Transform

"The organic revenue growth of 6% is driven by higher quality recurring revenue, which grew at the fastest rate in a decade. The strategy is working – with customers embracing closer relationships with Sage, evidenced by a 46% increase in the number of subscription contracts and a contract retention rate of 86%.

Phase one of the transformation programme has been successfully delivered. For phase two we have ensured that we have the core management team, processes and culture to deliver the best technology ecosystem for our customers – those business builders that drive the world's economy, creating jobs, growth and prosperity. Phase two of the transformation will continue to be non-linear and focus on driving more technology innovation with increasing focus on new customer acquisition as well as continuing to improve execution against the strategy for Business Builders. We are already starting to see Sage drive faster innovation, a more customer-obsessed DNA and colleagues making a difference in all of our communities through the Sage Foundation.

For FY17, the second full fiscal year of our transformation, our full year guidance for FY17 is for at least 6% organic revenue growth and at least 27% organic operating margin. We will continue to front-load investment in growth in H117, consistent with our execution last year. Consequently, we anticipate stronger H2 growth and accelerating momentum as we exit FY17."

Developer Community' innovation award and has now left 'incubation', gaining momentum as a powerful mobile first, real-time accounting engine. We now have over 600 Sage Live customers, with over 400 added in the past 90 days.

- Sage 50 Accounts remains a popular choice with our installed base, with functionality continually increasing as the product enhances its cloud functionality through Sage Drive and Sage 50C. In the year Sage 50 Accounts delivered triple digit subscription revenue growth in the UK, US and Canada. The overall Sage 50 family of payroll and accounting solutions now accounts for 29% of all revenue.

Progress in areas targeted to improve performance

As a management team focused on improvements throughout the business, we share our 'watch list' regularly. During FY15 we highlighted areas of the business that were underperforming relative to Sage's overall performance, being Enterprise Europe, Small and Medium Business North America and Payments North America. We continue to believe that progress will be non-linear and that we expect the watch list to vary over time.

Enterprise Europe

Enterprise Europe delivered full year growth of 5% compared to a decline in the prior year. The strategic product within this portfolio, X3, grew by 12%, with particular success in the UK where revenue grew by 17% and customer

numbers grew by 41%. We are confident of continued growth of X3 and further progress in the Enterprise segment.

Small and Medium Businesses North America

Revenue has grown by 4% for the full year in this segment, compared with 4% in the prior year.

This segment continues to be a focus: some progress is notable with Sage 100 Cloud and Sage 300 Cloud products starting to gain momentum with software subscription revenue growing by 60% and 63% respectively. Sage Construction and Real Estate has also been a success, growing by 7% in the year and adding over 1,000 customers – a record for this part of the business.

Payments North America

Payments North America has remained flat year-on-year. Challenges in this segment reflect margin compression in line with industry trends and new account shortfall due to slower progress in marketing and the partner channel. In order to drive growth in FY17 we are now offering the power of the combination of Payments, Accounting and Payroll and therefore differentiating our value proposition by bundling these solutions, and offering new and updated product and process functionality. Payments marketing now has a separately dedicated team and is expected to significantly improve lead generation and referrals.

Progress of execution

Throughout FY16 we have executed on our transformation by driving improvements through each of our strategic pillars. There is strong evidence that our strategy is working, with continued improvements planned for FY17.



Customers for Life

Progress

We are building higher quality relationships with our customers through subscription. Software subscription revenue has increased by 32% and the number of software subscriptions has increased by 46% to just over one million.

By providing excellent levels of customer service and the latest technology we continue to build up our contract renewal rates. The contract renewal rate has grown to 86% in the year, compared to 84% in FY15, with the best renewal rates in North America and Europe at 89% and 88% respectively.

Cross-sell campaigns are starting to gain traction: in the UKI 37% of Sage 50 Accounts customers also have Sage 50 Payroll.

Our NPS score measures customer satisfaction and has increased by 61% on the prior year.

Focus

We will continue to focus on the move to subscription, scaling up cross-sell in FY17 to improve the average number of products held by our customers and implementation of our customer journey maps, which highlight how customers from start-up to scale-up to enterprise can choose Sage as their cloud accounting partner for life.



Winning in the Market

Progress

Our suite of cloud accounting products designed to win in the market is showing progress. X3 revenue grew by 18% in the year with 74% growth in the International region. Sage One paying subscriptions grew by 81% to 313,000, of which 61,000 were added in the UKI and 23,000 each in both Brazil and South Africa, representing evidence of Sage's international strength.

Products continue to develop at pace. Sage One updates are available every two weeks, leading to over 1,500 design improvements and over 150 new or improved features in FY16.

In July 2016 we hosted Sage Summit, the world's largest gathering of entrepreneurs. We had 15,000 registered attendees, generated one billion social impressions and over 3,000 media articles were written from the conference.

Our digital marketing strategy is starting to deliver: we increased our social media following by 220%, leapfrogging our competitors, and tripled engagement with our content on social channels, as well as increasing our lead to conversion rate in Q4 – a trend we will continue to build upon.

We have made significant progress implementing our web domain consolidation strategy seeing 14% growth in web traffic to all Sage properties and 77% growth in organic traffic to Sage.com.

Focus

FY17 will be a year of focus on execution of the 'Winning in the Market' cloud accounting product roadmaps in each country, for Sage One, Sage Live and X3 Cloud with significant upgrades and distribution planned for the products. Product roadmaps are now updated monthly, outlining country roll-out plans, major releases and key feature updates. In addition, we will scale up the Customer Business Centres (CBCs); take Sage Summit 'on the road' around major cities; and elevate Sage's brand as the popular cloud accounting choice for Business Builders. During FY17, Sage is planning 27 major cloud product launches across our geographies.



Revolutionise Business

Progress

We launched Pegg, the world's first accounting Chatbot at Sage Summit in July 2016 gaining over 9,000 new users to Sage in 125 different countries.

We continued to build our ecosystem through Sage Marketplace, an online hub to access complementary partner applications. 215 ISV apps have been signed to Sage Marketplace during the year, of which 86 have been fully integrated.

We have launched the Sage One mobile app and new versions of Sage One for Partners and Accountants as we continue to move our Sage One solutions on to our Global Accounting Core (GAC).

Sage Live was developed in 26 weeks with early adopter customers contributing to the build of the product. Product updates are released on a bi-monthly basis and we now have over 600 customers, many of whom are 'live' following a rapid period of implementation.

In Spain, a country that has not launched any new products since 2010, we are launching five major products in six months (Sage One GAC, Sage Live, Sage 50C and Sage 200C), all in local language and locally compliant based on the new, agile model of development.

Focus

During FY16 we continued to develop our Sage ecosystem with further expansion to be sustained throughout FY17. Partner-driven solutions will be available on Sage Marketplace for six of our growth products and the suite of ISV apps will continue to increase. Further innovation is planned for Chatbots, artificial intelligence, machine learning and data sciences.

 **Capacity for growth****Progress**

We are measuring the return on our investment in go-to-market functions. Within the marketing department, the people cost to marketing expense ratio has decreased from 46:54 to 39:61, moving in line with IDC benchmarking.

We have created greater capacity to reach prospects through the consolidation of our digital media strategy and a single worldwide media agency. This has enabled a more consistent approach to media, faster time to market and a 25% reduction in agency fees. The first year of implementation achieved a significant increase in the performance of demand related media investment, reflected in a 37% decrease in cost per enquiry.

We have made some early changes in other areas of the go-to-market functions as we start to integrate areas of sales and marketing operations and reduce non-quota carrying sales support roles.

We have streamlined our property portfolio from 139 to 78 premises. Core Sage properties have been upgraded to provide an outstanding workplace for colleagues in Atlanta, Lawrenceville, London and Dublin.

We are establishing the critical platforms for growth with our CBCs, digital marketing platforms, Sage partnership programme and our updated brand.

Focus

During FY17 we will continue our focus on expanding the platform for sales and marketing to drive new customer acquisition. We will further leverage the power of our CBCs, which provide one touchpoint for the customer so we can coordinate leads from initial contact, selecting a product, through to aftersales success coaching. Our CBCs are currently located in Dublin and Atlanta and the same formula will be applied to other locations as we continue to roll-out this approach.

 **One Sage****Progress**

We have reduced fragmentation and misalignment within our business:

- We have continued to consolidate the Sage One towards a single code base;
- The new Operating Design has been rolled out around the world and provides a consistent operating model.

Colleague engagement has increased with All Hands meetings and Sage TV broadcasting live to all colleagues, and Sage FY17 Kick-Offs, where each major Sage office around the world was visited by management meeting approximately 10,000 colleagues as well as customers, partners and accountants.

We have increased our colleague engagement through Sage Foundation. 13,000 days were donated by Sage colleagues to volunteer through Sage Foundation in the year and 110 charities and non-profit partners globally benefited from grants awarded by the Foundation.

To strive towards Excellence in Governance, we have introduced a suite of 56 refreshed policies to ensure our business remains fully committed to good governance throughout the transformation and beyond. In FY16 Sage was recognised in the top four of the FTSE 100 for governance in a study by the Institute of Directors.

Goal setting has been aligned throughout Sage by Vision, Strategy, Goals, Measures (VSGM), with the CEO's FY17 objectives now cascaded down through the organisation, aligning colleague objectives to both leadership and the strategic pillars.

Focus

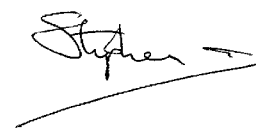
Further focus on the next phase of Excellence in Governance with the Sage Excellence in Controls programme and integrated business planning for FY17 and cultural change to encourage consistency.

Outlook

FY17 signals the start of phase two of our transformation to execute the strategy for Business Builders. We will build on the strong foundations built during phase one in FY16 as follows:

- Rigour in implementation of the country customer journey maps for C4L and Winning in the Market.
- Increased focus on new customer acquisition with our award winning cloud accounting products. This includes launching Sage Live in a further five countries with user experience improvements and new services for Sage Live for Accountants with Practice Management; increasing functionality in Sage One with improvements to banking, user experience, reporting and partnering with Accountants and shifting the product focus on X3 towards cloud-first development and subscription pricing. Sage One and Sage Live are both now sold and supported through CBCs.
- We will continue efficient investment in the marketing function to increase the number and conversion rate on marketing qualified leads and improve return on investment.
- Continuing the Capacity for Growth initiative, we will drive further opportunities for cost saving identified to be achieved in FY17 of at least £50m with an associated exceptional cost and payback of less than two years.
- Cost savings to be further reinvested into sales and marketing and product innovation to continue to drive new customer acquisition.

As we progress into Phase two of the transformation programme, our guidance for full-year FY17 is at least 6% revenue growth and at least 27% operating margin. Consistent with FY16 there is a planned strategic investment bias towards the first half of the year and therefore we expect margins to be lower than 27% in H117 and higher margin in H2 to achieve the blended 27% margin for the full year. With the front-load investment in growth in H117, we anticipate stronger H2 growth and accelerating momentum as we exit FY17.



Stephen Kelly
Chief Executive Officer

Key performance indicators

Measuring our progress

The measurement of progress in delivering our strategy is essential. Our KPIs are designed specifically to align to our five strategic pillars and to focus management conversations on future outcomes and performance improvements. KPIs help us map out specifically how we are doing against our strategy.

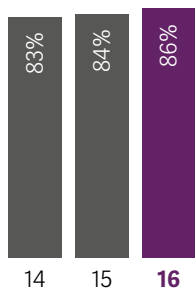


Customers for life

Renewal rate

86%

FY15: 84%



Description:

If we are successful in delighting customers with technology and service levels, they will respond when it is time to renew their contracts. Calculated as the number of contracts successfully renewed in the year as a percentage of those that were due for renewal.

Performance:

Our renewal rate has been consistently high at over 80% for a number of years, which is testament to the value that customers place on our service.

Software subscription drives even closer relationships and the continuation of our transition to subscription has helped to drive our renewal rate up to 86%.

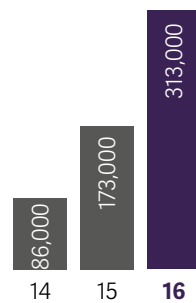


Winning in the market

Adoption of Sage One Paying subscriptions

313,000

FY15: 173,000



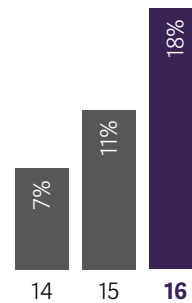
Description:

We use our suite of cloud accounting products to attract new customers. Our KPI considers the revenue generated from cloud products and includes the number of paying subscriptions at the end of the year for Sage One (all editions) and revenue growth for Sage X3.

Adoption of Sage X3 Revenue growth

18%

FY15: 11%



Performance:

Sage One paying subscriptions have continued to increase throughout the year, driving FY16 subscriptions up to 313,000. X3 adoption has continued to progress with 18% revenue growth for the year.

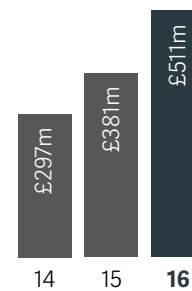


Revolutionise business

Annualised Software Subscription Base ("ASB")

£511m

FY15: £381m



Description:

ASB is the leading indicator for how our move to subscription is progressing. Growth is supported by our latest technology updates which are delivered regularly on subscription. ASB is the amount of organic software subscription revenue in the last month of the period multiplied by twelve.

Performance:

Our progressive move to subscription continues to gain momentum with growth in ASB of 34% for the year to £511m.



Capacity for growth

General and administrative expense ratio ("G&A")

16%
FY15: 19%



Description:

Our G&A expense for the period expressed as a percentage of our total revenue for the period.

Performance:

Throughout our transformation we have been moving towards a single, united operating model. In FY16 we have reduced our G&A cost as a proportion of revenue by over 2%.



One Sage

Sage Foundation Days

13,000

Description:

Doing business the right way is important at Sage (see more at page 60). Giving back to the community through Sage Foundation allows our colleagues to volunteer to work with charitable causes and we encourage every colleague to take up to five Sage Foundation days per year.

This is the first year we have had a quantitative measure of one Sage, which recognises the importance of Sage Foundation within our organisation.

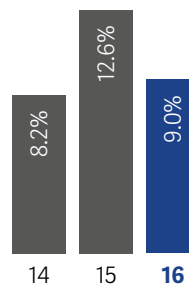
Performance:

In the first year of applying this KPI we have donated 13,000 days to Sage Foundation.

Financial measures

Underlying EPS growth

9.0%
FY15: 12.6%



Description:

Underlying basic EPS is defined as underlying profit after tax divided by the weighted average number of ordinary shares in issue during the year, excluding those held as treasury shares. Underlying profit after tax is defined as profit attributable to owners of the parent excluding:

- Recurring items including amortisation of acquired intangible assets, acquisition related items, fair value adjustments, foreign currency movements on intercompany balances and imputed interest.
- Non-recurring items that management judge to be one-off or non-operational

All of these adjustments are net of tax. The impact of foreign exchange is neutralised in prior year figures.

For a reconciliation of underlying basic EPS to statutory basic EPS, turn to page 132.

Performance:

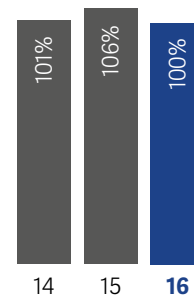
Underlying EPS growth primarily reflects increased operating profit and a lower effective tax rate.



See how our underlying EPS growth KPI links to remuneration on page 91

Underlying Cash Conversion

100%
FY15: 106%



Description:

Underlying cash conversion is underlying cash flow from operating activities divided by underlying operating profit. Underlying cash flow from operating activities is statutory cash flow from operating activities less net capital expenditure and adjusted for movements on foreign exchange rates and non-recurring cash items.

Performance:

The business remains highly cash generative with strong underlying cash conversion of 100%.

Our products

Product portfolio management

Effectively managing our product portfolio generates capacity for growth and focuses our investment to truly revolutionise business.

Framework management

Growth products

We retain customers for life with our on-premise and hybrid products, and win in the market with our cloud accounting products.

We invest all of our sales and marketing (S&M) spend and almost all of our research and development (R&D) spend on these products. Product development is increasingly based on customer feedback and requests, and the best features from our on-premise products are applied to our cloud solutions and vice versa. This ensures we have the most competitive suite of products to retain and grow our market share.

Customers for life – On-premise and hybrid accounting solutions
Our on-premise and hybrid solutions have been developed over years, delivering functionally-rich products tailored to the regulatory framework of each country.

We continue to leverage the power and productivity of our on-premise solutions to combine with the flexibility and automation of cloud technology, producing hybrid solutions that give customers the best of both worlds.

Winning in the market – cloud accounting products

Our cloud accounting products are our primary tool to attract new customers.

We now have a suite of universal, cloud-based products that are disrupting the market with revolutionary features, allowing the customer to run their business from the palm of their hand. Our cloud products are suitable for sole traders through to enterprise businesses.

Heritage products

Heritage products are those that are no longer driving significant growth.

We will not end-of-life any product which has satisfied on-plan customers, but R&D investment will be limited to minor enhancements, bug fixes and building migration tools. Over time, we expect our customers to migrate to a growth product to obtain enhanced functionality. There is no pressure to do this – our aim is to protect and support our customer base and be there as a trusted partner throughout their business life. However, our investment in migration tools enables the customer to experience a seamless move to the next product when they are ready to do so.



The evolution of our products – Sage 50

Sage 50, a firm customer favourite, has continued to develop over more than thirty years. This growth product, which is available in many of our geographies, constantly evolves to incorporate the latest features and technology. Traditionally a desktop solution, Sage 50 is now available both on-premise and in the cloud enabling flexibility without compromising functionality. See more on how the product is developing in the UK at sage.co.uk/roadmap

Delivering for our customers

“Sage 50 Accounts with Drive is the best software I’ve found. It helps businesses grow really fast.”

Adam Sopher, Joe & Seph’s Popcorn Co-Founder

Adam uses Sage 50 with Sage Drive on subscription which updates via the cloud so he can access the latest technology and remain compliant as his business scales.

Cloud accounting products from start-up, through scale-up to enterprise



Start-up

sage One

Our cloud accounting product ideally suited to start-ups and businesses up to around 10 employees in size. Everything that Sage One does as a product is designed to make customers' lives easier, for example connecting to bank accounts and automatically reconciling records to make tracking expenses and income easy. Intuitively designed with no training required, Sage One can be used on laptop, tablet or mobile. The Sage One Accounting mobile app lets users create and send invoices and access their data from anywhere with an internet connection.

24/7 support is provided and the product complies with local regulations as standard. Updates, which are principally customer demand driven, are made live every 14 days.

Makes accounting and invoicing simple for start-ups



Scale-up

sage Live

Our cloud accounting product ideally suited to Small & Medium Businesses with around 10 to 200 employees. Sage Live enables one virtual office where business owners, their accountant and employees can all contribute to the business.

Sage Live is a revolutionary product designed for real-time processing and with social collaboration and mobile access in mind: users can see and enter information in real-time on their smartphones, watches and connected devices. Customers can personalise the software to focus on what really matters in the business and eliminate low-value tasks.

Developed in partnership with Salesforce, Sage Live is built on the Salesforce1 platform, which enables businesses to run completely in the cloud, integrating seamlessly with Salesforce CRM tools and a multitude of other third-party applications.

The start of a real-time, social accounting revolution for Small & Medium Businesses



Enterprise

sage X3

Our business management cloud accounting solution ideally suited to larger businesses. Unlike traditional ERP systems, Sage X3 simplifies business processes with rich functionality, offering multi-currency, multi-company, multi-language and multi-legislation support. X3 can be deployed either on-premise or in the cloud. Either solution offers the same rich functionality to maximise customer choice and allow the customer to select the right solution for their business.

Taking the complexity out of running mid-sized and larger businesses

Principal risks and uncertainties

Managing risk

During 2016 we moved into the execution phase of our business transformation, bringing together all parts of the business as a connected whole (One Sage). Our external risk landscape continues to change as both the business and marketplace evolve. To respond to the pace of change, and need for greater visibility across our business, we continued to enhance our risk management during 2016 and this remains a major focus for the Board.

During the year, we have maintained a focus on driving risk consideration in our decision making. We continue to create appropriate and scalable processes and practices, enabling us to grow the business the right way. We have further developed our three lines of defence model to support this, including establishing a Sage Compliance function.

Principal risks

Our risk management process and associated reporting activities continue to evolve.

The Directors and Global Risk Committee carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. This assessment includes consideration of any potential impact of the result of the UK's EU referendum upon our principal risks. The Board continues to monitor the risk environment, and reviews the appropriateness of the principal risks to the business. These are formally reviewed at the beginning of each year in consultation with the Audit and Risk Committee, and continue to be proactively managed by executive sponsors and risk owners, supported by Sage's Risk function. On an ongoing basis, we also consider the local relevance of the principal risks, and additionally identify and escalate local risks as appropriate.

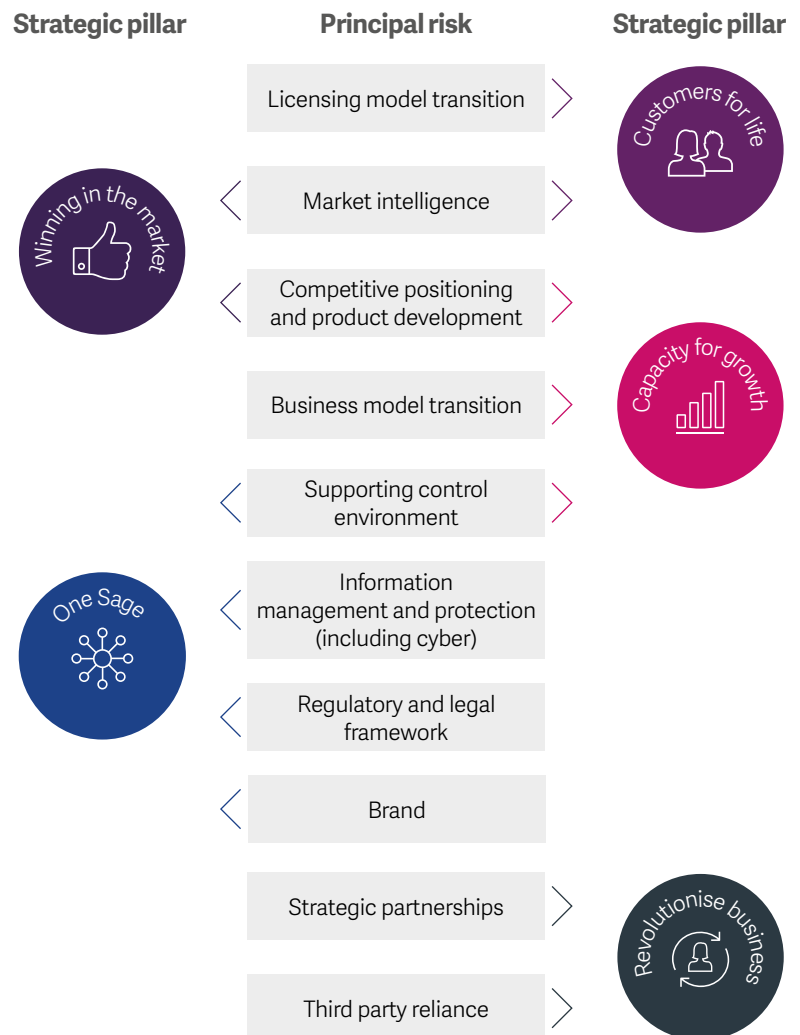
Principal risks are formally reported to the Global Risk Committee on a quarterly basis, alongside escalated local risks. We manage risk in line with our risk management policy and approach, as set out in Risk Management on page 42.

Currently there are ten principal risks which we monitor and report against. These risks are aligned to successful delivery of our strategy and mapped against the strategic pillars to which they relate, as set out opposite.

The principal risks, and associated appetite statements and metrics, are refreshed and updated on an ongoing basis during the year, and during 2016 enhancements included the introduction of capability metrics for each principal risk, recognising the importance of colleagues in managing risk. We continually monitor the likelihood and potential impact associated with each principal risk, and no significant changes were observed in the current year.

To enhance monitoring and reinforce accountability, during the year we revised our principal risk dashboards to include successes, challenges and proposed actions to manage the risks and introduced regular meetings with the executive sponsors and risk owners.

A range of measures are in place to manage and mitigate our principal risks, while other activities are in the process of being developed or deployed. These are detailed in the following table.



Principal risk

Risk background

Management and mitigation

Licensing model transition



Sage does not successfully manage its transition to subscription licensing against defined timelines and targets or appropriately adapt its customer approach.

Strategic alignment:

Customers for life



Sage is transitioning from a perpetual to a subscription-based licensing model.

In addition to providing additional value for customers, this transition assists with cash flow; offers a platform for cross-selling; and lowers attrition rates, which in turn aids revenue forecasting.

It also provides regular customer engagement and enhanced opportunities to develop these relationships.

The speed of transition needs to be balanced against any reduction in short-term revenues.

- An approved licensing model transition strategy is in place
- A series of approved subscription revenue targets are defined, which span multiple years and support successful and balanced delivery of our strategy
- Ongoing monitoring and review of the approved targets takes place at country, regional and Group levels to proactively manage the licence transition, and revenue targets
- New products are being offered on a subscription only basis, to support achievement of overall revenue targets
- Customer Business Centres (CBCs) are established in North America and Europe to integrate digital marketing, sales and service operations for customers using Software as a Service (SaaS), and support planned growth ambitions

In progress:

- Additional CBCs are being created, to better manage ongoing customer relationships and the sales cycle

Market intelligence



Sage fails to understand and anticipate changes in the external environment, including customer needs, emerging market trends, competitor strategies and regulatory or legal requirements.

Strategic alignment:

Customers for life



Winning in the market



Sage has previously operated as a federated set of operating companies, using local definitions and methodologies to capture market data.

The alignment of federated activities allows consolidation of data across geographies and product to provide a single Sage view, enabling trends and white space opportunities to be identified.

In order to develop a consolidated understanding of its market and customer needs, Sage is developing its market intelligence capability, and aligning this with competitive positioning and product development activities.

- A Market and Competitive Intelligence team is established, which has Group responsibility for Market Intelligence
- Market intelligence surveys are undertaken, to identify market opportunities
- Brand health surveys are undertaken in order to understand customer perception of the Sage brand and its products
- An approved internal communications plan is delivered, to share market intelligence to build brand awareness
- Market data is provided through a Market Data portal, allowing ease of access and improved analysis

In progress:

- Action to support the increasing awareness and quality of the Market Data portal
- Ongoing refinement and improvement of market data through feedback from the business

Key








Improving risk environment



Static risk environment

Principal risks and uncertainties continued

Principal risk	Risk background	Management and mitigation
Competitive positioning and product development 		
<p>Sage is unable to clearly identify the approach to market, or deploy competitive advantage, including product development.</p> <p>Strategic alignment:</p> <p>Winning in the market</p>  <p>Capacity for growth</p> 	<p>The competitive environment in which Sage operates continues to see significant development.</p> <p>Sage must translate market intelligence into effective strategies targeting attractive market segments with appropriate products and continually work to reinforce competitive superiority.</p> <p>During the transition to 'One Sage' products, we continue to manage the local product base and plan and evolve these in line with longer-term aspirations.</p>	<ul style="list-style-type: none"> – A Product Marketing team is established to oversee competitive positioning and product development – A Product Delivery team is established to develop and deliver products – Battlecards are in place for key products in all countries, setting out the strengths and weaknesses of competitors and their products – Defined 'customer for life' roadmaps are in place, detailing how products fit together, and any interdependencies – A BattleApp has been released to provide timely information to sales channels <p>In progress:</p> <ul style="list-style-type: none"> – Prioritised product development based on 'customer for life' roadmaps – Sage-wide standard templates are to be launched for Battlecards to ensure consistent information is provided – Analysis of product investments is being enhanced to further consider anticipated return on investment
Business model transition 		
<p>Sage does not successfully manage its transition to a 'One Sage' operating model against defined timeframes.</p> <p>Strategic alignment:</p> <p>Capacity for growth</p> 	<p>Sage has operated as a federated set of operating companies.</p> <p>The move to a 'One Sage' model provides enhanced governance, process harmonisation, efficiencies and scalability.</p>	<ul style="list-style-type: none"> – An approved Business Model Transition Strategy is in place, supported by an overarching plan detailing the goal, overall time plan, and scheduled adoption by countries and functions – A programme authority lead is managing transition activity – Clear governance is in place to support the strategy and overarching plan through the Executive Committee and programme steering group – Consolidated operational reporting is in place and provides oversight of progress and supports consistency of direction, and management of potential conflicts <p>In progress:</p> <ul style="list-style-type: none"> – Country / function transitions are progressing in line with overarching plan – Ongoing monitoring and management of implementation through the Transformation Forum, including monitoring of success factors against defined transition activities

Key

 Improving risk environment

 Static risk environment

Principal risk

Risk background

Management and mitigation

Supporting control environment



Sage's control environment, business processes and technology infrastructure do not support the efficient and effective operation of the business.

Strategic alignment:

One Sage



Capacity for growth



Sage's footprint has developed often through acquisition. Aligning and rationalising these systems and processes, is required to support the 'One Sage' operating model.

- Established Global and Regional Risk Committees oversee the risk and internal control environment, sets the tone-from-the-top
 - Shared Service Centres are established in Newcastle and Johannesburg, enabling the creation of consistent and consolidated systems and processes
 - The Excellence in Governance initiative has developed a Sage-wide policy suite, alongside colleague training and revision to management structures
 - Customer Business Centres (CBCs) are built around core systems to underpin operational consistency and expansion, including Salesforce CRM and Sage's own X3 for General Ledger activity. As volumes scale, all new customers for CBC supported products are being entered directly into these systems
- In progress:
- Shared Service Centres in Newcastle and Johannesburg are in the stabilisation phase following installation of X3 General Ledger
 - Post stabilisation plans for migration of other country General Ledgers is on-track with plans
 - Following the success of the Excellence in Governance initiative, an Excellence in Controls initiative to enhance the supporting control environment has commenced
 - Selection and deployment of a Governance, Risk and Compliance technology solution is underway

Information management and protection (including cyber)



Sage fails to adequately understand, manage and protect information.

Strategic alignment:

One Sage





Sage's footprint has developed through a process of acquisition, each arriving with its own processes and activities appropriate to a smaller business, but which did not develop in line with Sage's growth.

Harmonising and rationalising these, as necessary, is required to support the 'One Sage' operating model and to allow a business view on all data being held and processed, including management and protection.

During 2016, we have broadened the risk to include all data, both internal Sage related information, and external customer related information.

- Accountability is established within both OneIT and Product for all internal and external data being processed by Sage. OneIT and Product Services report to the Chief Information Officer and Chief Product Delivery Officer respectively
 - A network of Information Security Officers supports the business
 - Formal certification schemes are maintained, across appropriate parts of the business, and include internal and external validation of compliance
 - Structured and ad-hoc IT internal audit activity is undertaken by Sage Assurance against an agreed plan, and reported to management and the Audit and Risk Committee
 - A revised Sage information security policy suite has been launched
 - The Incident Management framework was revised and updated, to include the rating of incidents and requirements for escalation
- In progress:
- Information Security is being aligned with the existing Governance structures (Global and Regional Risk Committees), to establish clear accountability
 - Awareness training for Information Management and protection is being rolled out

Principal risks and uncertainties continued

Principal risk	Risk background	Management and mitigation
Regulatory and legal framework ⊖		
<p>Sage does not understand and operate within the applicable regulatory and legal framework.</p> <p>Strategic alignment:</p> <p>One Sage</p> 	<p>Sage's services operate within a complex regulatory and legal environment. Monitoring this evolving regulatory and legal environment enables timely and appropriate steps to ensure ongoing compliance.</p>	<ul style="list-style-type: none"> – All legal resources across Sage report directly to the General Counsel and Company Secretary – Legal services use internal and external resources to monitor planned and realised changes in legislation – All product contracts are reviewed and approved through Legal services – An agreed suite of policies is in place as defined through the Excellence in Governance initiative, and has been revised, to support key legislation, including data protection and anti-bribery – A Code of Conduct is in place across the business which provides clarity over how colleagues are expected to behave. Completion of Code of Conduct training is mandatory for colleagues, and confirmation of understanding is recorded and monitored – Whistleblowing and Incident Management Policies and procedures are in place. These have been updated and processes enhanced in 2016, to ensure appropriate treatment of identified events and management visibility <p>In progress:</p> <ul style="list-style-type: none"> – The appointment of a Sage Head of Compliance and creation of a Sage Compliance function to reinforce the drive towards a 100% compliance culture
Sage brand ⊖		
<p>Sage does not deliver clear and consistent branding to the market.</p> <p>Strategic alignment:</p> <p>One Sage</p> 	<p>Following several years of acquisition, work continues to develop and harmonise the Sage brand. Whilst it is well recognised and trusted by customers in many core markets, brand awareness remains inconsistent.</p> <p>A clear and consistent brand enables customers to understand Sage values.</p>	<ul style="list-style-type: none"> – A Brand team is in place which has overall responsibility for developing the Sage Brand – All countries must comply with Sage's Brand Governance and Brand Guidelines, which are designed to execute the Sage Masterbrand Strategy. The timeframes for compliance of all products are defined, and any exceptions must be approved through the Brand team – A Digital Asset Management (DAM) tool is in place which workflows requests and approvals, and acts as a single information repository – Ongoing reviews of customer experience are performed (Net Promoter Scores), and output is reviewed across both countries and products to identify variance, and develop improvement plans – Sage Summit 2016 took place in Chicago – The Sage Foundation was expanded across Sage during FY16, aligned with our values and behaviours <p>In progress:</p> <ul style="list-style-type: none"> – All branded assets must be uploaded to the Brand Library, and any exceptions from brand guidelines reported to the Chief Marketing Officer – Compliance Programme to be rolled out, to assess and educate on compliance with Brand Governance and Brand Guidelines – Brand awareness campaign to be launched to improve Brand recognition – Sage Summit will take place across eight cities in 2017

Key

 Improving risk environment

 Static risk environment

Principal risk

Risk background

Management and mitigation

Strategic partnerships



Sage fails to identify, build and maintain strategic partnerships.

Strategic alignment:

Revolutionise business



There are increasing instances where developing strategic partnerships will benefit Sage.

The governance and control around engagement and use must be defined, as well as management of the ecosystem.

During 2016, we have broadened the risk to include our extended distribution network (Sage Partner Programme).

- A Partner and Alliances team is established to oversee the selection and management of Sage's strategic alliances and partners, including accountability for active management of relationships
- Definitions are in place to ensure clarity and consistency over strategic alliances and partners, to enable appropriate and consistent management of these arrangements
- All contracts for strategic alliances require approval through legal services
- Defined legal provisions are required for inclusion in contracts. Any variance in provisions must be recorded as part of the formal contract approval process

In progress:

- Ongoing review and development of the Sage Partner Programme
- A financial model for the Sage Partner Programme is being developed

Third party reliance



Sage does not understand and manage its third party ecosystem.

Strategic alignment:

Revolutionise business



Several Sage customer service offerings are delivered or supported using third parties, whilst Sage remains accountable for quality of performance.

The third party ecosystem must be understood and effectively managed, in order to limit Sage's exposure.

- A Procurement function ensures key controls are applied in the selection and on-boarding of third parties
- The Procurement function supports the business with the selection of third parties and negotiation of contracts
- Legal resources are used in contract negotiation
- A Procurement Lifecycle Policy and procedures are defined, agreed and published. These contain clear roles and responsibilities for colleagues and align with existing processes, including investment approval

In progress:

- Implementation of the Procurement Lifecycle Procedures is underway, including classifying third parties for business criticality, and associated actions
- Rationalisation of the third party ecosystem is continuing

The principal risks are those which, it is assessed, most threaten successful delivery of Sage's strategy. They are therefore used as the basis for challenging, and establishing, our financial viability.

Developing the financial viability statement

In developing the viability statement, it was determined that a three-year period should be used. This period was selected as it aligns our viability statement with our planning time horizon for our three-year strategic plan and is appropriate given the nature and investment cycle of a technology business. This represents a change from the prior year when the viability statement was prepared using a five-year period, which aligned with the Business Transformation plan that covered the period through to 2020. Now that the Business Transformation is in its implementation phase, a three-year strategic planning period is considered appropriate.

Management reviewed the principal risks and considered which might threaten the Group's viability. It was determined that none of the individual risks would in isolation compromise the Group's viability, and so a number of different severe but plausible scenarios were considered where principal risks arose in combination.

Having identified the severe but plausible risk combinations, a cross functional group of senior leaders, including representatives from Finance, Risk, IT, Product Marketing and Legal, estimated the monetary impact of each scenario. These impacts were based on similar events in the public domain and internal estimates of remediation costs.

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

As set out in the Audit and Risk Committee's report on page 77, the Directors reviewed and discussed the process undertaken by management, and also reviewed the results of reverse stress testing performed to provide an illustration of the reduction in revenue that would be required to break the Group's covenants or exhaust all available cash.

The Directors' viability statement is contained in the Directors' Report on page 101.

Risk management

The Board is responsible for maintaining and reviewing the effectiveness of our risk management activities from a financial, operational and compliance perspective. These activities are designed to identify and manage, rather than eliminate, the risk of failure to achieve business objectives or to successfully deliver the business strategy. Our risk management strategy supports the successful running of the business by identifying and managing risks to an acceptable level and delivering assurance on these.

How we identify risk

Our risk identification process follows a dual approach, seeking:

- to identify risks using a top down approach. These principal risks are those which threaten delivery of our strategy
- to identify risks using a bottom up approach at the country and regional level. Such risks are those which threaten local business activity

To provide visibility, the highest rated local risks are escalated in line with the Risk Management Policy to the Regional and Global Risk Committees.

Our risk appetite

Our risk appetite reflects our preparedness to accept risk, as part of our business activities.

All identified risks are measured on a gross and net risk basis using a pre-determined scoring matrix as set out in our Risk Management Policy.

Our principal risks are then monitored against defined appetite statements and supporting metrics, with these statements and metrics evaluated across the year to ensure they remain aligned to our strategic objectives and within acceptable tolerance for the Group.



How we manage risk

Our risk management framework continually identifies, evaluates, analyses, manages and mitigates those risks which threaten the successful achievement of our business strategy and objectives, within tolerable appetites. Risks are owned and managed within the business, and formally reviewed on a quarterly basis. Sage Risk continues to review and develop its approach to guide, support and challenge the business in managing risk, transforming the business and delivery of the strategy.

To supplement business as usual risk management activities, Sage Risk undertakes a number of targeted in-depth reviews against identified risks each year. In 2016 these were conducted against four of the principal risks, namely Business Model Transition, Market Intelligence, Supporting Control Environment and Third Party Reliance. In each case Sage Risk has worked to critically review activities and collaboratively improve practices and processes, for which ownership remains within the business. Following each review, Sage Risk has remained engaged with the business to provide guidance, support and challenge. The results of these reviews feed into the quarterly risk reporting cycle to the Global Risk Committee.

Risks continue to be owned and managed within the business, and are overseen and supervised through the Global and Regional Risk Committees, which are described on pages 44 and 45. During 2016, Sage Risk has reviewed and revised its organisational structure. The responsibilities of each risk colleague now include specific geographic scope, together with alignment to both principal risks and Sage business functions. These changes ensure that Sage Risk can continue to effectively support colleagues and functions within the business during the business transformation, and support in-country risk management. To assist colleagues in understanding how to identify and report risks, compulsory risk management training for all colleagues has been developed for launch in January 2017.

Underpinning this, Sage has continued to develop its three lines of defence model to ensure accountability and transparency and set out the roles and responsibilities of each Sage colleague. The model and its effective operation is intended to support a strong control environment with appropriate governance, risk and control procedures embedded across Sage. In support of this model a Sage Compliance function has been created. The compliance team will support the business in continuing to develop the internal control framework, nurture our aim of a 100% compliance culture and ensure that we continue to embrace our values and behaviours in the Sage Way.

Values and behaviours

The Board is aware that the effectiveness of risk management and definition and operation of an effective control environment is dependent on values and behaviours.

The Sage Values and Behaviours set out how Sage's strategy should be executed. Our Code of Conduct supports and reinforces the required values and behaviours expected across Sage, including compliance with ethical standards.

In addition, as previously stated, our three lines of defence model determines clear roles and responsibilities for colleagues, and establishes accountability and how appropriate challenge, assurance and oversight is provided over business activities.

During 2016 we have revised, consolidated and published a Sage-wide policy framework on the Sage Academy. To facilitate colleague understanding and requirements of the policy framework, a number of training courses have been created and rolled-out to all colleagues, with tests of competency and understanding. Behaviour forms a significant part of our colleague performance management process, and reinforces Sage's values and behaviours.

Principal risks and uncertainties continued

Risk governance

We operate a formal governance structure to manage risk.



Risk Governance

Board

The Board has overall responsibility for risk management, actively supporting the implementation of risk management, and establishing the Group's risk appetite. It monitors risk trends and themes on an ongoing basis.

Audit and Risk Committee

The Audit and Risk Committee supports the Board in setting the Group's risk appetite and ensuring that processes are in place to identify and manage the Group's principal risks. At each meeting, the committee reviews the principal risks, associated appetite statements and metrics, to assess whether they continue to be relevant and aligned to the achievement of Sage's strategic objectives and within an acceptable tolerance for the Group. The committee also monitors the adequacy and effectiveness of the control environment through the review of internal audit reports from Sage Assurance and consideration of relevant reporting from management, Sage Risk and the external auditor.

Further information on the committee's activity in 2016 is set out in the Audit and Risk Committee section on pages 76 to 80.

Executive Committee

The Executive Committee is responsible for establishing the risk agenda, for the internal reporting and ongoing management of risks, and for the stewardship of the risk management approach. The Executive Committee identifies and assesses Sage's principal risks on an ongoing basis, and for each principal risk, sponsorship is assigned to a member of the Executive Committee.

Global Risk Committee

The Global Risk Committee is chaired by the Chief Executive Officer, and has responsibility for providing direction and support to Sage Risk in transforming and embedding risk across 'One Sage'. It meets quarterly and seeks to:

- Oversee cultural change;
- Establish clear governance and accountability for risk, and any associated (remediation) activities;
- Provide direction to regions and countries, including creation and deployment of common methodologies and practices;
- Provide a point of escalation;
- Ensure inclusion of the wider business in risk management decision making;
- Drive the inclusion of risk management into performance management;
- Enable the Company to effectively operate as 'One Sage';
- Review and approve defined policies; and
- Provide the Board and Audit and Risk Committee with sufficient effective information to enable them to discharge their risk reporting requirements.

Its membership includes representatives from across the business and all key support functions. The Chairman of the Audit and Risk Committee may attend any meeting as desired.

Regional Risk Committees

Three Regional Risk Committees were operational through 2016, in Europe, International and North America. Each Committee met four times during 2016.

A further Regional Risk Committee has been established for Latin America, and met for the first time in October 2016. The Regional Risk Committees meet in advance of the Global Risk Committee, supporting its operation and the management of principal and local risks within each region. In addition to managing identified local risks, they also monitor the deployment of risk management activities throughout the countries within their regions, and provide associated escalation and reporting.

Vice President ('VP') Risk and Assurance

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

Sage Risk

Sage Risk supports the effective operation of the Risk Committees and provides guidance, support and challenge to the business in embedding appropriate risk management processes. Led by the Head of Risk, it continues to develop its capability to ensure it is fully integrated into business activities, and assists in delivering scalable and consistent risk activities to support growth, and allowing Sage to operate within risk appetite.

Sage Compliance

Sage Compliance is led by the Head of Compliance, who has been appointed to focus on building this new function and Sage's compliance capability. The function will seek to support the business in continuing to develop an appropriate internal control framework, nurturing a 100% compliance culture and ensuring that it continues to embrace the values and behaviours set out in the Sage Way.

Sage Assurance

Sage Assurance is led by the Head of Assurance, and its purpose and activities are set out in Internal Audit section of the Audit and Risk Committee report on pages 79 to 80.



Continuing strong performance and business transformation

Steve Hare
Chief Financial Officer

Group performance

The Group achieved revenue growth of 6.1% (FY15: 6.0%) and an operating profit margin of 27.2% (FY15: 26.5%).

The quality of growth is demonstrated by recurring revenue growth of 10.4% (FY15: 9.0%) including growth in software subscription revenue of 32% (FY15: 29%).

Organic figures neutralise the impact of foreign currency fluctuations and exclude the contribution from current and prior period acquisitions when relevant. A reconciliation of operating profit to statutory operating profit is shown on page 48.

Statutory performance has been impacted by movements in key exchange rates during the year, particularly in South Africa and Brazil, combined with exchange rate re-alignment following the EU referendum in Sterling against Euro and US Dollar translation. Statutory figures also include the contribution of acquisitions and disposals.

The Group achieved full year organic operating profit margin of 27.2% (FY15: 26.5%). The current year statutory operating profit is stated after non-recurring costs incurred relating to business transformation and recurring costs relating to amortisation of acquisition related intangible assets and other acquisition related charges.

FY16 has been a key year of transformation with significant progress made in delivering cost savings in G&A. During the year, savings of £51m of G&A were realised, which were fully reinvested in our go-to-market functions of sales and marketing. An associated exceptional cost of £110m has also been recognised in the year, with both the exceptional cost and the associated saving broadly in line with guidance. Of the £110m exceptional charge, £76m relates to G&A and £34m to go-to-market functions. There is a £2m non-recurring credit in relation to the Archer litigation claim.

We have identified further annualised cost saving opportunities of at least £50m for FY17 which will create a further exceptional expense with a target payback period of under two years.

Revenue mix

Segmental reporting

Consistent with our FY15 results, the business is split into three regions: Europe, North America and International.

Recurring revenue

The Group delivered recurring revenue growth of 10% (FY15: 9%), driven by the year-on-year increase in subscription revenue of 32% (FY15: 29%). This growth represents the continuing planned transition from licensing to higher quality subscription revenue.

Contract renewal rates have reached 86% (FY15: 84%) with subscription contract renewal rates now over 90%. Recurring revenue now represents 70% of Group revenue (FY15: 67%).

Processing revenue

Processing revenue has grown by 6% (FY15: 2%), reflecting strong performance in payroll processing and an increase in Sage Pay revenue in the UKI, offset by flat growth in Payments North America.

SSRS revenue

SSRS revenue declined by 8% (FY15: -1%) in line with the continued transition to subscription based revenue, offset slightly by growth in Professional Services of 2% and Training of 7%

Revenue

Statutory revenue grew by 9% to £1,569m, reflecting organic growth, combined with foreign exchange movements experienced throughout the year. The impact of foreign exchange of £44m in FY15 reflects a currency tailwind following the EU referendum. The average exchange rates used to translate the consolidated income statement for the year are set out on page 49.

Operating profit

Organic operating profit increased by 9% to £427m (FY15: £392m) in line with revenue and the organic operating profit margin increased by 0.7% to 27.2% in line with guidance issued in FY15. Statutory operating profit increased by £3m, although the operating profit margin fell by 1.6%.

Adjustments between underlying and statutory operating profit

Non-recurring items separated from underlying operating profit of £427m include £110m of non-recurring costs in relation to the Business Transformation comprised of people organisation charges of £51m, net property exit costs of £40m and other directly attributable costs of £19m, offset by a £2m credit in relation to the Archer litigation claim. Recurring items of £19m represents amortisation of acquisition related intangible assets and other acquisition related charges.

Net finance cost

The statutory net finance cost for the year was £25m (2015: £21m) and the underlying net finance cost was £22m (2015: £21m). The difference between underlying and statutory net finance costs for the year reflects a fair value adjustment to a debt related instrument and FX movements on intercompany balances.

Financial and operating review continued

Revenue

	Statutory			Organic		
	FY16	FY15	Change	FY16	FY15	Change
Europe	£827m	£753m	+10%	£827m	£776m	+7%
North America	£535m	£477m	+12%	£535m	£513m	+4%
International	£207m	£206m	+1%	£205m	£189m	+8%
Group	£1,569m	£1,436m	+9%	£1,567m	£1,477m	+6%

Operating profit

	Statutory			Organic		
	FY16	FY15	Change	FY16	FY15	Change
Group	£300m	£297m	+1%	£427m	£391m	+9.2%
Margin	19.1%	20.7%	-160bps	27.2%	26.5%	+70bps

Revenue mix

	Recurring revenue			Processing revenue			SSRS revenue		
	FY16	FY15	Change	FY16	FY15	Change	FY16	FY15	Change
Europe	£642m	£582m	+10%	£36m	£32m	+12%	£149m	£161m	-7%
North America	£308m	£284m	+9%	£157m	£153m	+3%	£70m	£76m	-8%
International	£142m	£123m	+16%	£11m	£7m	+50%	£52m	£59m	-12%
Group	£1,092m	£989m	10%	£204m	£192m	+6%	£271m	£296m	-8%
% of total revenue	70%	67%		13%	13%		17%	20%	

Organic to statutory reconciliations

	FY16			FY15		
	Revenue	Operating profit	Margin	Revenue	Operating profit	Margin
Organic	£1,567m	£427m	27.2%	£1,477m	£391m	26.5%
Organic adjustments ¹	£2m	-		£3m	£1m	
Underlying	£1,569m	£427m	27.2%	£1,480m	£392m	26.5%
Impact of foreign exchange ²	-	-		(£44m)	(£12m)	
Underlying (as reported)	£1,569m	£427m	27.2%	£1,436m	£380m	26.5%
Recurring items ³	-	(£19m)		-	(£21m)	
Non-recurring items ⁴	-	(£108m)		-	(£62m)	
Statutory	£1,569m	£300m	19.1%	£1,436m	£297m	20.7%

1. Organic adjustments comprise contributions from acquisitions, disposals and assets held for sale of standalone businesses.
2. Impact of retranslating FY15 results at FY16 average rates.
3. Recurring items comprise amortisation of acquired intangible assets, acquisition-related items and fair value adjustments.
4. Non-recurring items comprise items that management judge to be one-off or non-operational including business transformation costs.

Taxation

The statutory income tax expense was £67m (FY15: £82m). The effective tax rate on statutory profit before tax was 24% (FY15: 30%). The FY15 statutory tax rate included exceptional impairment charges which were not deductible for tax purposes. As there are no similar items in the current year, the FY16 statutory tax rate has reduced.

The effective tax rate on underlying profit before tax was 26% (FY15: 25%). The underlying tax rate has increased in the period as the FY15 rate included one-off credits which are not recurring in FY16.

Earnings per share

Underlying basic earnings per share increased by 9% to 27.84p (FY15: 25.54p) and statutory basic earnings per share increased to 19.28p (FY15: 18.11p) due to increased operating profit and a lower effective tax rate.

Cash flow and net debt

Cash flow	FY16	FY15
Underlying operating profit	£427m	£392m
Exchange rate translation movements	–	(£12m)
Underlying operating profit (as reported)	£427m	£380m
Non-recurring items	(£58m)	–
Depreciation/amortisation/profit on disposal	£30m	£29m
Share-based payments	£8m	£9m
Working capital and balance sheet movements	(£10m)	£5m
Exchange rate translation movements	£1m	(£5m)
Statutory cash flow from operating activities	£398m	£419m
Net interest paid	(£20m)	(£18m)
Tax paid	(£92m)	(£85m)
Net capital expenditure	(£32m)	(£20m)
Free cash flow	£254m	£296m
Statutory cash flow from operating activities	£398m	£419m
Non-recurring cash items	£58m	–
Net capital expenditure	(£32m)	(£20m)
Eliminate exchange rate translation movements	£1m	£5m
Underlying cash flow from operating activities	£425m	£403m
Underlying cash conversion¹	100%	106%

1. Refer to the Glossary on page 170 for information on Non-GAAP measures.

The Group remains cash generative with underlying cash flows from operating activities of £425m, which represents strong underlying cash conversion of 100%.

A total of £145m was returned to shareholders through ordinary dividends paid. Net debt stood at £397m at 30 September 2016 (30 September 2015: £425m).

Treasury management

The Group continues to be able to borrow at competitive rates and currently deems this to be the most effective means of raising finance. The current Group's syndicated bank multi-currency Revolving Credit Facility (RCF), expires in June 2019 with facility levels of £614m (US\$551m and €218m tranches). There were no drawings on the RCF at 30 September 2016 (FY15: £82m).

Total USPP loan notes at 30 September 2016 were £575m (US\$650m and EUR€85m), (2015: £525.4m, US\$700m and EUR€85m). Approximately £35m (US\$50m) of USPP borrowings were repaid in March 2016. This repayment was funded by free cash flow.

Foreign exchange


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

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

Average exchange rates (equal to GBP)	FY16	FY15	Change
Euro (€)	1.28	1.35	-5%
US Dollar (\$)	1.42	1.54	-8%
South African Rand (ZAR)	21.05	18.55	+13%
Australian Dollar (A\$)	1.94	1.97	-2%
Brazilian Real (R\$)	5.18	4.64	+12%

Capital structure and dividend

With consistent and strong cash flows, the Group retains considerable financial flexibility going forward. The Board's main strategic policy remains an acceleration of growth, both organically and through targeted acquisitions. The growth underpins the Board's sustainable, progressive dividend policy with surplus cash being returned to shareholders from time to time. Consistent with this policy, the Board is proposing an 8% increase in the total ordinary dividend per share for the year to 14.15p per share (FY15: 13.10p per share). The ordinary dividend for the year is covered two times by underlying earnings per share.



Steve Hare
Chief Financial Officer
29 November 2016

Europe

Organic revenue growth	FY16	FY15
UK & Ireland	+7%	+7%
France	+6%	+5%
Spain	+7%	+3%
Germany	+7%	+4%
Rest of Europe	+3%	+1%
Europe	+7%	+5%

Revenue in Europe grew by 7% in the year (FY15: 5%). Within Europe, there were strong results in UKI, France, Spain and Germany which all delivered growth in excess of the Group growth rate, balanced by modest growth in Poland and flat performance in Switzerland, our smaller European entities.

Europe delivered recurring revenue growth of 10%, of which software subscription revenue grew by 28% with an overall contract renewal rate of 88%. The region continues to deliver on the transition to a recurring revenue model driving growth through the installed base.

Processing revenue grew by 12% in Europe (FY15: 9%) largely due to the growth in Sage Pay in the UKI.

SSRS revenue declined by 7% (FY15: -4%) due to the continued planned decline in licences, offset by growth in upgrades to modernised products and professional services linked to X3 'big deals' in France.

X3 revenue grew by 12% in the region, with double digit growth in UKI, France and Spain and an increase of 22% in X3 customer numbers in the region.

Sage One paying subscriptions in Europe grew by 62% demonstrating further momentum of the product footprint.

The focus in Europe in FY17 will be to drive further revenue growth through new customer acquisition.

UK & Ireland – strong growth driven by C4L

UKI revenue grew by 7% (FY15: 7%) in the year, driving growth through the Customer for Life strategy. Retention rates have now risen to 86%. Within recurring revenue, software subscription revenue grew by 39% driven by successes in Sage 50 Payroll and especially in Sage 50 Accounts which delivered triple digit subscription revenue growth as the solution continues to drive revenue growth through ever-increasing functionality.

The UKI also delivered strong performance on X3 with 17% revenue growth in the year, both due to new customer acquisition and migration and implementation of the customer journey map.

Sage One paying subscriptions in the UKI grew by 66% driven mainly by the Accountants channel.

Processing growth of 11% was driven by the increase in Sage Pay due to growth of e-commerce within the UKI and an increase in customers.

SSRS decline of 13% reflects the planned transition to subscription.

France – Success in i7 upgrades and X3

In France, revenue grew by 6% (FY15: 5%). Recurring revenue growth of 8% is below Group growth due to the early pace of subscription in the country (recurring revenue represents 85% of revenue), with software subscription growth of 14% in the year.

During FY16, the i7 upgrade delivered revenue increases due to successful customer experience, cross-sell and up-sell campaigns with scope to further increase revenue into FY17.

X3 has also been a success in France: X3 customer numbers grew by 28%, now representing 51% of Group X3 customers. France also had success targeting larger deals, winning 20 with a revenue per contract in excess of £100k.

The decline in SSRS reflects transition to subscription, offset by SRS growth for professional services and training to implement X3.

Spain – strong subscription revenue growth

Revenue growth of 7% (FY15: 3%) was driven by a growth in software subscription revenues of 52%. Improvements in retention rates were driven through customer experience campaigns and successful targeting of the existing base with cross-sell and up-sell.

Spanish local growth products, Contaplus and Murano, both remain popular delivering double digit growth.

Germany – strong subscription revenue growth

Germany delivered revenue growth of 7% (FY15: 4%). From April 2016, all new contracts signed in Germany are done so on subscription which, combined with bundling propositions, has led to an increase in software subscription revenue of 48%. OfficeLine, the flagship local product in Germany has grown revenue by 15% in the year.

North America

Organic revenue growth	FY16	FY15
North America	+4%	+4%

North America delivered revenue growth of 4% (FY15: 4%) with recurring revenue growth of 9% (FY15: 9%) and processing revenue growth of 3% (FY15: -1%) offset by a decline in SSRS of 8% (FY15: -5%).

Growth in North America was below Group growth of 6%, partly due to flat revenue within the payments business. Excluding payments revenues, year-on-year growth in North America was 6%.

Recurring revenue growth of 9% includes an increase in software subscription revenue of 84%. There has been strong performance in the year from Sage 50 US and Sage 50 Canada, both of which achieved triple digit growth in subscription revenue with customers benefiting from functionally-rich products and increased flexibility through cloud-based solutions. Canada also drove growth through success in Sage Drive and mobile invoicing functionality.

The strong growth in subscription in the region shows positive signs that recurring growth rates can continue to increase. Focus for FY17 will be to drive further growth from new customer acquisition to reduce reliance on the installed base.

Sage One subscriptions grew by 65% year-on-year, driven by Accountant referrals.

X3 growth of 7% in the year reflects a modest start to the year, but a strong second half which grew by 18% as the product begins to gain momentum through new leadership, improved sales and marketing alignment, pipeline growth and a focus on larger deals.

Processing revenue growth of 3% reflects strong growth in payroll processing of 25% due to licensee acquisitions and new customer additions. Payments revenue remained flat year-on-year reflecting challenges in margin compression in line with industry trends and new account shortfall due to slower progress in the partner channel and in marketing. In order to drive growth in this segment we are now differentiating our product by bundling payments, payroll and accounting, offering updated functionality and focusing marketing to improve lead generation and referrals.

SSRS revenue fell by 8% in the year as licence based customers continued the planned transition to subscription.

International

Organic revenue growth	FY16	FY15
Africa	+19%	+16%
Brazil	+12%	+8%
Australia	+3%	+5%
Middle East and Asia	-18%	+33%
International	+8%	+14%

Organic revenue in the International region grew by 8% year-on-year (FY15: 14%), with recurring revenue growth of 16% (FY15: 14%) and processing revenue growth of 50% (FY15: 18%), offset by a decline in SSRS of 12% (FY15: growth of 13%).

Growth in the region has been driven by strong performance in Brazil and South Africa, both of which have had success in new customer acquisition through Sage One and X3, balanced by a decline in revenue in Asia.

Africa – winning in the market with X3 and Sage One

Organic revenue growth of 19% reflects double digit growth across recurring, processing and SSRS revenue streams. Africa's revenue growth is driven by new customer acquisition with a 77% growth in X3 revenue and 71% growth in Sage One revenue, with Sage One paying subscriptions increasing by 23,000 in the year.

Recurring revenue growth is driven by a 32% increase in software subscription revenue with triple digit software subscription revenue growth in X3 and its two local growth products, Sage Evolution ERP and Sage VIP People HRIS.

Organic processing revenue growth of 27% reflects strong performance in payroll processing.

Organic SSRS revenue grew by 12% due to X3 licence revenue growth.

Brazil – resilient software growth despite tough economic conditions

Brazil's revenue grew by 12% reflecting a 14% increase in recurring revenue and a 1% increase in SSRS, achieving high revenue growth despite recession in the country where GDP declined by 4%. This highlights the indispensable nature of Sage to support Business Builders during challenging economic times. New customer acquisition has driven the growth in recurring revenue: focus has been successfully shifted during the year to drive sales internally rather than through the Accountant network, with the product gaining pace and 10,000 units added in October alone.

As we introduced X3 into the Brazilian market and signed up business partners during the year, we have now secured 41 customers (FY15: 4).

The slight growth in SSRS reflects X3 licence sales offset by the trend to transition customers to subscription.

Australia, Middle East and Asia

In Australia, revenue growth of 3% was slow, but this does not reflect success in Sage One which grew by 12,000 units in the year mainly through the Accountants channel, and in professional services which grew by 22% due to X3 implementations.

Middle East and Asia revenue declined by 18% reflecting 17% growth in the Middle East, offset by decline in Malaysia and Singapore. Declining revenue in Asia represents a one-off revenue gain in FY15 due to legislative change in Malaysia in the prior year and a lack of new product introductions which will be addressed in FY17. Following the introduction of Blair Crump as Sage President and the reorganisation of regional management, we are confident we have the leadership in place to drive growth in Asia.

Doing business the right way


At Sage we believe in doing business the right way. This means supporting our stakeholders in every area of business, which is embedded into our strategy and one Sage culture.

Engaging with our stakeholders



Customers

Small to medium businesses and entrepreneurs, we keep our customers at the heart of everything we do at Sage. Our strategic pillars are aligned to provide the best service to the customer and we engage frequently with our Small & Medium Business community. In July 2016 we hosted thousands business builders in Chicago for four days – the biggest ever meeting of entrepreneurs.

 Read more about how we are supporting our customers on page 58



Colleagues

Attracting and retaining the right people is essential at Sage. We treat our colleagues with respect and encourage collaboration through the one Sage strategic pillar.


Communication to colleagues is incredibly important and leadership engage with colleagues regularly and holistically through colleague calls and video conferences, internal social networks and town hall meetings down to small fireside chats with the CEO.

 Read more about how we recognise our people on page 54



Communities

Our communities are important to us and we want to see them thrive. Sage Foundation was established in June 2015 and provides an opportunity for Sage to engage with and give back to the community.

 Read about how we engage with our local communities on page 60



The wider environment

In addition to adhering to local laws we are committed to reducing energy use and increasing recycling.

 Read more about how we are managing our environmental impact on page 62

Why is doing business the right way important?

Doing business the Sage Way is embedded within our strategy. We believe that engaging with our stakeholders and providing the best possible service leads to a more successful company with stronger returns that can be returned to investors and reinvested into our stakeholder community.



Board reporting

Our Corporate Responsibility (CR) policy has been endorsed by the Board, which is updated on CR risks and opportunities by the Company Secretary.

Ethics

We are committed to conducting business in an honest and ethical manner. We act according to our Code of Conduct, which is integral to us and sets out a range of principles we adhere to. In particular, we do not tolerate bribery and corruption and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships. We enforce effective systems and processes to counter bribery and corruption and we continue to create new ways for colleagues to anonymously report any related concerns.

As a UK company, The Sage Group plc is bound by the laws of the UK, including the Bribery Act 2010, in respect of our conduct both at home and abroad. In addition, we will uphold all laws relevant to countering bribery and corruption in all the jurisdictions in which we operate.

As well as ensuring our own conduct is appropriate, we have also put in place procedures to prevent bribery being committed on our behalf by any associated persons, particularly in our subsidiaries, and third parties we work with. Our leaders sign a declaration

relating to the Code of Conduct to ensure that any additional business commitments or client and supplier relationships they may have are clear and transparent.

Modern slavery

Sage recognises and respects all human rights as defined in the United Nations Universal Declaration of Human Rights. In accordance with the requirements of the Modern Slavery Act 2015, we have published a statement setting out what steps we have taken to ensure that slavery and human trafficking are not taking place in any of our supply chains or any part of our business. This Board-approved statement is available on our website, with a link visible from our homepage.

Our procurement processes and policies, and relationships with our suppliers, are key to ensuring our awareness of impacts through our supply chain. We aim to ensure that goods and services originate from sources that do not jeopardise human rights, safety, or the environment, and expect our suppliers to observe business principles consistent with our own. During the year, we have analysed our supplier base across the Group to understand where the risk in the supply chain may be from a modern slavery perspective. Our standard form procurement contracts include

language requiring suppliers to comply with applicable anti-slavery and human trafficking legislation, including the Modern Slavery Act 2015. We are currently reviewing our entire procurement process and will be introducing specific measures through our Procurement Life Cycle Policy to ensure that our obligations under the Act are passed through our supply chain. Our Procurement team will be educated in the Act and we will introduce key control points on modern slavery during our diligence, selection and contracting process.

We are committed to conducting every aspect of our business with honesty, integrity and openness, respecting human rights and the interests of our employees, customers and third parties, as detailed in our Code of Conduct.

Data protection

We take data security and privacy seriously. Customer data is handled sensitively, with respect, and in a way that complies, as a minimum, with the requirements of data protection laws in the countries in which we operate and, where appropriate, regional legislation. We also work with local legislative bodies and data protection agencies and continuously look to strengthen our systems and procedures.

People are at the heart of our business

Every day Sage colleagues support millions of entrepreneurs all over the world to build their businesses. This is our honour and a privilege that we take seriously. Sage is committed to creating an environment where colleagues can be passionate, engaged and aligned with strategy, living core values every day and delighting customers. A fundamental aspect of Sage's contribution to our communities: Sage Foundation and its 2 + 2 + 2 model leads the way in corporate philanthropy, empowering colleagues to dedicate five days per year as volunteers to support local communities and charities close to their hearts.



"We have a clear mission when it comes to our people at Sage... One aligned and engaged team, living our values and creating the best workplace for colleagues. By unleashing the organisation's energy, we will realise our vision and ambitions."

Sandra Campopiano
Chief People Officer

2016 has been an exciting year at Sage, with a strong focus on customers, partners, colleagues and communities. Ambitions for the business are bold and this requires a strong high performance culture and underpinning people strategy. Talent management lies at the heart of Sage's ability to execute strategy and the priorities this year have been strategic alignment, building capability and colleague engagement.

During the year colleagues were asked why they love working at Sage. They used words such as entrepreneurial, inspiring, family friendly, collaborative, flexible and challenging and shared their views on social media. These words describe the culture Sage is building.

Sage values and behaviours are embedded into the key talent processes including induction, recruitment, performance and talent reviews. They provide a simple framework for everyday decisions.

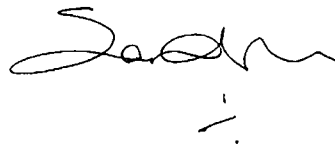
The year has seen significant investment in systems and tools to attract, develop and reward diverse high performing talent, offering compelling careers to those who join and building a reward structure that gives all colleagues a chance to share in success. In May 2016 Sage announced Fairsail as the cloud HCM platform of choice to accompany the Sage X3 business solution; Sage will implement this HCM system internally across all geographies, providing a step change in streamlined systems and processes for colleagues.

It is recognised that diversity of thought, inclusion and equal opportunity drives genuine innovation. This year Sage communicated its continued commitment to diversity and inclusion with plans, resources and targets affirming its desire that all colleagues can truly be themselves at work and develop a great career supporting customers and their dreams. New capability has been hired to complement existing talent including digital marketing, sales and product management expertise and a new bespoke Executive Development Programme designed and deployed to provide critical transformational leadership skills to leaders.

Ensuring colleagues understand how they contribute to Sage vision and strategy continues to be an important focus. This vital alignment will be supplemented with the introduction of a new process called VSGM (see pages 26 and 56) which helps to ensure everyone in the business is working on the things that will deliver our strategy and results.

Providing a great workplace for over 13,000 colleagues across 23 countries will unleash pride and energy to deliver an exceptional experience for customers and partners. Many facilities have been upgraded in the last 12 months creating a refreshing one Sage brand and this will continue with a programme of ongoing investment into next year.

Finally, giving a powerful sense of purpose beyond the work itself through the activities of Sage Foundation will continue to be woven into the fabric of the organisation's culture. Sage is hugely proud of the positive impact Sage Foundation is making on colleague engagement and the communities and charities that desperately need help. Sage has plans to expand that influence further in the upcoming year and beyond.



Sandra Campopiano
Chief People Officer

Sage colleagues: Performing and Transforming

In 2016 the priority has been supporting leaders and colleagues as Sage performs and transforms. By developing innovative ways to connect colleagues with our vision, strategy and values, we have made further steps towards Sage achieving its ambition of being a technology leader. Over 13,000 colleagues collaborating as one Sage, with a shared sense of purpose, clear goals and a focus on delivering innovation and an exceptional customer experience for our customers and partners is a powerful force.



People continued

High performance culture

Transparent alignment is crucial for high performance. Sage already has one performance review process that allows for the evaluation of 'what' is achieved and 'how' it is achieved aligned to Sage strategy and values.

Sage has developed this further with the introduction of a new process: Vision Strategy Goals and Measures (VSGM). This process starts from the CEO VSGM integral to the business planning process, and through a series of facilitated meetings runs through the business to ensure vertical and horizontal collaboration and alignment to the results required. VSGM is used in operational forums to regularly review progress against plans. Outcomes from this process will be taken into the performance review process, and achievement linked to reward.

In addition to the 'Platinum Elite' incentive that recognises high performance (top sales performers and those that support them), Sage will introduce a new share plan in 2017 giving all colleagues the opportunity to share in collective success. These incentive programmes are in addition to annual bonus schemes, the sales compensation plans and the longer-term performance plans Sage has in place to recognise and reward performance.

Developing leaders

Sage has hired new leaders and promoted others internally to leadership positions. In the context of alignment, it is fundamental that leadership understands expectations and has the confidence and skills to execute the strategy. In addition to the training already available through Sage Academy (online learning resource), Sage introduced the transformational leadership model *Align, Model, Coach and Reinforce* (AMCR), giving a focus to the critical leadership skills required during transformation. Development investment this year included coaching and performance management skills for the top 100 colleagues and a bespoke Executive Development Programme for the top 40 in senior leadership positions, equipping them for the next phase of transformation.

In 2017 the investment continues with the launch of the 'Leading at Sage' programme for the next 2,000 leaders, ensuring they too have the leadership skills for sustainable transformation. The programme will provide a 'licence to lead' at Sage.

Building capability

Attracting millennial talent is important for Sage not only as a technology company but to represent and understand the needs of millennial

entrepreneurs – a growing customer group for Sage. With this in mind, Sage now measures its 'Talent Brand' and has over 765K followers on social media more likely to engage with Sage as future talent.

Sage has built consistent induction processes to on-board new hires to a standard which includes knowledge of the Sage story, customers, products and required governance training including the Code of Conduct.

Apprenticeship schemes operate across the business including Germany, the UK & Ireland and they are a key source of building internal talent. The UK & Ireland has sponsored 100 apprentices over the past two years and was recognised for its achievements in October 2016 by winning a prestigious National Apprenticeship Award.



In 2017 further investment will be made in training for sales, sales support and professional services across the Company to fuel progress in the strategic pillars customers for life and winning in the market.

Induction microsite accessed over

10,000 times

90% of Sage colleagues are active on LinkedIn



Winner of the Employability & Diversity Award at the CIPD Awards 2016

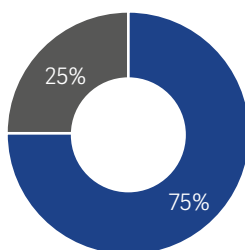


Year-end employee count split by region

	Europe	North America	International	Group and central operations	Total
2015	7,355	2,505	3,652	190	13,702
2016	7,017	2,580	3,891	273	13,761

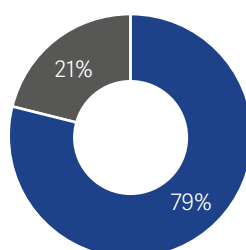
Board diversity

■ Male
■ Female



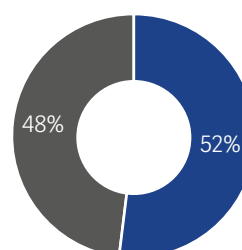
Top leadership diversity

■ Male
■ Female



Total workforce diversity

■ Male
■ Female



* Top leadership includes the Sage senior management team (top 100 leaders) plus any individual who is a company director of a Group Subsidiary.

Bethany joined Sage in September 2015 as an apprentice supporting the People function.

The last 12 months have been an exciting journey for her both personally and professionally. Bethany left full time education unsure about what she wanted to do next. She feels incredibly fortunate to have been offered a head start in her career with a worldwide technology company, and in June Bethany was one of three apprentices who got to spend the day shadowing Stephen Kelly. Bethany is now considering developing a career in Sage's People function and completing a formal qualification in Human Resource Management. In October 2016 Bethany was nominated as a finalist for a 'WIN' Award which recognises the achievements of business women in the North East of England.

Bethany Robertson

People Services
Apprentice,
Newcastle-upon-Tyne

"Stephen genuinely cares about our opinions and to spend the day with him provided a fantastic insight into how Sage operates."



Diversity and inclusion

Sage believes that diverse teams and equal opportunity drive high performance and innovation and that a culture of diversity and inclusion is vital for a sustainable business. Sage has ensured policies and procedures support these principles. Training for existing and new colleagues is arranged and Action Groups have been created to lead local priorities. Increasing women in technology and leadership roles is a particular focus with a target of 35% female representation in the Senior Management Team by FY18.

In June 2016, Sage received the Employability and Diversity Award from the Chartered Institute of Personnel and Development to recognise significant progress.

Initiatives through the year included the celebration of International Women's Day when thousands of colleagues participated through technology connecting members of the Executive Committee with a female entrepreneur and customer sharing her story. In April Sage hosted the 50/50 Technology Challenge with Baroness Martha Lane Fox CBE when female entrepreneurs pitched ideas for investment and later that month, on behalf of the UK Government, Sage hosted and participated in a forum for businesses to identify initiatives to support working parents. Many Sage colleagues participated in both events.

Colleague engagement

Communicating a compelling vision of the future mobilises colleagues during transformation. This is practised by Sage leadership who hosted an inspirational 'Kick Off' at the beginning of the financial year in all markets, making leadership VSGM visible and outlining the priorities and plans for the year ahead. Progress is shared at regular campus 'All Hands' sessions; these are complemented by the two way 'Sage Live' broadcasts, hosted by the CEO, every two weeks keeping colleagues abreast of the latest developments for customers and partners including product innovations and to celebrate success. They include an open Q&A session to the CEO and other guests all enabled through technology.

Sage Foundation launched in January 2016 with a Charter to transform the lives of those disadvantaged in our communities by serving them with

commitments of time, funds, expertise and technology, to create sustainable social, economic and entrepreneurial opportunity. Sage colleagues can take up to five days to volunteer for causes they feel passionately about and they have embraced this wholeheartedly with a growing momentum of volunteering through the year. This Corporate Philanthropy provides a sense of purpose for colleagues that goes beyond work itself; giving back to society and building the experiences that develop leadership, empathy and collaboration. Future focus will see Sage Foundation working to support women, youth and military veterans and also engaging customers and partners in its activities. Connecting colleagues, customers and communities like this nurtures a strong and cherished culture.

"I joined Sage in February 2016 excited about the opportunity to create something amazing and different to support the next generation of entrepreneurs. My idea to create Pegg (see case study on page 22) received the backing of the Executive Committee almost immediately and was launched within a few weeks. Sage have ambitions to disrupt the market with their passion for innovation. I know I have made the right decision joining the organisation and I'm excited about what's next."

Kriti Sharma
Director Product Management

Doing business the right way: championing entrepreneurs

Small & Medium Businesses make up 99% of all businesses, and create two thirds of all jobs. They drive prosperity and keep our economy alive and vibrant. And to do that, they make sacrifices: we know that many business builders around the world work more than 70 hours per week; half usually work weekends and 70% of entrepreneurs have invested their life savings or re-mortgaged their homes to fund their businesses.

These are the sacrifices they make to fuel the engine room of the global economy.

And we believe this contribution deserves recognition. We think the barriers that hold small businesses back should be addressed so that we can unlock their economic potential.

As a company that started small and grew beyond what seemed possible, we feel responsible for giving these business builders a voice.

Giving Small & Medium Businesses a seat at the table

Throughout a year of significant change in the global economy and political outlook, Sage has championed the voice of the world's Small & Medium Businesses, and given them a seat at the table in conversations where their views are regularly neglected. Here are the campaigns where we helped them to shout louder and get their views heard.

EU Referendum

In the lead up to the EU Referendum, we held two panel events with a view to giving small businesses the opportunity to ask business leaders and policymakers the questions that mattered to them, and actually get some answers. The panels were made up of the likes of Anna Soubry, Minister of State for small business, Industry and Enterprise and Emma Jones, small business expert and head of Enterprise Nation, and chaired by top media hosts Steph McGovern from BBC Breakfast and Sky News' Ian King. In front of a live audience of entrepreneurs, panellists discussed the practical impact the vote's outcome could have on small businesses. In a referendum campaign which lacked focus and clarity and focused too much on political

personalities rather than actual facts, we provided a platform for Small & Medium Businesses to better understand how 'in' or 'out' could impact their business, allowing them to make a truly informed choice.

Following the Brexit vote, Sage continued this campaign with a powerful PR and social media content push to balance the rhetoric around Britain's future. News coverage post-June 23rd in general was negative, scaremongering and unhelpful and many politicians did not exhibit the calm, strong, confident leadership required to allay small businesses' fears – in CEO Stephen Kelly's words in a LinkedIn blog, they'd 'left the pitch'. Sage stepped in to ask for calm and clarity, and tried to provide clear examples of potential policy changes that might affect entrepreneurs.

This campaign was well received, with coverage in top tier media such as the Financial Times, Business Insider and Forbes. We ran a series of blogs on the topic from our CEO Stephen Kelly, which received over 15,000 views and 2,500 likes. This response demonstrates the appetite and appreciation of a positive voice among scaremongering and negative statements about the economy that were starting to become a self-fulfilling prophecy.

Davos

Our CEO, Stephen Kelly, boycotted Davos this year in a bid to raise awareness of the fact that it is an event only open to big business leaders, and does not represent the needs of small businesses despite their importance to the global economy – not to mention its startling lack of diversity. In a provocative interview with Business Insider,

Kelly called out the World Economic Forum's flagship event about being only for 'old men from big businesses'.

The issues holding our customers back are similar around the world – red tape, outdated taxes, finding the right talent and skills, and access to funding. Our #AltDavos campaign was all about procuring ideas from small businesses around the world on what their agenda for a small business Davos event would include to start cracking some of the perennial issues they face. We did this by running research with customers and asking them to submit their ideas on Twitter.

The international nature of the campaign saw blogs from our leaders all over the world read by over 5,000 people, and the #AltDavos hashtag received 4 million estimated impressions from 941 Twitter mentions from 424 unique users. There was also appetite from press all over the world, with media from Nigeria to Hungary using Stephen's comments.

Public affairs in Spain

A crucial part of our role in championing Small & Medium Businesses is to work closely with governments, using our voice to ensure business builders are recognised at the most senior levels, and the issues they face are front of mind when it comes to amending or creating new policies.

Our Sage Spain team has continued to build a great connection with the Spanish Government this year. The team has cultivated relationships with several departments that impact small businesses, including the Ministry of Industry, Ministry of Treasury and Ministry of Social Security.

Thanks to these relationships, members of the Sage team have been invited to participate in several



Sage Summit

Sage Summit 2016 was the world's largest conference for entrepreneurs. We gathered 15,000 business builders in Chicago for four days of networking, education, inspiration and awesome, disruptive technology. Sage Summit featured a packed agenda, with some of the world's most famous business leaders and stars of entertainment – from Sir Richard Branson to Gwyneth Paltrow to The Killers.

The four-day event hosted at the McCormick Centre in Chicago – with more square footage than 16 American football pitches – saw 600 product sessions and workshops that focused on the future of tech, giving thoughts on what's next to enable businesses to drive success, work more efficiently and create a better customer experience. There was also a mentoring neighborhood where attendees could go for 1:1 business mentoring.

The response and feedback from attendees was phenomenal – not only was this Sage's largest Summit to date, but also the largest event ever held for entrepreneurs.

"Loved participating in Chicago's #SageSummit this morning, always so inspiring to be in a room full of brilliant entrepreneurs."

Gwyneth Paltrow

"That was stunning – thanks @Sage_Summit@SKellyCEO we were #inspired #educated #mentored #connected#entertained! Looking forward to 2017!"

Partner, Pinnacle

governmental working groups. For example, Sage Spain's legal team consulted with the Ministry of Social Security on the new social security system contributions, putting Sage in a great position to develop systems that would be beneficial for our Small & Medium Business customers. The Ministry of Treasury also invited Sage Spain to consult on its Information Systems for the implementation of the 'Plan to Combat Fraud in Spain'. Sage's successful proposal to introduce the mandatory use of 'Standard Audit File for Tax' (SAF-T) in software systems really helps Small & Medium Businesses, because they can now use tools to improve the quality of their data for analysis of accounting and tax information, saving them time. It also means they can exchange information easily with auditors and advisors.

This is a great example of how Sage is walking the talk, and pushing those in power to create the best possible environment for entrepreneurs to grow and thrive.

Helping small businesses overcome the bureaucratic monster in Germany

Sage will always call on governments to improve the environment for small businesses, but in the meantime we also want to help by giving advice on how they can better manage self-inflicted cumbersome processes.

Sage Germany has a long tradition of helping small businesses simplify bureaucratic burdens, and making entrepreneurs' lives easier thanks to our software and services. To go a step further, Sage established the 'Bürokratie monster' red tape campaign to highlight how bureaucracy can be managed, particularly by younger entrepreneurs who are just starting up and aren't necessarily aware of how they can create lean processes.

To raise awareness of the campaign, Sage Germany created a dedicated online hub for entrepreneurs to visit, including an interactive game, a blog, videos and a detailed report outlining the burdens of red tape, which was unveiled at a press conference in Frankfurt. The duration of the campaign was 18 months in total, and during this time it achieved incredibly high

engagement with over 15,000 game players, an average dwell time of 17 minutes on the online hub, an uplift of 143% more social traffic on Sage Germany's channels as well as over 700 pieces of press coverage.

Supporting start-up programmes

We don't just talk about supporting start-ups and entrepreneurs; we've invested in programmes all over the globe that support budding entrepreneurs, for example:

We partnered with The Start-up Van (London) to run a pop-up studio, giving businesses the opportunity to attend Sage Summit and raise their profile at the event.

We sponsor the Union Des Auto Entrepreneurs in France, helping bring content, networking, a code of ethics and perhaps most importantly a platform for French entrepreneurs.

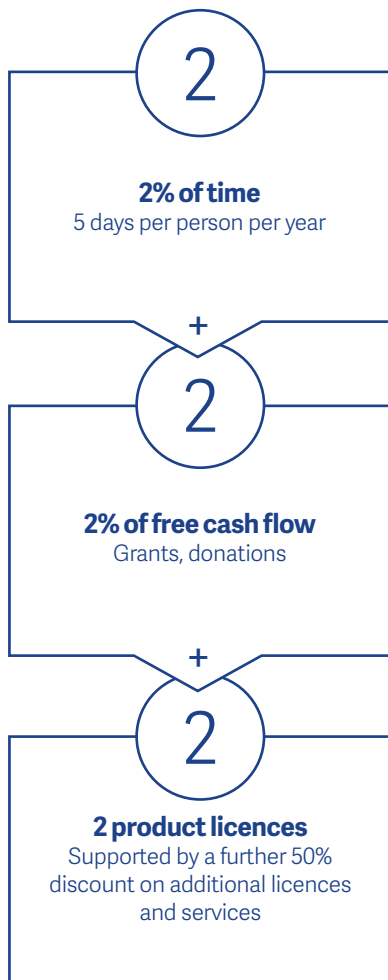
We gave Portuguese entrepreneurs the opportunity to pitch their business idea and win funding as part of Start-up Lisboa.



Doing business the right way: delivering opportunities for local communities

The team at Sage is passionate about doing business the right way and supporting local communities in the regions in which the business operates. Not only does the Company believe that this enables colleagues to build new skills and capabilities that can be transferred back to their day job, but more importantly they know that it really matters that colleagues give back to the local communities where they live and work.

Our '2+2+2' model



Sage Foundation

In 2016, Sage reaffirmed and expanded its commitment to support local communities through the launch of Sage Foundation. Through Sage Foundation the business aims to transform lives by investing time, money, expertise and technology to create sustainable social, economic and entrepreneurial opportunity in local communities; helping people reach their fullest potential.

Since its launch, Sage Foundation has gone from strength to strength, and is now live in all of Sage's 23 countries across the globe.

Over the course of FY16, there have been many successes, including: 3,500 colleagues giving back thousands of hours to support local community projects in July and August alone, from assisting at a local foodbank in London, to investing their time to mentor and train young entrepreneurs in Madrid, to over 1,500 hours spent giving back in Brazil in one week alone. This worldwide campaign mobilised one Sage and is a statement of intent for where Sage Foundation will go in FY17.

The Invictus Games

In 2016, we launched our partnership with the Invictus Games for the first time as we embarked on our own journey to work with many special heroes around the world. In celebration of our inaugural year, we assembled a worldwide team of over 50 superstar colleagues who led the way by volunteering with Sage Foundation and helped to deliver the Games – held in Orlando, USA in 2016.

Volunteers just like Senior Software Developer, Brendan McCarthy from Dublin: "I was shocked, grateful and humbled to be chosen as Sage Foundation's European volunteer at the Invictus Games. Through sport, I have accomplished so much and it has made me a happier and more confident individual. It was my turn to help our wounded warriors to rise up and achieve new goals through the power of sport."

One Sage



In 2016, we recognised foundation days as a strategic KPI

Sage foundation days volunteered in 2016

13,000

Colleagues who took part in July and August 2016

3,500

Hours spent giving back in Brazil in 1 week alone

1,500



Doing business the right way...

"I had the pleasure of volunteering for these games and it was very inspiring to see people with disabilities accomplish things that I've seen able bodied people give up on. Try swimming 100 metres with only one limb, or with your eyes covered. It was amazing."

Laura Muñoz Bieber

...supporting our heroes

"It was a pleasure to get the opportunity to work with Sage employees from around the world. It was an inspirational and humbling experience. But the true stars were the athletes and their families."

Brendan McCarthy, Senior Software Developer

Sage and the Penreach Asifundze Literacy project

The Penreach Asifundze Literacy project is an outreach programme with a mission to create an environment where all South Africans can achieve educational excellence. In 2016, they were awarded a Sage Foundation grant of £2,500 to help improve community involvement in the project, and increase availability and use of reading materials outside school. The grant was used to purchase new materials for reading camps, which has re-energised the learners and will help sustain the camps into the future. It also gave the core team funds to run a day-long training and de-briefing session for the volunteers, who all provided invaluable information on how the project is impacting their communities.

In addition to providing financial support to the organisation, 60 Sage colleagues spent three hours a week volunteering with the project, and a total of 2,540 people have benefited so far from the Sage Foundation funding and volunteering.

Tomillo Foundation

Tomillo Foundation has worked for 30 years to improve living conditions of those people in a situation of special social vulnerability, mainly through training and employment, networking with social agents of the community, public administrations and social organisations.

The Sage Foundation grant was given to a specific project, "Employment for the most vulnerable", which is aimed at increasing employability for socially disadvantaged young people, especially in the most economically and socially deprived districts of Madrid.

The grant has enabled the team to help 35 young people improve their employability and give them better self-awareness and knowledge of opportunities open to them. The development of these skills has a knock-on effect on the rest of these young peoples' lives; by increasing their chances of finding a job, the unemployment rates of the area decrease, family life improves and there is a better image of the youngsters within their neighbourhoods.

Doing business the right way: Proactively managing our impact

We aim to reduce the energy our business uses and make the most of recycling opportunities. We comply with local laws as a minimum standard and Sage continues to take part in the global Carbon Disclosure Project.

Greenhouse gas emissions

This section includes our mandatory reporting of greenhouse gas emissions pursuant to the Companies Act 2006 (Strategic Report and Directors' Report Regulations 2013 (the "Regulations")). We include this reporting data here in order to provide a complete Corporate Responsibility picture.

Reporting period

Our reporting year is the same as our fiscal year, being 1 October 2015 to 30 September 2016. This greenhouse gas reporting year has been established to align with our financial reporting year.

Organisational boundary and responsibility

We report our emissions data using an operational control approach to define our organisational boundary which meets the definitional requirements of the Regulations in respect of those emissions for which we are responsible. We have reported on all material emission sources for which we deem ourselves responsible. These sources align with our operational control and financial control boundaries. We do not have responsibility for any emission sources that are beyond the boundary of our operational control. For example, business travel other than by car (including, for example, commercial flights) is not within our operational control and, therefore, is not considered to be our responsibility, however we aim to raise awareness of the impact of business travel through our travel booking policy.

Methodology

The methodology used to calculate our emissions is based on the "Environmental Reporting Guidelines: including mandatory greenhouse gas emissions reporting guidance" (June 2013) issued by the Department for Environment, Food & Rural Affairs ("DEFRA"). We are also using DEFRA's 2016 conversion factors for the UK combined with the IEA international conversion factors for CO₂ emission factors from electricity generation within our reporting methodology. In some cases, we have extrapolated total emissions by utilising available information from part of a reporting period and extending it to apply to the full reporting year. For example, this has occurred where supplier invoices for the full reporting year were not available prior to the publication of this year's Annual Report & Accounts. For further details, our methodology document can be found at http://www.sage.com/~//media/group/files/sage-carbon-methodology_2016_final.pdf.

Global greenhouse gas emissions data

For period 1 October 2015 to 30 September 2016

Emissions from	Tonnes of CO ₂ equivalent (CO ₂ e)		
	FY16	FY15	FY14
Combustion of fuel and operation of facilities	9,880	10,887	9,238
Electricity, heat, steam and cooling purchased for own use	13,877	15,078	15,796
Company's chosen intensity measurement:			
– Emissions reported above normalised to tonnes of CO ₂ e per total GBP £1,000,000 revenue	15.14	18.09	19.16

Carbon emissions

Scope of reported emissions

Emissions data has been reported for all the Group's operations in Australia, Austria, Belgium, Brazil, France, Germany, Ireland, Malaysia, Morocco, North America, Poland, Portugal, Singapore, South Africa, Spain, Switzerland, the United Arab Emirates and the UK.

The emissions that have not been included in this year's report relate to building usage in our operations in Belgium and the United Arab Emirates, where energy usage is not itemised on invoices. We will be working with our suppliers in these locations to capture this information in the 2016/17 reporting year.

Intensity ratio

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

Baseline for 2016 targets

The 2013 data forms the baseline data for subsequent periods.

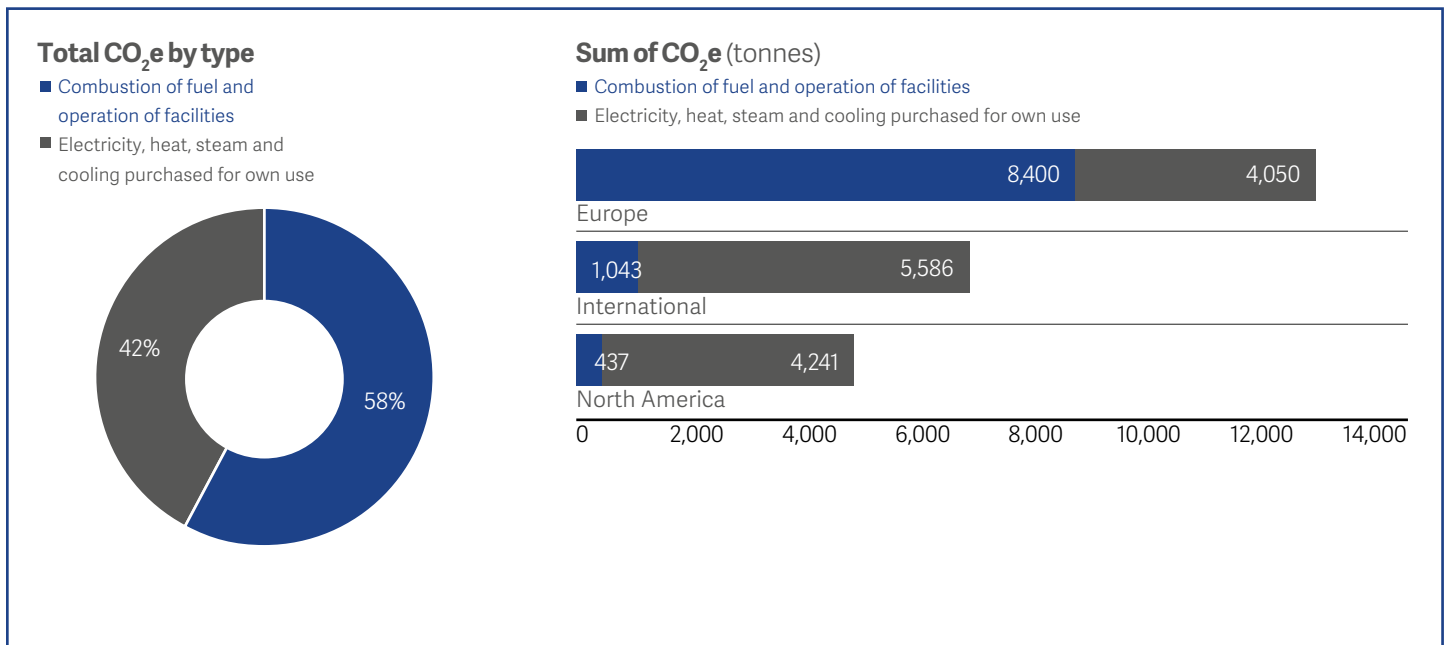
Carbon Disclosure Project

We once again took part in this project during the year under review by reporting our gas (scope 1) and electricity (scope 2) emissions for the financial year ended 30 September 2016. Whilst we do use the GHG Protocol methodology to measure our GHG emissions we welcome the revised treatment of purchased electricity to provide greater clarity over purchased green and low carbon electricity. Market-based residual factors have not been used for this reporting phase as it is not currently possible to calculate a market based purchased electricity emissions value; however we intend to calculate and report within our 2017 CDP submission, where market residual factors are available.

Reducing carbon and waste

We have continued to make a concerted effort to reduce our carbon footprint, through reducing our consumption and purchasing alternative sources of fuel and generation, specifically:

- Increased use of bioethanol for business travel fuel
- Investing in new technology with lower energy consumption including laptops and workstations
- Selected office moves to more energy efficient buildings
- Further installation of LED lighting across the Group
- Increased low carbon energy sourcing, including hydropower, wind power, biomass and solar
- Self generation including solar panels and hydroelectric plant.



Directors' approval of strategic report

Our 2016 Strategic report, from page 1 to page 63, has been reviewed and approved by the Board of Directors on 29 November 2016.

Handwritten signature of Steve Hare in white ink on a dark blue background.

Steve Hare
Chief Financial Officer

Sound governance is integral to Sage achieving its ambition



Compliance with the UK Corporate Governance Code 2014 ("the Code")

Throughout the financial year ended 30 September 2016 and to the date of this report, Sage has complied with the provisions of the Code. The Code is publicly available at the website of the UK Financial Reporting Council at www.frc.org.uk. This corporate governance section of the Annual Report & Accounts describes how we have applied the principles of the Code.

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

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

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

The executive team is required to provide such information to the Board as the Board needs to

enable it to exercise its judgement over these matters. It must also evidence appropriate process. There is a very fine distinction between the approval of processes and their definition. Only exceptionally would the Board intervene to initiate or define.

The Board also sets the tone for the Company. The way in which it conducts itself, its attitude to ethical matters, its definition of success and the assessment of appropriate risk, all define the atmosphere within which the executive team works.

Good corporate governance is not about adhering to codes of practice (although adherence may constitute a part of the evidence of good governance) but rather about the exercise of a mindset to do what is right. One of the challenges facing any Board is the way in which the non-executive and the executive directors interact. It is clear that they each have the same legal responsibility but it is generally unrealistic to expect executive directors to speak individually with the same freedom as the non-executive directors. Equally, executive directors who just "toe the executive line" in contradiction to their own views may not be effectively contributing to good governance. A well-functioning Board needs to find the right balance between hearing the collective executive view, being aware of the natural internal tensions in an

executive team and allowing independent input from the non-executive directors.

One of the consequences of both increasing the watchdog role of the Board and finding this balance between individuality and team behaviour is driving more and more Boards to have fewer and fewer executive directors. In our circumstances, the reduced Board size works effectively and an appropriate balance is struck.

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

A handwritten signature in black ink, which appears to read "Donald Brydon".

Donald Brydon, CBE
Chairman

Knowledge and experience

Donald Brydon (71)



Chairman



Appointed to the Board:
6 July 2012

Experience:

Donald Brydon had a 20 year career with Barclays Group, during which time he was Chairman and Chief Executive of BZW Investment Management, followed by 15 years with the AXA Group, including the posts of Chairman and Chief Executive of AXA Investment Managers and Chairman of AXA Framlington.

He has formerly chaired the London Metal Exchange, Amersham plc, Taylor Nelson Sofres plc, the ifs School of Finance, Smiths Group plc, Royal Mail plc and EveryChild. Donald has also served as Senior Independent Director of Allied Domecq plc and Scottish Power plc.

Areas of expertise

Donald Brydon brings to the Board his wealth of experience gained as Chairman of companies across a wide range of sectors. Since being appointed as Chairman of Sage, Donald Brydon has conducted a comprehensive review of the composition of the Board and Committees and navigated the Company and Board through significant change.

Other current appointments:

London Stock Exchange Group Plc – Chairman

Medical Research Council – Chairman

Stephen Kelly (54)



Chief Executive Officer – Executive Director

Appointed to the Board:
5 November 2014

Experience:

Stephen Kelly has over 30 years' leadership experience in the Small & Medium Business and technology sectors. He has previously served as Chief Executive Officer of two high-growth, public software companies – NASDAQ listed Chordiant Software, Inc. from 2001 to 2005 and LSE listed Micro Focus International plc from 2006 to 2010. In 2012 he was appointed Chief Operating Officer for UK Government where he was the most senior executive responsible for the UK Government's Efficiency & Reform agenda, including Digital, Commercial, IT and Small & Medium Business strategies.

Areas of expertise

Stephen brings to the Board over 30 years' leadership experience in high growth technology businesses ranging from start-ups to listed multi-national companies, in the UK and USA. His passion for entrepreneurs and technology, and the role they play in driving economic prosperity, lie at the heart of the transformation we are driving at Sage.

Steve Hare (55)



Chief Financial Officer – Executive Director

Appointed to the Board:
3 January 2014

Experience:

Prior to joining Sage, Steve Hare was Operating Partner and Co-Head of the Portfolio Support Group at the private equity firm Apax Partners, which he joined in 2009. Before his work at Apax Partners, he built over 10 years' experience leading the finance function for three listed UK companies culminating as CFO for FTSE 100 company Invensys plc from 2006 to 2009. Between 2004 and 2006 Steve was Group Finance Director for Spectris plc, the FTSE 250 precision instrumentation and controls company and from 1997 to 2003 he was with Marconi plc, serving as CFO from 2001.

Steve Hare qualified as a chartered accountant in 1985 with Ernst & Whinney, now part of Ernst & Young LLP.

Areas of expertise

Steve Hare has significant financial, operational and transformation experience which includes driving change programs in a number of his previous roles. This experience allows him to ensure Sage continues to perform strongly whilst delivering the current transformation.

Ruth Markland (63)



Senior Independent Non-executive Director



Appointed to the Board:
13 September 2006

Experience:

Ruth Markland has over 30 years' experience of international services businesses, and has held a number of non-executive director positions. She joined Freshfields in 1977 and served as Managing Partner of Asia at Freshfields Bruckhaus Deringer from 1996 to 2003. She also served as the Chairman of the Board of Trustees at the WRVS until November 2012.

Areas of expertise

Ruth Markland's legal background, combined with her extensive experience of services businesses, bring a unique perspective to the discussions of the Board and its Committees.

Other current appointments:

Deloitte LLP – Independent Non-executive board member

Arcadis NV – member of the Supervisory Board

Changes to the Board:

There were no changes to the Board of Directors in FY16.

Ruth Markland and Inna Kuznetsova will both be standing down from the Board after the Annual General Meeting in February 2017.

Key to committees

(A) Audit and Risk Committee

(N) Nomination Committee

(R) Remuneration Committee

Inna Kuznetsova (48)



Independent
Non-executive Director



Appointed to the Board:
6 March 2014

Experience:

Inna Kuznetsova is former Chief Commercial Officer and Executive Board member at CEVA Logistics, where she worked from 2012 until 2014. Prior to joining CEVA, Inna spent 19 years at IBM, where she held a number of different roles focusing on building and running strong organisations in sales, business development and marketing, culminating as Vice-President, Marketing & Sales Enablement, IBM Systems Software and ISVs. Inna is currently President and COO of INTTRA, the world's largest electronic transaction network for the ocean shipping industry.

Areas of expertise

Inna Kuznetsova's experience in building strong sales and marketing teams and her technology background enable her to bring insight into understanding management issues.

Other

current appointments:

INTTRA – President and COO

Jonathan Howell (54)



Independent
Non-executive Director



Appointed to the Board:
15 May 2013

Experience:

Jonathan Howell is currently Group Finance Director of Close Brothers Group plc, joining in February 2008, and previously held the same position at the London Stock Exchange Group plc from 1999. Jonathan has also been a non-executive director of EMAP plc and Chairman of FTSE International. The early part of his career was at Price Waterhouse where he qualified as a chartered accountant.

Areas of expertise

Jonathan Howell's significant financial and accounting experience, coupled with his role as Chairman of the Audit and Risk Committee, allow him to provide substantial insight into the Group's financial reporting and risk management processes.

Other

current appointments:

Close Brothers Group plc – Group Finance Director

Drummond Hall (67)



Independent
Non-executive Director



Appointed to the Board:
1 January 2014

Experience:

Drummond Hall was previously Chief Executive of Dairy Crest Group plc from 2002 to 2006, having joined the company in 1991. Prior to this the majority of his career was spent with Procter and Gamble, Mars and Pepsi Co. Drummond Hall was a non-executive director of Mitchells & Butlers plc from July 2004 to January 2010 and Chairman from June 2008 to November 2009.

Areas of expertise

Drummond Hall brings a wealth of experience gained across a number of customer-focused blue-chip businesses in the UK, Europe and the US. His strong appreciation of customer service and marketing brings deep insight into Sage as we focus on ways to expand our markets and delight our customers with our technology and service levels.

Other

current appointments:

WH Smith plc – Senior Independent Non-executive Director

First Group plc – Senior Independent Non-executive Director

Neil Berkett (61)



Independent
Non-executive Director



Appointed to the Board:
5 July 2013

Experience:

Neil Berkett has over 30 years' experience in a wide range of highly competitive consumer industries. Most recently, he was Chief Executive of Virgin Media Group from March 2008 to June 2013, having joined ntl, Virgin Media's predecessor, as Chief Operating Officer in September 2005. Before ntl he was Managing Director, Distribution, at Lloyds TSB plc. His previous roles include Chief Operating Officer at Prudential Assurance Company Ltd UK, Head of Retail at St George Bank, Senior General Manager at the Australian division of Citibank Limited, Chief Executive at Eastwest Airlines Australia and Financial Controller at ICL Australia.

Areas of expertise

Neil Berkett has significant experience in leading change within organisations whilst retaining the focus on customer experience. He is able to bring this insight and knowledge to the transformation at Sage and our customer-focused strategy.

Other

current appointments:

Guardian Media Group – Chairman

NSPCC – member of the Board of Trustees



Stephen Kelly, Vicki Bradin, Sandra Campopiano and Steve Hare

Executive Committee

Stephen Kelly (54)

Chief Executive Officer, Board of Directors

For Stephen Kelly's skills and experience see page 66.

Vicki Bradin (38)

General Counsel and Company Secretary

Vicki joined Sage in June 2016 and became General Counsel and Company Secretary in October 2016. Vicki previously worked for FTSE 250 software company Misys, where she was Associate General Counsel and had responsibility for mergers and acquisitions, litigation, risk, intellectual property and more. After graduating from Nottingham University, Vicki qualified as a solicitor in the City of London. Vicki spent her early career working as a corporate lawyer in global and magic circle law firms before moving in-house working in large multi-nationals and UK public limited companies, helping grow and transform business whilst managing their regulatory and litigation risk.

Sandra Campopiano (58)

Chief People Officer

Experience: Sandra was appointed as Global Chief People Officer in September 2015 and joins us with over 20 years of HR experience in global businesses, including senior leadership roles at Premier Farnell, Arrow Electronics, Barclays, Psion and, most recently, Thomas Cook. Sandra is also a non-executive Director at Kingston University. In 2005 she completed an MBA at the University of Surrey and in 2010 she was awarded human resources director of the year by HR Magazine, recognising how she led the HR team to support the transformation of Premier Farnell. Sandra supports the Young Enterprise – Women in Business Programme by mentoring and encouraging young female entrepreneurs to start their own business.

Steve Hare (55)

Chief Financial Officer, Board of Directors

For Steve Hare's skills and experience see page 66.



Klaus-Michael Vogelberg, Blair Crump, Santiago Solanas and Gary Daniels

Klaus-Michael Vogelberg (51)

Chief Technology Officer

Experience: Responsible for Sage’s technology strategy and software architecture, Klaus-Michael is also Acting Chief Technology Officer for Sage Europe. From 2004 to 2007 he was Research and Development Director for Sage UK and Ireland. Klaus-Michael joined us when Sage acquired the German KHK Software group in 1997, where he was Research and Development Director and a partner.

A software entrepreneur, Klaus-Michael set up his first business aged 19 while studying aeronautical engineering and national economics.

Blair Crump (54)

President

Experience: Blair joined Sage as President in August 2016 from PROS Holdings, where he had been COO since February 2014. Previously, he led Salesforce.com’s Global Enterprise business, reporting to CEO and co-founder Marc Benioff. Prior to that, he was Group President at Verizon Business, responsible for Worldwide Sales & Consulting. He began his career in 1983 with MCI as its first sales representative in New York City where he worked for over 20 years before Verizon acquired the company in 2006. Blair holds a Bachelor’s Degree in Economics from the Wharton School at the University of Pennsylvania.

Santiago Solanas (48)

Chief Marketing Officer

Experience: Santiago was appointed Chief Marketing Officer in September 2014. He joined Sage in 2007 to lead the Start-up and Small Business Division in Spain and was appointed Chief Executive Officer

of Sage Spain in 2010. During this time he renewed the leadership team, increasing the efficiency of the business and returning it to growth, as well as leading the Accountants Segment in Europe. He recently led the roll-out of Sage’s brand campaign across Europe. Prior to Sage, Santiago spent 20 years working in the IT and software industry, across the globe, in sales, marketing and management roles at IBM, Microsoft and Oracle, where he was responsible for the coordination and leadership of the technology business in the Small & Medium Business market in Europe as Senior Director of the Small & Medium Business Program Office EMEA. Santiago has also spent four years in two technology start-ups backed by Telefonica and Santander. Santiago is an active supporter of Small & Medium Business. He is a mentor for women in business and start-ups, and speaks at a number of Small & Medium Business forums in Spain. He holds an MSc. in Telecommunications Engineering from the Polytechnic University of Madrid (UPM) and also attended the Harvard Business School Advanced Management Program.

Gary Daniels (62)

Chief Product Delivery Officer

Gary joined Sage as EVP Products in November 2015. He has over 35 years’ experience in global technology companies, including senior leadership roles at Logica, The Santa Cruz Operation, Prime Response, Chordiant, Misys and Iris. Gary, a software engineer by background, has extensive experience in building and transforming geographically distributed product development organisations. He has worked in both platform and application domains; delivering product by volume “shrink wrap”, enterprise and SaaS channels.

Our governance framework

The role of the Board and its committees

Board

Our Board provides leadership to the business as a whole to drive it forward for the benefit, and having regard to the views, of its shareholders and other stakeholders.

The Board sets Sage's risk appetite and retains overall responsibility for risk management and internal controls systems, ensuring there are processes in place to identify and manage the group's principal risks.

The Board sets the strategy for the business. It has delegated the authority to manage the business to Stephen Kelly, Chief Executive Officer, who delegates specific responsibilities to members of the Executive Committee, including the development and implementation of strategy.

The Board also delegates other matters to Board committees and management as appropriate.

Audit and Risk Committee

To oversee the Group's financial reporting, risk management and internal control procedures and the work of its internal and external auditors.

Nomination Committee

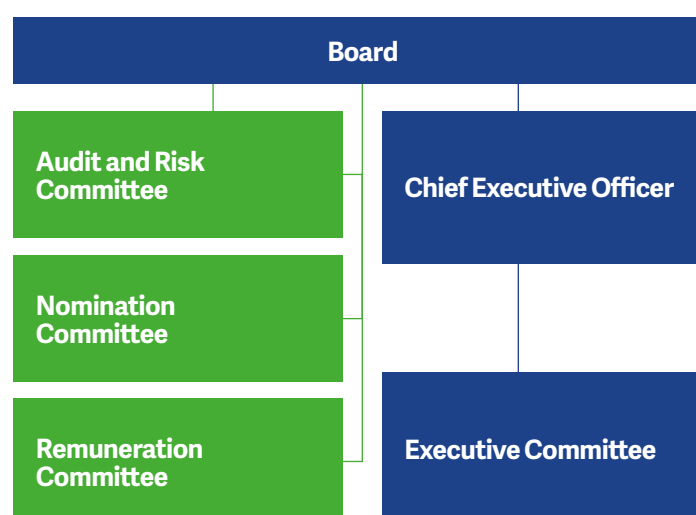
To review the composition of the Board and plan for its progressive refreshing with regard to balance and structure as well as succession planning.

Remuneration Committee

To determine the framework, policy and levels of remuneration and make recommendations to the Board on the remuneration of the Chief Executive Officer, Chairman, executive directors, the Company Secretary and senior executives.

Executive Committee

Developing and implementing strategy, operational plans, budgets, policies and procedures; monitoring operating and financial performance; assessing and controlling risks; prioritising and allocating resources; and monitoring competitive forces in each area of operation.



Board and Committee meetings and attendance

Director	Board	Audit and Risk Committee	Nomination Committee	Remuneration Committee
Donald Brydon	7/7	–	4/4	4/4
Stephen Kelly	7/7	–	–	–
Steve Hare	7/7	–	–	–
Ruth Markland	7/7	5/5	3/4	4/4
Drummond Hall	7/7	5/5	4/4	4/4
Jonathan Howell	7/7	5/5	4/4	4/4
Neil Berkett	7/7	5/5	4/4	3/4
Inna Kuznetsova	7/7	5/5	4/4	4/4

The terms of reference of each committee, which are reviewed on an annual basis, can be found on our website.

The Board and each committee are satisfied that they receive sufficient, reliable and timely information in advance of meetings and are provided with all necessary resources and expertise to enable them to fulfil their responsibilities and undertake their duties in an effective manner. The Board has formally adopted a schedule of matters reserved for its decision. This schedule is reviewed periodically, was last reviewed on 21st September 2016 and is available via our website.

Board roles



**Donald Brydon,
Chairman¹**

Responsible for leading the Board, its effectiveness and governance

As Chairman I am responsible for leading the Board, its effectiveness and governance and for monitoring and measuring the implementation of strategy. My role as Chairman also carries a particular responsibility to monitor and assess Sage's corporate governance practices.

To ensure a proper dialogue with directors, I hold meetings with the non-executive directors without the executive directors to assess their views. In addition, the non-executive directors have met without me being present to appraise my performance. These meetings without me present are chaired by the Senior Independent Director.

I also ensure that shareholder engagement is discussed at each meeting of the Board and that all shareholders have access to the non-executive directors, through a request to the Chairman or the Company Secretary.



**Stephen Kelly,
Chief Executive Officer¹**

Responsible for the formulation of strategy and running of the Group

My responsibilities as Chief Executive Officer include:

- The design, development and agreement of strategy with the Board
- Implementation of the strategy and policy and the running of the Group
- Managing the overall performance of Sage, concentrating on revenue and profitability

I also identify acquisitions and monitor competitive forces, as well as ensuring an effective and motivated leadership team. I chair the Executive Committee and maintain a close working relationship with the Chairman.



**Ruth Markland,
Senior Independent
Director**

Discusses any concerns with shareholders that cannot be resolved through the normal channels of communication

My role as Senior Independent Director is:

- To provide a point of contact for those shareholders who wish to raise issues with the Board, other than through the Chairman
- Together with the other independent non-executive directors, to evaluate the performance of the Chairman

I am also available to consult with shareholders.



**Vicki Bradin
Company Secretary²**

Ensures good information flows to the Board and its committees and between senior management and non-executive directors

In my role as Company Secretary, I am available to all directors to provide advice and assistance, and I am responsible for providing governance advice to the Board. I ensure Board procedures are complied with, that applicable rules and regulations are followed and act as secretary to the Board and all of the committees. I ensure minutes of all meetings are circulated to all directors as well as facilitate the induction of new directors and assist with professional development as required.

1. The roles of the Chairman and the Chief Executive Officer are quite distinct from one another and are clearly defined in written terms of reference for each role. These terms of reference are available on our website.

2. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

Focus of the Board for the year

In the year under review, the Board's focus has been on strategy and ensuring that the structures, capabilities and reports are in place to support the Group strategy. The Board has received regular reports from both the Chief Executive Officer and the Chief Financial Officer.

In particular time has been spent considering:

- The ongoing development of our business strategy
- Our cyber security program and operational metrics
- Our partner and channel strategy
- Our marketing and competitor strategy
- Succession planning and talent pipeline
- The areas of risk across our businesses

Actions taken to minimise the principal risks faced by Sage, as described on pages 36 to 41, have also been regularly discussed.

The Board meets not less than six times per year. During this year, it met seven times.

Perform and transform: Board in action

In July 2016 the majority of the Board attended the Sage Summit in Chicago. The Board met with customers and partners and heard first-hand their experience of using our products and working with Sage. The Board took the opportunity to "walk-the-floor", experiencing the Summit as would our customers and prospects, by visiting the product stands and receiving demonstrations of our products and their capabilities.

Board members also met with a number of Sage colleagues across all levels of the business to get their perspective on life at Sage and to understand the contributions they make on a daily basis. Sage colleagues also shared updates on some of the on-going developments within the Group, such as the progress being made on our brand strategy and the impact of the work being carried out by the Sage Foundation.

Board composition and independence

The Board composition is set out at page 70. The directors have a range of experience and can bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct. Details of each director's skills and experience are set out on pages 66 to 67. This experience and judgement is considered vital to our success. It is the balance of skills, experience, independence and knowledge of those directors which ensures the duties and responsibilities of the Board and its committees are discharged effectively.

The Board monitors the independence of its non-executive directors, particularly those who have given long service. Having reviewed the current Board, the non-executive directors are all considered to be independent. Donald Brydon was considered independent at the date of his appointment.

Ms Ruth Markland completed ten years of service on the Board in September 2016 and intends to step down at our Annual General Meeting in February 2017. Her experience as the longest serving Board member has provided valuable insight, knowledge and continuity. Having considered Ms Markland's independent focus on the issues which the Board addresses, as evidenced by her contributions at Board meetings, the Board unanimously considers that Ms Markland continues to be independent.

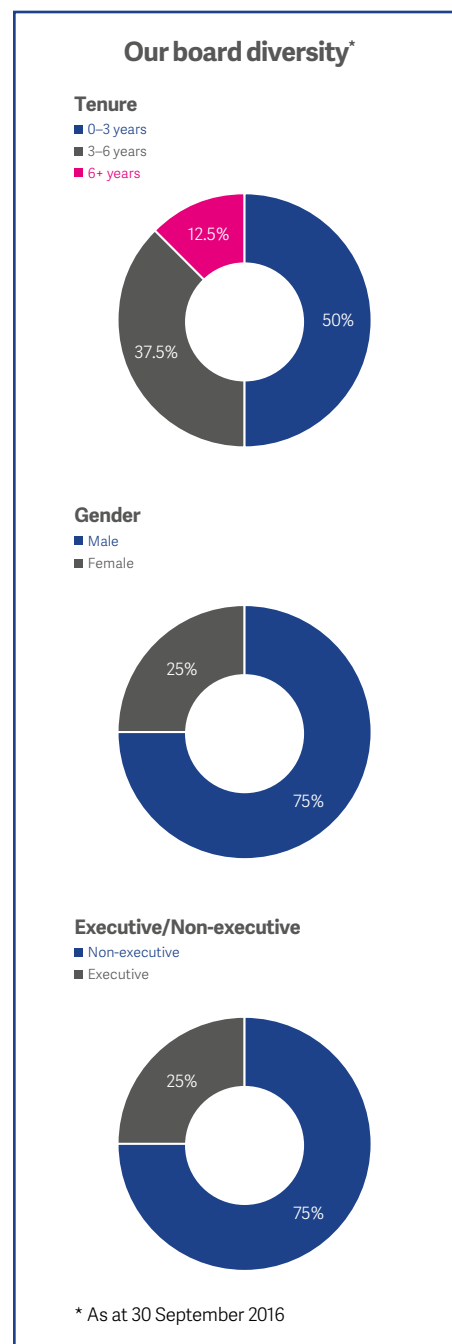
Drummond Hall has accepted the appointment of Senior Independent Director and his appointment will take effect from the end of the Annual General Meeting. Mr Hall joined the Board in 2014 and is Chairman of the Remuneration Committee.

Inna Kuznetsova will also be stepping down from the Board at the Annual General Meeting. Although with Sage for a shorter time than Ruth Markland, Ms Kuznetsova has brought a new perspective to Board deliberations.

The Board also considered the Chairman's role and determined that Mr Brydon has appropriate time and resource to devote to his role as Chairman of Sage. All directors are subject to election or re-election by shareholders at each Annual General Meeting.

Conflicts of interest

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



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

Board effectiveness

The Board has adopted a written set of objectives for the financial year, against which it assesses progress at each meeting. This ensures that the Board focuses on key issues relevant to Sage and can monitor progress in all these areas.

Board and committee papers which are clear, focused and relevant ensure that the Board has the information it needs to consider the issues relevant to the business. The papers are issued on a timely basis to ensure that the Board and its committees have ample time to consider and digest their contents and that the Board has the information it needs to discharge its duties. Regular attendance at Board meetings by key executives ensures that the Board has the opportunity to discuss the risks and opportunities within our business with leaders from across the Group.

In order to increase their knowledge of the business and expand their contacts with executives around the Group, the non-executive directors meet with senior executives to be briefed on the particular issues faced by the business in their region or business area. The majority of the Board attended the Summit Conference held by the Group in Chicago in July 2016, the largest convention for small businesses around the world, at which they met customers, partners and Sage colleagues represented at the convention.

Performance evaluation

In recent years, the Board has evaluated its performance in a number of different ways including externally facilitated evaluations on a biennial basis, with the last of those (prior to this year's evaluation, described below) conducted by Prof Rob Goffee (LBS) in 2014. The Board has also carried out internal reviews conducted by the Company Secretary. The Board has found it particularly useful to link the output of these reviews to the construction of its own objectives for the coming year.

Board evaluation 2015/16

This financial year, the Board used an independent third party to evaluate its performance and that of its committees and individual members. It was facilitated by Ffion Hague of Independent Board Evaluation (IBE), a specialist consultancy which undertakes no other business for the Company. A comprehensive brief was given to IBE by the Chairman in March 2016. The review included observing two Board and committee meetings in April and July 2016 and conducting in depth interviews with each Board member against a tailored agenda in June 2016. In addition, detailed interviews were also conducted with other members of the Executive Committee and senior managers within the Company, as well as external advisers who work closely with the Board and committees. The Board met in September 2016 for a specific feedback session on the final report and considered its conclusions. Separate reports were prepared for the Audit and Risk, Remuneration and Nomination Committees. The Chairman also received a report on each director which he subsequently reviewed with them individually. Ruth Markland, as Senior Independent Director, received a report on the Chairman which she reviewed with him.

Conclusions from this year's review

The overall conclusion from this year's evaluation was that the Board and its committees are working well and operating effectively. The dynamics of the Board were observed to be positive, with directors able to challenge each other and engage in constructive and insightful discussions. Relations with investors and the Board's focus on internal governance and compliance within Sage over the past year were both viewed very positively. As with any Board whose ambition is to be world-class, the directors continue to seek to improve and evolve their standards of performance. The Board will continue to focus on the key strategic priorities for the Company and measuring their progress with increased granularity. It will devote more time to succession planning and reviewing the skills needed within the Board to support delivery of the strategy objectives. The Board will also increase its focus on the culture within the organisation. The Chairman will lead these changes with support from the Chief Executive and the Company Secretary.

Actions for 2016/2017

The Board has set new objectives for itself for FY16/17, taking account of the findings from the evaluation. Other areas of focus will include:

- Ensuring the directors get to know and engage with the key talent within the business,
- Enabling directors to be kept informed on Company performance between Board meetings through the circulation of more frequent updates,
- Continuing to ensure that each director has their own engagement plan for regular visits to Sage operating companies and the opportunity to focus on particular business areas,
- Continuing to focus on improving the quality of Board support.

Culture and values

The Board considers leadership, culture and good governance as essential considerations in Sage's on going transformation. As the business seeks to build a high performance culture across the Company to deliver on our strategy, the Board recognises the role it plays in providing leadership and tone from the top. The Board is working to develop a framework to give it regular oversight and assessment of the culture within Sage. The intention is to ensure the Sage values are integral to the performance management of the senior executive team and successional candidates and that the incentives structure in place supports and encourages behaviours consistent with those values. The Board has noted the recent work of the FRC in this area and has adopted a specific objective for its own activity in this area for the coming year.

Induction and professional development

To ensure a full understanding of Sage is developed, new Board members undergo a full, formal and tailored induction programme.

To assist the Board in undertaking its responsibilities, training is available to all directors and training needs are assessed as part of the Board evaluation procedure. All directors have access to the advice and services of the Company Secretary who ensures that directors take independent professional advice when it is judged necessary in order to discharge their responsibilities as directors.

Board meetings are held at our operating companies and the board and non-executive directors are given opportunities to broaden their understanding of Sage and the key markets in which we operate.

Risk management and internal controls

The Board retains overall responsibility for setting Sage's risk appetite, and for risk management and internal control systems. In accordance with section C.2.3 of the UK Corporate Governance Code, the Board is responsible for reviewing their effectiveness, and confirms that:

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

During 2016 the Board has directly, and through delegated authority to the Executive Committee and Audit and Risk Committee, overseen and reviewed the performance and evolution of risk management activities and practices and internal control systems within Sage. Through both its ongoing involvement and overview in risk management and internal control activities, the Board is satisfied that other than as set out in the following paragraph, the risk management and internal controls systems in place remain effective.

During August 2016, a case of unauthorised access to customer information using an internal login was identified. This indicated a significant weakness in internal control. In accordance with the Incident Management Policy the Crisis Management Team was invoked and managed the incident, immediately remediating the control weakness, and overseeing operational handover to business colleagues.

The Board continues to support the ongoing development of risk management and internal controls to ensure that they remain effective as the business continues to evolve as part of its ongoing transformation. Details can be found in the both the Managing Risk section of this report on pages 36 to 45 and the Audit and Risk Committee section of this report on pages 76 to 80.

Whistleblowing

A whistleblowing telephone hotline service allows Sage colleagues to raise concerns in relation to dishonesty or malpractice on an entirely confidential basis. The hotline is operated by a third party which is independent of Sage. Incoming reports are provided to the General Counsel and Company Secretary who ensures that the matters are appropriately investigated. The Audit and Risk Committee receives regular reports on any matters raised through the hotline and monitors the use throughout Sage.

Quality and integrity of colleagues

The integrity and competence of our colleagues is ensured through high recruitment standards and the provision of subsequent training and development. High-quality colleagues are seen as an essential part of the control environment.

Diversity

The Board has due regard for the benefits of diversity in its membership and strives to maintain the right diversity balance including gender, age and professional background. The Chairman seeks to ensure that the composition of the Board includes individuals with deep knowledge and experience, bringing a wide range of perspectives to the business.

The Board, as at the date of this Annual Report & Accounts, comprises 25% women (2015: 25%). The Board must continue to provide strong leadership at Sage, and, therefore, continues to appoint only the most appropriate candidates to the Board.

Management structure

A clearly defined organisational structure exists within which individual responsibilities are identified and can be monitored. The management of the Group as a whole is delegated to the Chief Executive Officer and the Executive Committee, as discussed on page 70. The Executive Committee is made up of the senior leaders from the key support functions and the primary external facing business stakeholders including Sales and Marketing. These Executive Committee members ensure that reports on their respective business areas are made to the Board.

During 2016 Sage has revised, consolidated and published a single policy framework on an internal site called the Sage Academy. These policies include Finance, IT, Procurement, Legal and HR policies. In addition, a delegation of authority matrix has been rolled out throughout Sage clearly stating the approvals required for a broad range of operational items.

Budgetary process

A comprehensive budgeting process is in place, with an annual budget prepared and validated at a country and functional level. The budget is subject to consideration and approval by the Board. The directors are provided with relevant and timely information required to monitor financial performance.

Investment appraisal (including acquisitions)

Budgetary approval and defined authorisation levels regulate capital expenditure. As part of the budgetary process the Board considers proposals for research and development programmes. Acquisition activity is subject to internal guidelines governing investment appraisal criteria, financial targets, negotiation, execution and post-acquisition management.

Monitoring and review

There are processes in place to monitor the system of internal controls and to report any significant control failings or weaknesses and planned mitigating actions. These processes are set out in more detail in the Risk Management report on pages 36 to 45.

Internal Audit

Internal Audit activities are provided by an in-house team supplemented under co-source agreements by third-party providers. The role of Head of Internal Audit is undertaken by the Vice President Risk and Assurance who has a direct reporting line to the Audit and Risk Committee and its Chairman in order to ensure independence. Internal Audit's role is to advise management and the Board on the extent to which systems of risk management and internal controls are effective.

More information on Internal Audit is set out within the Audit and Risk Committee section on pages 76 to 80.

Relations with shareholders

Communication with shareholders is given high priority. A full Annual Report & Accounts is sent to all shareholders who wish to receive one and all information on Sage's activities, published financial results and the Annual Report & Accounts can be found on our website. There is regular dialogue with individual institutional shareholders and there are presentations to analysts after our announcement of the year-end and half-year results.

At each meeting, the Board receives an update on presentations to investors and communications from shareholders to ensure that the Board has an understanding of their views. The Annual General Meeting is used to communicate with private and institutional investors and the Board welcomes their participation.

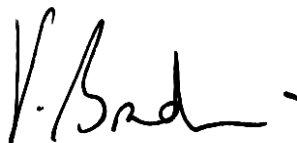
Information included in the Directors' report

Certain information, fulfilling certain requirements of the Corporate Governance Statement, can be found in the Directors' report and is incorporated into this Corporate Governance section by reference.

For reference, relevant sections of the Directors' report are:

- Substantial shareholdings
- Deadlines for voting rights
- Repurchase of shares
- Amendment of the Company's articles of association
- Appointment and replacement of directors
- Powers of the directors

By order of the Board



Vicki Bradin

Company Secretary

29 November 2016

Audit and Risk Committee



Jonathan Howell

Chairman of the Audit and Risk Committee

Audit and Risk Committee Membership:

- Jonathan Howell, Chairman
- Neil Berkett
- Drummond Hall
- Inna Kuznetsova
- Ruth Markland

Dear shareholder,

I am pleased to present the 2016 report of the Audit and Risk Committee (“the Committee”). The Committee continued to support the Board in setting the Group’s risk appetite and ensuring that processes are in place to identify and manage the Group’s principal risks. During 2016 and in line with the Financial Reporting Council’s (‘FRC’) requirements, the Committee again kept under review and considered the impact of the business transformation on risk assessment, the ongoing effectiveness of internal controls, going concern and viability assessment.

At each meeting, the Committee reviewed the principal risks, associated appetite statements and metrics, to assess whether they continued to be relevant and aligned to the achievement of Sage’s strategic objectives and within an acceptable tolerance for the Group. The Committee monitored the adequacy and effectiveness of the control environment through the review of internal audit reports from Sage Assurance and consideration of relevant reporting from management, Sage Risk and the external auditor. Importantly, the Committee also considered the quality of financial reporting through review and discussion with management and the external auditor, of the interim financial statements and the 2016 Annual Report and Accounts.

“We are committed to ensuring that Sage continues to apply rigorous risk management procedures across the Group particularly in a period of significant transformation.”

Composition

The Committee is an essential element of Sage’s governance framework, to which the Board has delegated oversight of Sage’s financial reporting, risk management and internal control procedures, and of the work of Internal Audit and the external auditor. These responsibilities are defined in the Committee’s terms of reference, which were last updated and presented to the Committee for review and approval in September 2016.

The FRC’s UK Corporate Governance Code (“the Code”) requires that the Committee has at least one member with recent and relevant financial expertise and experience in accounting and auditing. The Board is satisfied that the Chairman meets these requirements, being a qualified chartered accountant and the Group Finance Director at Close Brothers Group plc. In addition, and as required by the 2016 updates to the Code which will be applicable to Sage in 2017, the Board considers that, as a whole, the Committee has the competence and broad experience relevant to the sector in which Sage operates. An overview of the background, knowledge and experience of the Chairman and each of the Committee members can be found on pages 66 to 67 of this report.

Activities during the year

The Committee met five times over the course of the year in line with its terms of reference.

All Committee members attended every meeting, and were joined at each meeting by the Chief Financial Officer, the Vice President (VP) Risk and Assurance and the Executive Vice President (EVP) Finance (Controlling and Reporting). The Chairman of the Board and Chief Executive Officer were also present at four of the five meetings. The Chairman reports to the Board on key matters arising after each of these meetings. At each meeting, the Committee met with the external auditor, and at certain meetings the VP Risk and Assurance, without management being present.

Outside these formal meetings, the Chairman meets on a regular basis with the Chief Financial Officer, the external auditor, the VP Risk and Assurance and the EVP Finance. Additionally, the Chairman also retains an open invitation to attend any meeting of the Global Risk Committee.

During 2016, the Committee focussed on a number of important activities, including:

- Financial reporting, including significant accounting and reporting matters;
- Risk management and internal controls;
- Incident management, fraud and whistleblowing;
- Reporting from Internal Audit and the external auditor;
- Assessing the effectiveness of both Internal Audit and the external auditor; and
- Application of, and updates to, the Auditor Independence Policy.

In addition, and to support Sage's change and growth agenda, the Committee used in-depth reviews to look into areas of particular relevance or importance across the business as described later in this report. The Committee also obtained updates on, and reviewed the progress of, those areas it identified for focus in the Annual Report and Accounts 2015, namely the effective operation of the Global and Regional Risk Committees, progress of the Excellence in Governance initiative and the promotion of a strong compliance and controls based culture.

Financial Reporting, including significant reporting and accounting matters

In respect of financial reporting, at each meeting the Committee received scheduled finance updates from the EVP Finance, including updates on significant accounting and reporting matters. The Committee considered how these matters were addressed in preparing the Group's financial statements, as set out below, and assessed the overall quality of financial reporting through review and discussion of the interim and annual financial statements.

In performing its review, the Committee considered the work, judgements and conclusions of the executive management and the group finance team and received reports from the external auditor setting out its view on the accounting treatments included in the financial statements, based on a review of the interim financial statements and an audit of the annual financial statements. The Committee's review included assessing the appropriateness of the accounting policies and practices, compliance with financial reporting standards and relevant statutory requirements, and reviewing the adequacy of disclosures in the financial statements. As part of this activity, the Committee reviews and considers, at least annually, reports from management in respect of uncertain tax positions and provisions thereon, and on the Group's effective tax rate and deferred tax position. In the current year, the Committee also reviewed the findings of an analysis prepared by management in respect of the Group's approach to accounting for foreign exchange given the significant movements in exchange rates following the result of the UK's EU Referendum.

The Committee also reviewed and advised the Board on whether the Annual Report and Accounts taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess Sage's position and performance, business model and strategy. As part of this responsibility, the Committee reviewed the results of processes put in place by management to provide the necessary assurance including an analysis of how the key events in the year had been described in the Annual Report and Accounts and the representations from country management teams on a range of financial controls, key performance indicators and legal matters to support the fair presentation of the Group's financial statements. The Committee also considered the perspective of the external auditor.

In addition, the Committee reviewed the process undertaken by management to support and allow the Directors to make the Group's viability statement. The Committee considered and provided input into the determination of the period over which viability should be assessed, which of the Group's principal risks and combinations thereof should be modelled to assess the impact on the Group's liquidity and solvency and reviewed the results of management's scenario modelling and the reverse stress testing of these models. In particular, the Committee reviewed the appropriateness of revising the period over which viability should be assessed, from five years to three years in line with updates to the Group's strategic planning process.

The Group's approach to producing its viability statement can be found on page 41, with the viability statement found on page 101.

Significant accounting and reporting matters

The Committee considered how the following significant accounting and financial reporting matters were addressed in preparing the Group's financial statements.

Matter considered	Action
<p>Revenue Recognition</p> <p>The Group sells its products in different ways across the globe. Assessment of whether the Group's revenue recognition policies are appropriate and consistently applied continues to be a key focus of the Committee given the transition in business model to selling software as a service and the increased focus on recurring revenue through software subscriptions.</p> <p>The revenue recognition accounting policy is set out in note 3.1 to the financial statements and is referenced in the Group's critical accounting estimates and judgements.</p>	<p>Following the revenue restatement in 2015, the Committee continued to monitor the application of the Group's revenue recognition accounting policy. The Committee requested and received reports at four of its meetings during the year, and considered whether the work undertaken demonstrated that the policy was being applied on a consistent basis throughout the Group. The Committee also received reports from the external auditor on its findings.</p> <p>The Committee discussed and challenged management's conclusions, satisfying itself that a consistent approach had been applied to determine revenue recognised in 2016.</p> <p>In addition, the Committee discussed and provided input into management's proposed process for the implementation of IFRS 15 "Revenue from Contracts with Customers" and requested further updates on progress and impact assessment over the course of 2017.</p>
<p>Goodwill impairment testing</p> <p>Goodwill is an area of focus for the Committee given the quantum of the Group's goodwill balances, the evolution of Sage's business model and the impairments in 2014 and 2015 relating to the business in Brazil.</p> <p>In addition, judgements and assumptions are applied in calculating the recoverable amount of the Cash Generating Units ("CGUs").</p> <p>A summary of key assumptions used in the impairment test is set out in note 6.1 to the financial statements.</p>	<p>The Committee reviewed and considered a report prepared by management in respect of the annual assessment of the carrying value of goodwill. The report included detailed analysis in respect of key inputs that management used within its value in use calculations such as forecast cash flows and discount rates. The Committee considered the appropriateness of these assumptions and also reviewed the impact of a sensitivity analysis applying downside scenarios. From information provided in the report and from discussion at its September meeting, the Committee obtained appropriate assurance that an impairment to the carrying value of goodwill was not required. In addition, the Committee received and considered a report from the external auditor setting out their work in this area.</p> <p>The Committee also considered if there were any reasonably possible changes in assumptions that would result in a material impairment and therefore require further disclosure in the financial statements. The Committee was satisfied that no such disclosures were required.</p>
<p>Exceptional (non-recurring) items</p> <p>The Group is undergoing a major business transformation. The costs associated with delivering this are significant and will be incurred in both 2016 and 2017. The recognition and presentation of such costs as exceptional (non-recurring) items is a key area of focus for the Committee.</p> <p>A summary of the Group's accounting policy for exceptional (non-recurring) items is summarised in note 3.6 to the financial statements.</p>	<p>In anticipation of significant non-recurring business transformation costs, the Committee reviewed and agreed with management, the principles set out in the Group's accounting policy for exceptional (non-recurring) items.</p> <p>Management provided updates at four of the Committee's meetings during the year, of the amounts charged as exceptional (non-recurring) costs, including analysis of material elements of the costs. The net costs incurred in 2016 were £107.7m. The Committee also received reports from the external auditor on their findings.</p> <p>The Committee considered the appropriateness of the recognition and presentation of these costs and satisfied itself that the position taken was reasonable.</p>

Risk Management and Internal Controls

The Committee, on behalf of the Board, monitors and reviews the Company's internal control and risk management systems, reporting upon their effectiveness. This monitoring includes all material controls, including financial, operational and compliance controls, assessing that any corrective action is taken where necessary, and that the systems are fit for purpose. During the year, the Committee:

- Reviewed the principal risks, the associated risk appetites and metrics, and challenged and confirmed their alignment to the achievement of Sage's strategic objectives. At each meeting the Committee considered the ongoing overall assessment of each risk and management actions and mitigations in place and planned. This review was supported through consideration of quarterly risk dashboards outlining both principal and any escalated local risks;
- Reviewed summary reports and supplementary briefings from Sage Risk and management on selected principal risks and other relevant, current and important issues across the business as outlined below and on page 42;
- Reviewed Internal Audit and management reports on internal control including financial, compliance and operational matters, and monitored the implementation of management actions to address identified control weaknesses;
- Received, considered and concluded upon an assessment of the effectiveness of Internal Audit;
- Reviewed reports from the external auditor on the Group's financial reporting and internal financial control environment, including any issues identified in the course of their work and observations on controls and control weaknesses and where appropriate satisfied itself that there was an appropriate response from management;
- Reviewed incidents and instances of whistleblowing and associated management actions, escalated in accordance with the Incident Management and Whistleblowing policies;
- Considered any fraudulent activity and/or identified control issues to assess whether they demonstrated a significant failing or weaknesses in internal controls;

- Monitored, reviewed and discussed the effectiveness of the Global Risk Committee including its performance in maturing and embedding risk and the suitability of its composition;
- Reviewed and approved updates to Sage Policies for which the Committee is responsible; and
- Approved the creation of a Compliance function along with the appointment of a Head of Compliance.

In-Depth Reviews

The Committee uses in-depth reviews to consider selected principal risks and other relevant, current and important issues. During the year, the Committee undertook such reviews with relevant sponsors for two of the Group's principal risks, namely 'Supporting Control Environment' and 'Market Intelligence' in order to understand and challenge their reported status, mitigating actions and the progress made in the management of each risk. The Committee also received supplementary briefings on the Finance Transformation and roll-out of X3 and the establishment of Financial Shared Service Centres in both the UK and South Africa, to understand the status of transition and post go-live stabilisation plans alongside the impact of change on the associated control environment. The Committee considered reports received throughout the year on the scope and progress of the Excellence in Governance initiative and subsequently the implementation plans of a revised suite of Sage policies.

Incident Management, Fraud and Whistleblowing

Both the Incident Management Policy and the Whistleblowing Policy were updated and reviewed by the Committee during the year. The Committee considered the suitability and alignment of the policies, and confirmed their appropriateness in supporting full disclosure to senior executive management and the Committee. At each meeting the Committee received a summary report of escalated incidents and instances of whistleblowing, together with management actions. As part of this reporting process, the Committee is notified of all whistleblowing matters raised, including those that relate to financial reporting, the integrity of financial management, fraud, bribery or corruption. In addition, the Committee reviews the results and conclusions of the annual programme of fraud risk assessments across the business.

During the year a case of unauthorised access to customer information using an internal login was identified. The Board considered both a report on the incident including immediate proposed actions, and the subsequent progress of remediation. The Committee received and considered reports from Sage Risk and Sage Assurance regarding successful execution of remediation activity.

Further detail is set out at page 74, and other than reported, there were no incidents which demonstrated a significant failing or weakness in internal controls during the year.

Internal and External Audit

The Committee is required to review and approve the nature and scope of the work of the external auditor and Internal Audit. The Committee considered and approved the planned activities of Internal Audit and reviewed the scope of the work of the external auditor for the year. Regular reports were received from both Internal Audit and the external auditor and discussed by the Committee, including management's response to findings and observations set out in those reports.

The Committee also considered and monitored the independence of the external auditor and the application of, and compliance with, the Auditor Independence Policy, in particular with regard to any non-audit services. The Committee also considers business relationships with the external auditor which primarily relate to the procurement of Sage software.

Internal Audit

The Internal Audit Charter, which was reviewed and updated during the year, outlines the objectives, authority, scope and responsibilities of Internal Audit. The Charter, performance against it, and the effectiveness of Internal Audit, is reviewed by the Committee on an annual basis. The Committee also considers and evaluates the level of Internal Audit resource, its quality, experience and expertise, to ensure it is appropriate to provide the required level of assurance over the principal risks, processes and controls throughout the Group.

The Internal Audit plan was approved by the Committee at the beginning of the financial year, along with any subsequent quarterly changes.

Corporate governance report continued

Progress against the plan and the results of Internal Audit's activities, including the quality and timeliness of management responses, is monitored at each meeting, with significant issues identified within Internal Audit reports considered in detail by the Committee. During the year the Committee approved a refresh of the Internal Audit methodology and a revised approach to the required remediation timetable for all audit findings.

During the year, an assessment of internal audit was carried out by the VP Risk and Assurance, based upon the criteria and methodology of the PwC assessment in 2015, which evaluated Internal Audit against leading practices. This review considered progress against recommended areas for improvement from this evaluation, along with progress made against the pillars of the Assurance Strategy. The assessment concluded that Internal Audit remains effective and meets the needs of the Group. The Committee considered the approach and findings of the assessment and endorsed the conclusion.

External auditor – Ernst & Young (EY)

The Committee reviews and makes a recommendation with regard to the re-appointment of the external auditor. In making this recommendation, the Committee considers auditor effectiveness and independence, partner rotation and any other factors which may impact the Committee's judgement regarding the external auditors. This has been EY's second year as Sage's external auditor following the formal tender process conducted in 2014.

The Committee confirms that Sage has complied with the Statutory Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Responsibilities) Order 2014 with regard to the requirement for formal tendering every ten years.

The Committee monitored the conduct and effectiveness of the external auditor during the year, considering its independence, objectivity and scepticism, through its own observations and interactions with the external auditor, and with regard to the:

- Experience and expertise of the auditor in their direct communication with, and support to, the Committee;
- Content, quality of insights and added value of their reports;
- Fulfilment of the agreed external audit plan;

- Robustness and perceptiveness of the external auditor in their handling of key accounting and audit judgements;
- The interaction between management and the auditor, including ensuring that management dedicates sufficient time to the audit process;
- Provision of non-audit services as set out below; and
- Review and consideration of the results of management's evaluation of the effectiveness of the external auditor.

The Committee's own assessment of the effectiveness of the external auditors was supplemented by a report from management summarising the findings of a survey of key Sage colleagues which covered the quality of the auditors' reporting to, and interaction with, the various finance teams across the Group. Management concluded that in its second year, the audit relationship continued to develop across the Group and was effective.

During the year an Audit Quality Review Team ("AQRT") from the FRC undertook an inspection of EY's audit of the Group's 2015 financial statements. As part of that process the Chairman met with the inspection team to share his and the Board's perspectives on the quality of EY's audit and its delivery on commitments made by the audit firm as part of the audit tender process. On completion of the review the Audit and Risk Committee considered the AQRT's final report on its inspection and discussed it with the audit partner. The Audit and Risk Committee was pleased with the overall assessment which was consistent with its own view on the quality and effectiveness of the 2015 audit.

Private meetings were held with the external auditor at each Committee meeting to provide additional opportunity for open dialogue and feedback from the external auditor without management being present. In addition to these private meetings the Chairman meets on a regular basis with the external auditor to facilitate effective and timely communication. Further, the Committee received a formal statement of independence from the external auditor.

Having considered all of the above, the Committee has recommended to the Board that a resolution to reappoint EY be proposed at the 2017 AGM and the Board has accepted and endorsed this recommendation.

Non-audit services

The Auditor Independence Policy ("Policy") specifies the role of the Committee in reviewing and approving non-audit services in order to ensure the ongoing independence of the external auditor. A summary of non-audit fees paid to the external auditor is provided to the Committee on a quarterly basis.

In anticipation of new legislation and Revised Ethical Standards that were subsequently finalised in 2016, in the current year the Policy stated that the external auditor is prohibited from undertaking services certain services including, but not limited to, the following:

- Tax services;
- Payroll services;
- Bookkeeping and preparing accounting records and financial statements;
- Valuation services;
- Legal services;
- Internal audit services;
- Services linked to the financing, capital structure and allocation, and investment strategy; and
- Services that involve playing any part in the management or decision-making of Sage.

The Policy also requires that the ratio of audit fees to non-audit fees must be within Sage's pre-determined ratio, and non-audit fees for the year must not exceed 70% of the average of the external audit fees billed over the previous three years. This was EY's second year as the Group's external auditor and, as such, this ratio will be monitored over future periods. In 2016, the ratio of non-audit fees to audit fee was <4% reflecting a non-audit services engagement review of the Group's interim financial statements and, at the request of the Remuneration Committee, performing agreed upon procedures in relation to management incentive arrangements. These services were pre-approved in line with the Auditor Independence Policy. A breakdown of total audit and non-audit fees charged by the external auditor for the year under review is shown in note 3 to the financial statements.



Jonathan Howell
Chairman of the Audit and Risk
Committee
29 November 2016

Nomination Committee



Donald Brydon
Chairman of the Nomination Committee

Nomination Committee membership:

- Donald Brydon – Chairman
- Jonathan Howell
- Neil Berkett
- Drummond Hall
- Inna Kuznetsova
- Ruth Markland

Committee purpose and responsibilities

The purpose of the Committee is to review the composition, skills and experience of the Board and to plan for its progressive refreshing, with regard to balance and structure. The Committee also considers issues of succession.

Committee meetings

This year the Committee's main activity was focused on Board succession planning, which it did over four meetings and frequent informal exchanges.

The Committee's annual evaluation was externally facilitated by IBE. It was concluded that the Committee continued to operate effectively.

Diversity

In considering appointments to the Board and to senior executive positions, it is the policy of the Committee to evaluate the skills,

experience and knowledge required by a particular role with due regard for the benefit of diversity including gender diversity on the Board and at senior management level and make an appointment accordingly. The Board and the Committee have noted the recommendations of the Hampton-Alexander Review in November 2016 to increase female board representation to at least 33% by 2020 and the recommendations of the Parker Review on board ethnic diversity.

Further details on diversity are provided at page 74.

Management succession and talent pipeline

The Committee has continued to work to put appropriate succession plans in place in order to ensure the right mix of skills and experience of Board members now and in the future. In addition, the Board recognises the need for talent to be nurtured within executive and management levels and across the Group as a whole.

During the year, the Board continued to focus on strengthening the pipeline of executive talent in the Company. A comprehensive talent review was presented to the Board, mapping successional candidates across all senior roles within the business. The skills and experience of those senior leaders were also reviewed to ensure that there is the right mix in place to help deliver the strategic objectives of the Company and to build a high performance culture. The Board is committed to the development of the senior leadership team through initiatives such as the Executive Development Programme, which seeks to broaden the skillset and experience of key senior talent and prepare them for future

"The Committee evaluates the skills, knowledge and experience required for a successful board in a changing industry."

opportunities and key leadership positions within Sage. The Chairman and the CEO, with assistance from the Chief People Officer will continue to work on managing succession arrangements for the executive directors.

Board changes

Ruth Markland has served as the Board's Senior Independent Director with great distinction and has brought her own style to the role, discharging her responsibilities with great diligence. Ruth completed 10 years of service on the Board in September 2016. Her experience as the longest serving Board member has provided valuable insight and continuity. Ruth has decided not to seek re-election to the Board at the Annual General Meeting in February 2017. Inna Kuznetsova has also decided to stand down from the Board at the Annual General Meeting. Inna joined the board in March 2014. Although she has been with Sage for a shorter time than Ruth, she has brought a new perspective to the Board's deliberations. The Committee has reviewed the Board's composition with respect to both skills and diversity and as a consequence has engaged a specialist firm, Sciteb, which undertakes no other business for the Company, to present it with possible candidates for non-executive director roles. It anticipates making recommendations to the Board in time to ensure appropriate succession to Ruth and Inna. Drummond Hall has accepted the appointment of Senior Independent Director, to take effect from the end of the Annual General Meeting.

A handwritten signature in black ink that reads "Donald Brydon".

Donald Brydon
Chairman of the Nomination Committee
29 November 2016

Remuneration Committee



Drummond Hall
Chairman of the Remuneration Committee

Remuneration Committee membership:

- Drummond Hall, Chairman
- Donald Brydon
- Neil Berkett
- Jonathan Howell
- Inna Kuznetsova
- Ruth Markland

Dear fellow shareholder,

It is my pleasure to present the Directors' remuneration report for the year ended 30 September 2016.

We aim to be entirely transparent in our remuneration practices and provide shareholders with the information needed to make informed decisions about our company. We are proposing no changes to our policy having received shareholder agreement at our AGM in 2016. Our guiding principle continues to be one of developing a high performance culture through clear linkage of individuals' remuneration to our strategic business KPIs.

Objectives and responsibilities

Our main objective is to determine the framework, broad policy and levels of remuneration for the Group's Chief Executive Officer, the Group's Chief Financial Officer, the Chairman of the Company and other executives as deemed appropriate. This framework includes, but is not limited to, establishing stretching performance-related elements of reward and is intended to promote the long-term success of the Company. We achieve this through:

- Providing recommendations to the Board, within agreed terms of reference, on Sage's framework of executive remuneration
- Determining the contract terms, remuneration and other benefits for each of the executive directors, including performance share awards, performance-related bonus schemes, pension rights and compensation payments
- Monitoring remuneration for senior executives below Board level
- Approving share awards

"We are proposing no changes to our policy, with remuneration being designed to create a strong performance-oriented environment."

Committee meetings

No one other than a member of the Committee is entitled to be present at its meetings. The Chief Executive Officer may, as required, attend meetings, except where his own performance or remuneration is discussed. No director is involved in deciding his or her own remuneration.

The Committee is required, in accordance with its terms of reference, to meet at least four times per year. During this financial year, the Committee met five times.

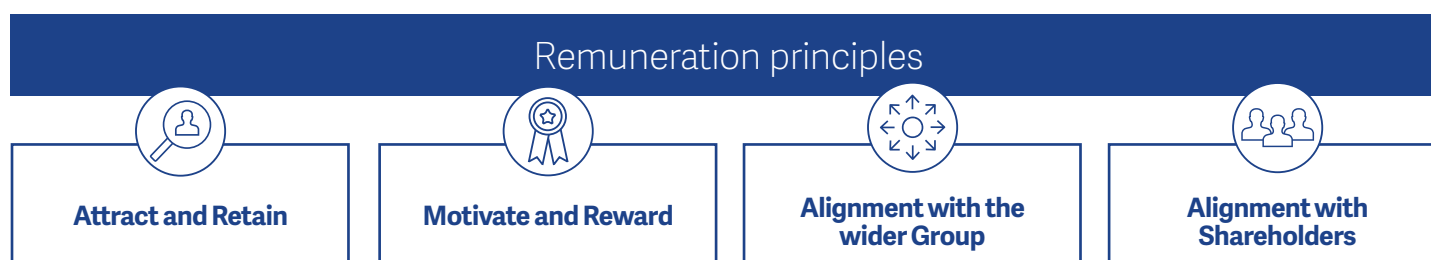
Key remuneration outcomes for FY16

For the year ended 30 September 2016, Group recurring plus processing revenue growth was 9.8%, reflecting good acceleration in growth on the prior year. Combined with the achievement of their strategic objectives, this led to 69% of the maximum bonus paying out for the Chief Executive Officer and 69% for the Chief Financial Officer. More details on the bonus outcome are set out on page 90.

Performance Share Plan (PSP) awards granted in 2014 were based on organic revenue growth, earnings per share growth and relative TSR performance measured over the three-year period to 30 September 2016. Overall, the Committee determined that 64% of the maximum number of shares under award will vest in March 2017. Further detail is set out on page 91.

Remuneration at a glance

This section provides a high level introduction to remuneration at Sage. Further details can be found within the report at the noted page.



The key elements of our remuneration policy are summarised below.

Element of Remuneration Policy	Purpose	Application of Element in FY17 for CEO	Application of Element in FY17 for CFO
Base salary	Enables Sage to attract and retain executive directors of the calibre required to deliver the Group's strategy	£810,000 (2.5% increase effective 1 January 2017)	£522,000 (2.5% increase effective 1 January 2017)
Pension	Provides a competitive post-retirement benefit, in a way that manages the overall cost to the Company	25% of base salary	25% of base salary
Benefits	Provide a competitive and cost-effective benefits package to executives to assist them to carry out their duties effectively	Car allowance, medical insurance costs of travel, accommodation and subsistence for the directors and their partners on Sage-related business if required	Car allowance, medical insurance, costs of travel, accommodation and subsistence for the directors and their partners on Sage-related business if required
Annual bonus	Rewards and incentivises the achievement of annual financial and strategic targets. A minimum of one-third deferral into shares is compulsory, with the remainder delivered in cash	Maximum 125% of base salary	Maximum 125% of base salary
Performance Share Plan (PSP)	Supports achievement of our strategy by targeting performance under our key financial performance indicators	Face value of 250% of base salary	Face value of 250% of base salary
All-employee share plans	Provides an opportunity for directors to voluntarily invest in the Company	Eligible to participate up to the tax-efficient limit of £500 per month	Eligible to participate up to the tax-efficient limit of £500 per month
Chairman and non-executive director fees	Provide an appropriate reward to attract and retain high-calibre individuals	No change – see page 96 of this report for a list of non-executive director fees	
Shareholding guidelines	The shareholding requirement for directors is 200% of base salary and achievement of this is expected within a maximum of five years from the time the director became subject to the policy	Shareholding at 30 September 2016 is 191% of base salary	Shareholding at 30 September 2016 is 18% of salary, which is made up of unvested deferred shares net of tax ¹

Note:

1. Steve Hare has committed to holding shares relating to his PSP vestings in 2017 – the first of his long-term awards to vest – which are projected to achieve his shareholding requirement after one year of becoming subject to the policy.

Directors' remuneration report continued

Directors' remuneration at a glance continued

Delivering our remuneration principles in 2017

Our remuneration policy, which was approved by shareholders at the 2016 AGM, underpins the delivery of these four key remuneration principles. At the heart of this policy is a relatively straightforward remuneration arrangement for our most senior executives comprising base salary and benefits, an annual bonus plan and a long-term incentive plan (the Performance Share Plan (PSP)).

Our remuneration principles	Delivering our remuneration principles in 2017
 <p>Attract and retain We offer competitive rates of pay and benefits to attract and retain the best people in a competitive international market which includes private-equity backed organisations as well as listed companies.</p>	<p>No changes are proposed in 2017 to our maximum level of performance-related pay under either the annual bonus plan or the PSP</p> <p>The CEO will receive a salary increase of 2.5% and the CFO will receive a salary increase of 2.5% effective 1 January 2017, consistent with the median pay award for employees based in the UK.</p>
 <p>Motivate and reward Remuneration at Sage is designed to create a strong performance-oriented environment for the taking of appropriate risks and rewards achievement of our Company strategy and business objectives.</p>	<p><i>2017 annual bonus</i> In 2016, the annual bonus measure for executive directors was Group recurring revenue growth (80% of overall bonus potential) and strategic measures (20% of overall bonus potential). As outlined in the strategic report on page 47, organic revenue growth is the key strategic measure of performance during the coming year and the Committee has therefore determined that in 2017 the key bonus measure shall be Group organic revenue growth (80% of overall bonus). Strategic measures linked to executives' VSGM¹ goals, which are derived from the process explained in the strategic report on page 27, make up the remaining 20% of bonus. Payout under the organic revenue growth measure will be dependent upon the satisfaction of underpin conditions based on recurring revenue growth, and underlying operating profit margin.</p> <p><i>2017 PSP awards</i> There are no changes to performance measures for PSP awards:</p> <ul style="list-style-type: none"> – Half of the 2017 PSP award will be subject to a performance measure based on relative TSR performance. This measure will help to ensure management's continued focus on overall Group growth and delivery of shareholder value – Half of the 2017 PSP award will be subject to a performance measure based on recurring revenue growth. This continues the close alignment with our medium-term strategic priorities, to grow our subscription-based services and acquire new customers – For any of the recurring revenue growth element of the 2017 PSP award to vest, two "underpin" performance conditions based on EPS growth and organic revenue growth will also need to be achieved

Note:

1. "VSGM" stands for "Vision, Strategy, Goals and Measures". Goal setting begins with the CEO and cascades down through leadership. Senior management goals are aligned to strategic pillars and shared throughout Sage

Our remuneration principles

Delivering our remuneration principles in 2017



Alignment with the wider Group

Pay and employment conditions elsewhere in the Group are considered when determining executive base salary and bonus reviews.

The remuneration policy for executives reflects the overriding remuneration philosophy and principles of the wider Group, including but not limited to the principles on which salaries are reviewed and the structure of performance-related incentive plans. Details of pay arrangements for executive directors are set out in the annual remuneration report on pages 89 to 100.



Alignment with shareholders

The interests of our senior management team are aligned with those of shareholders by having a significant proportion of remuneration performance-based and delivered through shares, together with a significant shareholding requirement.

Our existing pay structure for executive directors and other senior management is heavily weighted towards share-based performance-related pay which is designed to align executive and shareholder interests. The following practices will continue in 2017:

Malus / clawback

All incentives awarded to executive directors and Executive Committee members are subject to malus and clawback provisions. Details of the implementation of those provisions are set out in the Directors' annual remuneration report and policy.

Compulsory bonus deferral

All executive directors are compulsorily required to defer one-third of their bonus into Sage shares. The deferral period is currently two years, increasing to three years with effect from 2018.

Enhanced shareholding requirement

Effective from the 2016 AGM, the shareholding requirement for directors is 200% of base salary and directors are expected to achieve the guideline within a maximum period of five years from when they first become subject to the guideline.

Single figure for total remuneration summary:

	2016 Total £'000	2015 Total £'000
Director		
Executive directors		
S Kelly	1,711	1,521
S Hare	3,125	1,065
Non-executive directors		
D H Brydon	396	408
R Markland	75	78
N Berkett	60	60
D Hall	76	70
J Howell	77	77
I Kuznetsova	60	60

Note:

The single figure total in 2016 for S Kelly reflects his first full year in office with no salary increase since date of joining. The figure shown for S Hare shows an increase arising from the vesting of two performance share plan awards. See page 89 for further details of the valuation methodology and page 91 for an explanation of the vesting of those awards.

Remuneration disclosure

This report complies with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013, the provisions of the UK Corporate Governance Code (September 2012) and the Listing Rules.

There will be no shareholder vote for the remuneration policy and an advisory vote on the annual remuneration report.

The report is in two sections:

- **The Directors' remuneration policy** (pages 86 to 88).
- **The Directors' annual remuneration report (pages 89 to 100)**. This section sets out details of how our existing remuneration policy was implemented for the year ended 30 September 2016 and how we intend the policy to apply for the year ending 30 September 2017.

Drummond Hall
Chairman of the Remuneration Committee

Remuneration policy

Purpose of this section:

- Provides detail of the key elements of our remuneration policy

The current policy report was approved by shareholders at the 2016 AGM and can be found on our website (www.sage.com).

Remuneration policy table

The table below sets out our remuneration policy.

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
<p>Base salary</p> <p>Supports the recruitment and retention of executive directors of the calibre required to deliver the Group's strategy.</p> <p>Rewards executives for the performance of their role.</p> <p>Set at a level that allows fully flexible operation of our variable pay plans.</p>	<p>Normally reviewed annually, with any increases applied from January.</p> <p>When determining base salary levels, consideration is given to the following:</p> <ul style="list-style-type: none"> – Pay increases for other employees in major operating businesses of the Group – The individual's skills and responsibilities – Pay at companies of a similar size and international scope to Sage, in particular those within the FTSE 100 (excluding the top 30) – Corporate and individual performance 	<p>Ordinarily, salary increases will be in line with increases awarded to other employees in major operating businesses of the Group. However, increases may be made above this level at the Committee's discretion to take account of individual circumstances such as:</p> <ul style="list-style-type: none"> – Increase in scope and responsibility – Increase to reflect the individual's development and performance in role (e.g. for a new appointment where base salary may be increased over time rather than set directly at the level of the previous incumbent or market level) – Alignment to market level <p>Accordingly, no monetary maximum has been set.</p>	<p>None, although overall performance of the individual is considered by the Remuneration Committee when setting and reviewing salaries annually.</p>
<p>Pension</p> <p>Provide a competitive post-retirement benefit, in a way that manages the overall cost to the Company.</p>	<p>Defined contribution plan (with Company contributions set as a percentage of base salary).</p> <p>An individual may elect to receive some or all of their pension contribution as a cash allowance.</p>	<p>25% of base salary for all executive directors. No element other than base salary is pensionable.</p>	<p>None.</p>
<p>Benefits</p> <p>Provide a competitive and cost-effective benefits package to executives to assist them to carry out their duties effectively.</p>	<p>The Group provides a range of benefits which may include a car benefit (or cash equivalent), private medical insurance, permanent health insurance, life assurance and financial advice.</p> <p>Additional benefits may also be provided in certain circumstances which may include relocation expenses, housing allowance and school fees. Other benefits may be offered if considered appropriate and reasonable by the Committee.</p>	<p>Set at a level which the Remuneration Committee considers:</p> <ul style="list-style-type: none"> – Appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market – Provides a sufficient level of benefit based on the role and individual circumstances, such as relocation <p>As the costs of providing benefits will depend on a director's individual circumstances, the Remuneration Committee has not set a monetary maximum</p>	<p>None.</p>

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
<p>Annual bonus</p> <p>Rewards and incentivises the achievement of annual financial and strategic targets.</p> <p>An element of compulsory deferral provides a link to the creation of sustainable long-term value.</p>	<p>Measures and targets are set annually and payout levels are determined by the Remuneration Committee after the year end based on performance against those targets.</p> <p>The Remuneration Committee may, in exceptional circumstances, amend the bonus payout should this not, in the view of the Committee, reflect overall business performance or individual contribution.</p> <p>A minimum of one-third of any annual bonus earned by executive directors is delivered in deferred share awards, with the remainder delivered in cash. The length of the deferral period will be determined by the Remuneration Committee before the grant of an award.</p>	<p>125% of salary.</p>	<ul style="list-style-type: none"> – 80% of the bonus will be determined by measure(s) of Group financial performance. – 20% of the bonus will be based on pre-determined financial, strategic or operational measures appropriate to the individual director. <p>The measures that will apply for the financial year 2017 are described in the Directors' annual remuneration report.</p>
<p>Performance Share Plan (PSP)</p> <p>Motivates and rewards the achievement of long-term business goals.</p> <p>Supports the creation of shareholder value through the delivery of strong market performance aligned with the long-term business strategy.</p> <p>Supports achievement of our strategy by targeting performance under our key financial performance indicators.</p>	<p>Awards vest dependent upon the achievement of performance conditions measured over a period of at least three years.</p> <p>Following the end of the performance period, the performance conditions will be assessed and the percentage of awards that will vest will be determined.</p> <p>The Committee may decide that the shares in respect of which an award vests are delivered to participants at that point or that awards will then be subject to an additional holding period before participants are entitled to receive their shares.</p> <p>A holding period will normally last for two years, unless the Committee determines otherwise.</p> <p>The Remuneration Committee has discretion to decide whether and to what extent the performance conditions have been met, and if an event occurs that causes the Committee to consider that an amended or substituted performance condition would be more appropriate and not materially less difficult to satisfy, the Committee may amend or substitute any performance condition.</p>	<p>Awards vest on the following basis:</p> <ul style="list-style-type: none"> – Target performance: 20% of the maximum shares awarded – Stretch performance: 80% of the maximum shares awarded – Exceptional performance: 100% of the shares awarded <p>With straight-line vesting between each level of performance.</p> <p>Current annual award levels (in respect of a financial year of the Company) for executive directors are 250% of base salary at the time of grant. Overall individual limit of 300% of base salary under the rules of the plan.</p> <p>The Committee retains the discretion to make awards up to the individual limit under the PSP and, as stated in previous remuneration reports, would expect to consult with significant investors if awards were to be made routinely above current levels.</p>	<p>Performance is assessed against two independently-measured metrics which are equally weighted:</p> <ul style="list-style-type: none"> – 50% recurring revenue growth – 50% relative TSR performance against the FTSE 100 (excluding financial services and extracting companies) <p>At its discretion, the Committee may elect to add additional underpin performance conditions to one or both of the above metrics.</p> <p>Details of the targets that will apply for awards granted in 2016 are set out in the Directors' annual remuneration report.</p>
<p>All-employee share plans</p> <p>Provides an opportunity for directors to voluntarily invest in the Company.</p>	<p>UK-based executive directors are entitled to participate in a UK tax-approved all-employee plan, The Sage Group Savings-Related Share Option Plan, under which they make monthly savings over a period of three or five years linked to the grant of an option over Sage shares with an option price which can be at a discount of up to 20% of the market value of shares on grant.</p> <p>Options may be adjusted to reflect the impact of any variation of share capital.</p> <p>An overseas-based executive director is entitled to participate in any similar all-employee scheme operated by Sage in their jurisdiction.</p>	<p>UK participation limits are those set by the UK tax authorities from time to time. Currently this is £500 per month. Limits for participants in overseas schemes are determined in line with any local legislation.</p>	<p>None.</p>

Directors' remuneration report continued

Directors' remuneration policy continued

Remuneration policy table continued

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
<p>Chairman and non-executive director fees</p> <p>Provide an appropriate reward to attract and retain high-calibre individuals.</p> <p>Non-executive directors do not participate in any incentive scheme.</p>	<p>Fees are reviewed periodically.</p> <p>The fee structure is as follows:</p> <ul style="list-style-type: none"> – The Chairman is paid a single, consolidated fee – The non-executive directors are paid a basic fee, plus additional fees for chairmanship of Board Committees and to the Senior Independent Director – Fees are currently paid in cash but the Company may choose to provide some of the fees in shares <p>The Chairman has the use of a car and driver.</p> <p>Non-executive directors may be eligible for benefits such as company car, use of secretarial support, healthcare or other benefits that may be appropriate including where travel to the Company's registered office is recognised as a taxable benefit, in which case a non-executive may receive the grossed-up costs of travel as a benefit.</p>	<p>Set at a level which:</p> <ul style="list-style-type: none"> – Reflects the commitment and contribution that is expected from the Chairman and non-executive directors – Is appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market, particularly companies of a similar size and international scope to Sage, in particular those within the FTSE 100 (excluding the top 30) <p>Overall fees paid to directors will remain within the limit stated in our articles of association, currently £1m.</p> <p>Actual fee levels are disclosed in the Directors' annual remuneration report for the relevant financial year.</p>	<p>None.</p>

Notes:

- Annual bonus performance measures have been selected to provide an appropriate balance between incentivising directors to meet profitability and other financial targets for the year and achieve strategic operational objectives. The measures and targets are selected every year by the Committee.
- Performance Share Plan: recurring revenue growth is a key measure of the success of the execution of our long-term strategy. TSR is considered a key measure for a number of our shareholders and provides further alignment with value created for shareholders.
- Awards granted under the deferred bonus plan and the PSP may:
 - (a) be made in the form of conditional awards or nil-cost options and may be settled in cash;
 - (b) incorporate the right to receive an amount (in cash or shares) equal to the dividends which would have been paid or payable on the shares that vest in the period up to vesting (or, where PSP awards are made subject to a holding period, the end of the holding period). This amount may be calculated assuming the dividends were reinvested in the Company's shares on a cumulative basis; and
 - (c) be adjusted in the event of any variation of the Company's share capital, demerger, delisting, special dividend, rights issue or other event which may, in the opinion of the Remuneration Committee, affect the current or future value of the Company's shares.
- Provisions to withhold (malus) or recover (clawback) sums paid under the annual bonus and PSP in the event of material negative circumstances, such as material misstatement in the Company's audited results, serious reputational damage or significant financial loss to the Company (as a result of the participant's misconduct), an error in assessing the performance metrics relating to the award or the participant's gross misconduct, are incorporated into both the PSP and deferred bonus plan. These provisions may apply up to three years from the date a PSP award vests/is released or a minimum of two years from the date a cash bonus is paid or a deferred share award is granted.
- While our remuneration policy follows the same principles across the Group, packages offered to employees reflect differences in market practice in the different countries the Group operates in and also differences in size of role.
- All directors submit themselves for re-election annually.
- The Remuneration Committee intends to honour any commitments entered into with current or former directors on their original terms, including outstanding incentive awards, which have been disclosed in previous remuneration reports and, where relevant, are consistent with a previous policy approved by shareholders. Any such payments to former directors will be set out in the Remuneration Report as and when they occur.
- The Remuneration Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed: (i) before the date the Company's first remuneration policy approved by shareholders in accordance with section 439A of the Companies Act came into effect; (ii) before the policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved remuneration policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Remuneration Committee, the payment was not in consideration for the individual becoming a director of the Company. For these purposes "payments" includes the Remuneration Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.
- The Remuneration Committee may make minor amendments to the policy (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

Directors' annual remuneration report

Purpose of this section:

- Provides remuneration disclosures for executive and non-executive directors
- Details financial measures for bonus and PSP
- Illustrates Company performance and how this compares to executive pay
- Outlines implementation of remuneration policy for executive and non-executive directors for 2017

Single figure for total remuneration (audited information)

The following table sets out the single figure for total remuneration for executive directors for the financial years ended 30 September 2015 and 2016.

Director	(a) Salary/fees ¹ £'000		(b) Benefits ³ £'000		(c) Bonus ⁴ £'000		(d) Pension ⁵ £'000		(e) PSP awards ⁶ £'000		(f) Other ⁷ £'000		Total ⁸ £'000	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Executive directors														
S Kelly ²	790	718	38	19	686	599	197	179	–	–	–	6	1,711	1,521
S Hare	505	491	61	37	442	414	126	123	1,991	–	–	–	3,125	1,065
Non-executive directors														
D H Brydon	360	360	36	48	–	–	–	–	–	–	–	–	396	408
R Markland	75	78	–	–	–	–	–	–	–	–	–	–	75	78
N Berkett	60	60	–	–	–	–	–	–	–	–	–	–	60	60
D Hall	76	70	–	–	–	–	–	–	–	–	–	–	76	70
J Howell	77	77	–	–	–	–	–	–	–	–	–	–	77	77
I Kuznetsova	60	60	–	–	–	–	–	–	–	–	–	–	60	60

Notes:

- Details of salary progression since appointment for the current executive directors are summarised in the Statement of implementation of remuneration policy in the following financial year on page 95. Current fees for the Chairman and non-executive directors are set out on page 96.
- Stephen Kelly joined the Company on 5 November 2014; his remuneration for 2015 is shown on a part-year basis.
- Benefits provided to the executive directors included: car benefits or cash equivalent, private medical insurance, permanent health insurance, life assurance, financial advice and where deemed to be a taxable benefit, the costs of travel, accommodation and subsistence for the directors and their partners on Sage-related business if required. A portion of Steve Hare's benefits relate to the grossed-up cost of his travel to Sage's London office which, since 1 April 2015, has been deemed a taxable benefit as a result of the enhanced amount of time that he has been required to spend in London attending to Sage matters. Donald Brydon receives a company car benefit, the taxable value of which has reduced year-on-year as he no longer uses a fuel card.
- Bonus payable in respect of the financial year including any deferred element at face value at date of award. Further information about how the level of 2016 award was determined is provided in the additional disclosures below.
- Pension emoluments for both executive directors were equal to 25% of base salary. Both elected to receive them as a cash allowance.
- The 2016 PSP value is based on the PSP award granted in 2014 which is due to vest in 2017. Steve Hare received two PSP awards in 2014. As noted on page 84 of the 2013 Annual Report, he received an award under Sage's normal grant policy and a second award as compensation for share awards received in his previous employment and forfeited as a result of joining Sage. Both of Steve Hare's awards have the same performance conditions. The value is based on the number of shares vesting in 2017 multiplied by the average price of a Sage share between 1 July and 30 September 2016, which was 709.2p, plus 23,168 dividend equivalents accrued (or accruable). £820,636 of the value can be attributed to the increase in share price between the grant and vesting dates. Stephen Kelly does not have a 2014 PSP award.
- This column captures Stephen Kelly's award under the Sage Group Savings Related Share Option Plan (SRSOP), as detailed on page 83 of the 2015 Annual Report. It has been valued as the number of options multiplied by the difference on the grant date (17 June 2015) between the share price (540.5p) and the option price (456p).
- Total remuneration for directors in 2016 was £5,580,000 compared to £3,447,000 in 2015. The total remuneration figure for 2015 includes Guy Berruyer who left Sage in that financial year.

Directors' remuneration report continued

Directors' annual remuneration report continued

Additional disclosures for single figure for total remuneration table

Annual bonus 2016

The bonus targets for FY16 were set by reference to the revised strategy for FY16 in particular the achievement of accelerated recurring revenue growth, taking into account the Company's annual budget and consensus in determining the payout curve. The actual target ranges for 2016 for the financial performance measures have not been disclosed as this is considered by the Board to be commercially sensitive information, bearing in mind that many of our competitors are unlisted companies who do not provide this level of disclosure. An indication of where actual performance fell within each range is given in the table below. Retrospective disclosure of the target ranges will be made in next year's Remuneration Report once the information is no longer considered commercially sensitive by the Board.

Bonus measure	% Weighting	Threshold	Potential	Performance outcome as a % of maximum bonus
Recurring revenue growth ¹	80			Achievement of 9.8% for FY16 was 89% of full potential, resulting in 53% of the maximum bonus becoming payable.
Strategic measures (see directors' personal strategic objectives table below)	20			Stephen Kelly's achievement of strategic objectives for FY16 led to 16% of the maximum bonus becoming payable. Steve Hare's achievement of strategic objectives for FY16 led to 16% of the maximum bonus becoming payable.
Overall assessment				Stephen Kelly received a bonus equal to 87% of salary (69% of the maximum). One-third of the total bonus was deferred into Sage shares for two years under the compulsory bonus deferral requirement in the 2016 remuneration policy. Steve Hare received a bonus equal to 87% of salary (69% of the maximum). One-third of the total bonus was deferred into Sage shares for two years under the compulsory bonus deferral requirement in the 2016 remuneration policy.

Note:

1. Recurring revenue growth is defined on page 170. For the purposes of assessing bonus performance in 2016, recurring revenue includes recurring revenues generated from our payments processing business. Recurring revenue plus payments processing revenue for 2015 has been retranslated at 2016 foreign currency exchange rates to provide a comparison of underlying performance, and the rates selected are the same as those used to determine the targets. Payment of a bonus is subject to the achievement of three underpin conditions: Group organic revenue growth, Group underlying operating margin and Group software subscription growth, which were met, permitting the payment of a bonus.

Executive directors' personal strategic objectives

Executive directors' personal strategic objectives were set by the Committee at the beginning of the financial year, consistent with the key deliverables within the annual budget. Targets for strategic objectives are considered to be commercially sensitive and are not disclosed. However, details of metrics that were taken into account by the Committee in coming to its assessment of this measure are set out below:

CEO measures (20% of bonus payable)

Grow global product revenues

Sage One paying subscriptions grown by 81% over 2016
X3 new licence revenue grown by 17% over 2016

CFO measures (20% of bonus payable)

Deliver operational efficiencies

Organic revenue growth and operating margin commitments achieved whilst making £51m of run-rate savings through a major reorganisation of the business

Increase Global Net Promoter Score

Global Net Promoter Score grown by 61% over 2016

Strengthen risk and governance frameworks

- 'Excellence in governance' programme embedded across the business (as noted on page 40) with a new global policy suite and mandatory training, improving the Company's risk management and compliance culture
- Continued to develop and embed the process for the identification and assessment of the Company's principal risks. This process also encompassed the resetting and ongoing review of key risk measurement metrics. In conjunction with the Global and Regional risk committees, established programmes to manage and mitigate the principal risks

Disclosure of 2015 bonus targets

The target ranges for financial measures used to determine the 2015 bonus were not disclosed in last year's Annual Report & Accounts as this was considered by the Board to be commercially sensitive information. Last year's Report stated that it was intended for retrospective disclosure to be made after a period of one year. The table below therefore sets out the target ranges for the financial measures that were used to determine the 2015 bonus.

Bonus measure	% weighting	Threshold performance	Target performance	Stretch performance	Actual performance	% of maximum bonus payable
Underlying PBT ¹	50%	£351m (6% of bonus payable)	£361m (30% of bonus payable)	£372m (50% of bonus payable)	£361.7m	31%
Organic revenue growth ²	30%	3% (3.6% of bonus payable)	6% (18% of bonus payable)	8% (30% of bonus payable)	6.7%	22%
Strategic measures	20%	The assessment of strategic measures was disclosed on page 84 of the 2015 Annual Report (Between 2.4% and 20% of bonus payable)				CEO: 14% CFO: 14%
Total						CEO 67% of maximum bonus (84% of salary) CFO 67% of maximum bonus (84% of salary)

Notes:

1. Underlying PBT is defined on page 163 of the 2015 Annual Report. Targets and actuals are stated at 2015 actual foreign currency exchange rates to facilitate comparison with the published accounts. As noted on pages 76, 83 and 84 of the 2015 Report, targets and actuals are presented on the basis of the prior revenue recognition policy explained on page 44 of the 2015 Report, as this was consistent with the basis on which targets were set at the beginning of the performance period.

2. Organic revenue growth is defined on page 163 of the 2015 Annual Report.

PSP awards

Awards granted under the PSP in 2014 vest depending on performance against three equally weighted measures, measured over three years, from 1 October 2013 to 30 September 2016:

- One-third organic revenue growth with a margin underpin
- One-third EPS growth
- One-third relative TSR performance against the FTSE 100 (excluding financial services and extracting companies)

For each measure, three levels of performance are defined below, with straight-line vesting between each level of performance: target, stretch and exceptional.

Measure	Between target and stretch	Between stretch and exceptional
EPS growth (CAGR)	Between 6% and 12%	Between 12% and 15% (or above)
Relative TSR	Between median and upper quartile	Between upper quartile and upper decile (or above)
Organic revenue growth (CAGR)	Between 4% and 8%	Between 8% and 10% (or above)
	20% of the award vests for the achievement of target, with 80% of the award vesting for the achievement of stretch	80% of the award vests for the achievement of stretch, with 100% of the award for the achievement of exceptional performance

For the organic revenue growth measure to vest, margin at 30 September 2016 must be at least the level at the beginning of the performance period. The TSR vesting percentage may only exceed 80% ("Stretch" level) if performance against either the EPS target or the organic revenue growth target is also at "Stretch" level.

Measure	Achieved	Vesting
EPS growth (CAGR)	10.4%	21.2%
Relative TSR	99 th percentile	26.7%
Organic revenue growth (CAGR)	5.9%	16.0%
Total		63.9%

A change in accounting policy for revenue recognition was introduced in financial year 2015, the basis of which is explained on page 44 of our 2015 Annual Report. This change in policy, which occurred mid-way through the performance cycle, affects the calculation of both organic revenue and EPS. Organic revenue and EPS growth over the three-year performance period of this PSP award has therefore been calculated on an amalgamated basis comprising growth for each of 2014 and 2015 assessed on the prior accounting basis plus growth for 2016 assessed on the revised accounting basis. This approach was adopted by the Committee in order that the basis of calculation for each year remains consistent with the financial measures and targets communicated to employees and the market at the start of that particular year. The Committee has determined that this basis of calculation does not make the growth targets materially more or less difficult to satisfy than when they were originally set.

The Committee also determined that the margin underpin condition had been met, allowing the portion of the award relating to organic revenue measure to vest.

Both of Steve Hare's PSPs noted in the single figure table have the same performance conditions attached to them.

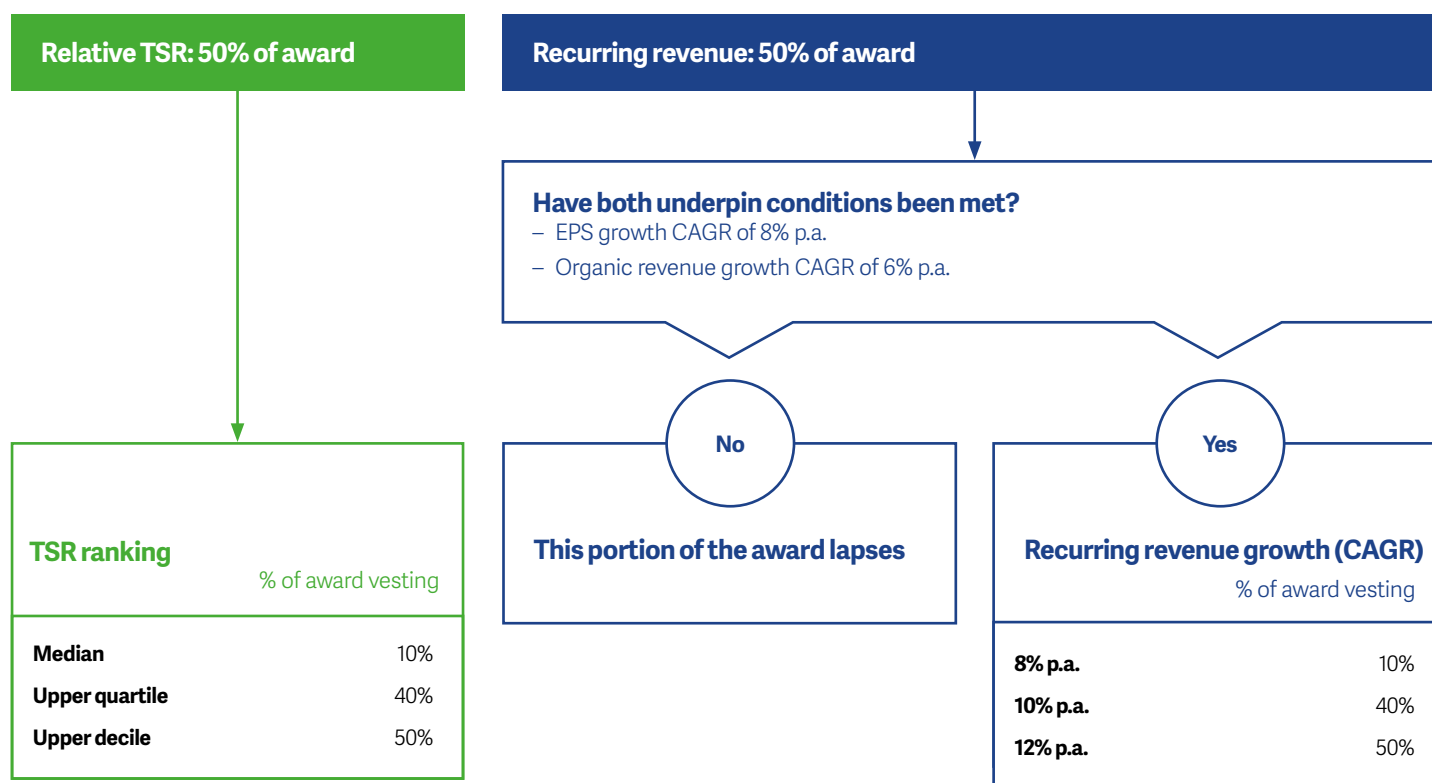
Stephen Kelly was not a participant in the 2014 PSP.

Directors' remuneration report continued

Directors' annual remuneration report continued

PSP awards granted in FY16

Awards were granted under the PSP on 2 March 2016, at a market value of £6.023 (the middle market quotation of a Sage share on 1 March 2016) to selected senior employees, including the executive directors, in the form of conditional share awards. In alignment with our revised business strategy for FY16, performance conditions for awards granted in FY16 are:



The following key points are highlighted in relation to the performance measures:

- The introduction of recurring revenue growth as a medium-term performance condition provides close alignment with our medium-term strategic priorities to grow our subscription-based services and acquire new customers. The recurring revenue growth targets for FY16 awards (8-12% p.a.) are consistent with our ambition for the three-year period FY16-18.

Continued focus on overall Group growth and delivery of shareholder value is achieved by:

- Enhancing the proportion of PSP awards that will be determined by relative TSR performance (50% compared to 33% under the previous policy);
- Requiring the achievement of two broader 'underpin' conditions (based on EPS and organic revenue growth) before the recurring revenue growth element of the PSP awards can vest. The targets for these 'underpin' conditions (8% p.a. EPS and 6% p.a. organic revenue growth) are consistent with delivery of a successful transitional phase. More specifically, they ensure that the transition to a subscription model is achieved whilst maintaining overall growth in revenues and earnings (i.e. subscription growth will need to more than offset the decline in licence growth).

Awards will vest, subject to satisfaction of those performance conditions, on the third anniversary of the date of grant.

	Type of award	Maximum number of shares	Face value (£)	Face value (% of salary)	Threshold vesting (% of award)	End of performance period
Stephen Kelly	Performance shares	327,909	£1,975,000	250%	20%	30 September 2018
Steve Hare		211,356	£1,273,000	250%	20%	30 September 2018

Change in remuneration of Chief Executive Officer compared to Group employees

The table below shows the percentage change in total remuneration of the Chief Executive Officer with a comparator group of all UK employees over the same time period.

	CEO	All UK employees ²
Salary ¹	2.5%	4.4%
Taxable benefits ²	100%	-2.8%
Annual incentive ³	14.6%	3.9%

Notes:

- The percentage change for UK colleagues shown is the 2015 annual pay review and promotions/market adjustments during 2016. This is consistent with the basis of the disclosure in the 2015 report.
- The increase in Stephen Kelly's taxable benefits is set out in the single figure of remuneration table above. Taxable benefits for colleagues relate to the reduction in the cost of health insurance premiums compared to 2015.
- The annual incentive for the CEO is shown on a basis consistent with the single figure of remuneration, with the 2015 bonus calculated pro-rata to Stephen Kelly's start date. The 2016 increase in bonus is 2.7% when annualising the 2015 bonus.

Historical executive pay and Company performance

The table below summarises the Chief Executive Officer single figure for total remuneration, annual bonus payout and PSP vesting as a percentage of maximum opportunity for the current year and previous seven years.

	CEO	2009	2010	2011	2012	2013	2014	2015	2016
CEO single figure of remuneration (in £'000)	Stephen Kelly ¹	-	-	-	-	-	-	1,521	1,711
	Guy Berruyer ²	-	-	2,935	1,196	1,670	1,616	108	-
	Paul Walker ³	1,797	2,196	-	-	-	-	-	-
Annual bonus payout (as % maximum opportunity)	Stephen Kelly	-	-	-	-	-	-	67%	69%
	Guy Berruyer	-	-	66%	21%	72%	55%	0%	-
	Paul Walker	38%	83%	-	-	-	-	-	-
PSP vesting (as % of maximum opportunity)	Stephen Kelly	-	-	-	-	-	-	-	-
	Guy Berruyer	-	-	61%	0%	0%	0%	64%	-
	Paul Walker	74%	26%	-	-	-	-	-	-

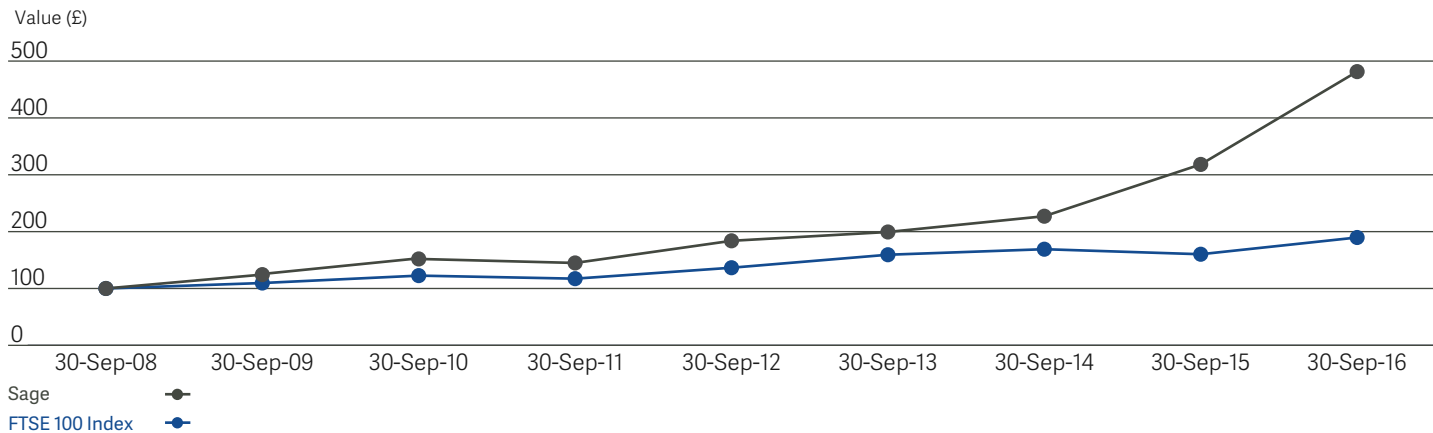
Notes:

- Stephen Kelly was appointed CEO on 5 November 2014.
- Guy Berruyer stepped down from the position of CEO on 5 November 2014.
- Paul Walker resigned as CEO on 1 October 2010.

Directors' remuneration report continued
Directors' annual remuneration report continued

Historical Group performance against FTSE 100

The graph below shows the Total Shareholder Return of the Group and the FTSE 100 over the last eight years. The FTSE 100 index is the index against which the TSR of the Group should be measured because of the comparable size of the companies which comprise that index.



Note:
This graph shows the value, by 30 September 2016, of £100 invested in The Sage Group plc on 30 September 2008 compared with the value of £100 invested in the FTSE 100 index. The other points plotted are the values at intervening financial year ends.

Payments to past directors

In the year ending 30 September 2016, no payments were made to past directors, either in respect of loss of office or otherwise.

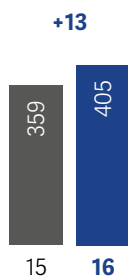
Relative importance of spend on pay

The charts below show the all-employee pay cost (as stated in the notes to the accounts), profit before tax and returns to shareholders by way of dividends and share buyback for 2015 and 2016.

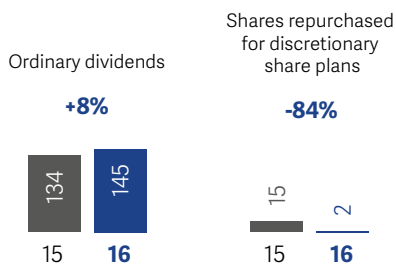
The information shown in this chart is based on the following:

- Underlying PBT – Underlying profit before income tax taken from table on page 113
- Returns to shareholders – Total dividends taken from note 15.5 on page 159, share buyback taken from consolidated statement of changes in equity on page 116
- Total employee pay – Total staff costs from note 3.3 on page 127, including wages and salaries, social security costs, pension and share-based payments

Underlying PBT (£m)



Returns to shareholders (£m)



Total employee pay (£m)



Statement of implementation of remuneration policy in the following financial year

This section provides an overview of how the Committee is proposing to implement our remuneration policy in 2017.

Base salary

An annual salary review was carried out by the Committee in November 2016. Following that review, the Committee approved the following:

	Salary 1 January 2017	Salary 1 January 2016	Salary 1 January 2015
Stephen Kelly	£810,000 (2.5% increase)	£790,000 (0% increase)	£790,000 (joined 5 November 2014)
Steve Hare	£522,000 (2.5% increase)	£509,200 (3% increase)	£494,400 (3% increase)

Pension and benefits

As in FY16, the executive directors will receive a pension provision worth 25% of salary as a contribution to a defined contribution plan and / or as a cash allowance. They will also receive a standard package of other benefits and where deemed necessary the costs of travel, accommodation and subsistence for the directors and their partners on Sage-related business, consistent with that in FY16. In addition, the Company will continue to cover the cost of Steve Hare's travel and accommodation for days on which he works in the Company's London offices.

Annual bonus

Key features of the executive directors' annual bonus plan for 2017 are as follows:

- The maximum annual bonus potential will remain unchanged at 125% of salary
- One-third of any bonus earned will be deferred into shares for two years under The Sage Group Deferred Bonus Plan
- Annual bonuses awarded in respect of performance in 2017 will be subject to potential withholding (malus) or recovery (clawback) if specified "trigger events" occur within two years of the payment/ award of the annual bonus. "Trigger events" will comprise a material misstatement of the audited results, error in calculation of the bonus payout, serious reputational damage or significant financial loss as a result of an individual's misconduct or gross misconduct which could have warranted an individual's summary dismissal

The annual bonus for 2017 for executive directors will be determined as detailed below:

As a percentage of maximum bonus opportunity

Measure	CEO	CFO
Organic revenue growth	80%	80%
Strategic goals	20%	20%

Note:

1. Payout is dependent upon the satisfaction of underpin conditions based on recurring revenue growth and underlying operating profit margin.

Targets are not disclosed because they are considered by the Board to be commercially sensitive. Many of our competitors are unlisted companies and not required to disclose their targets; our disclosure could provide our competitors with a considerable advantage. It is intended for retrospective disclosure to be made after a period of one year, and continue to be made on a rolling basis.

Performance Share Plan (PSP)

The Chief Executive Officer and Chief Financial Officer will be amongst the participants in the PSP award to be granted in December 2016. Awards will be of shares worth 250% of salary at the date of grant.

Vesting of these awards will be subject to satisfaction of the following performance conditions measured over the three financial years to 30 September 2019. The Committee has considered the introduction of a holding period to the PSPs granted for the financial year 2016/17 and determined that this is not currently required.

Directors' remuneration report continued
Directors' annual remuneration report continued

**Relative TSR performance condition
(50% of award)**

	TSR ranking	% of award vesting
Below target	Below median	0%
Target	Median	10%
Stretch	Upper quartile	40%
Exceptional	Upper decile	50%

TSR performance comprises share price growth and dividends paid.

Sage's TSR performance will be measured relative to the TSR of the constituents of the FTSE 100, excluding financial services and extracting companies.

**Recurring revenue growth performance condition
(50% of award)**

	Recurring revenue growth (CAGR)	% of award vesting*
Below target	<8% p.a.	0%
Target	8% p.a.	10%
Stretch	10% p.a.	40%
Exceptional	12% p.a.	50%

Recurring revenue is revenue earned from customers for the provision of a good or service, where risks and rewards are transferred to the customer over the term of a contract, with the customer being unable to continue to benefit from the full functionality of the good or service without on-going payments.

Notes:

* For any of this portion of the PSP awards to vest, two "underpin" conditions also both need to be met:

- Organic revenue growth of 6% p.a. (CAGR) needs to be achieved over the performance period
- Group EPS growth of 8% p.a. (CAGR) needs to be achieved over the performance period

PSP awards granted in 2017 will be subject to potential withholding (malus) or recovery (clawback) if specified "trigger events" occur prior to the third anniversary of the release date of an award. "Trigger events" in respect of PSP awards will comprise a material misstatement of the audited results, error in calculation of the extent of PSP vesting, serious reputational damage or significant financial loss as a result of an individual's misconduct or gross misconduct which could have warranted an individual's summary dismissal or a material failure of risk management.

Non-executive director remuneration

The table below shows the fee structure for non-executive directors for 2017. Non-executive fees are determined by the full Board except for the fee for the Chairman of the Board which is determined by the Remuneration Committee. The Chairman's fee is fixed until 6 July 2017, and will be reviewed by the Remuneration Committee in 2017.

	2017 fees
Chairman of the Board all-inclusive fee	£360,000
Basic non-executive fee	£60,000
Senior Independent Director additional fee	£15,000
Audit and Risk Committee Chairman additional fee	£17,000
Remuneration Committee Chairman additional fee	£17,000

Directors' shareholdings and share interests (audited information)

The required shareholding for executive directors is 200% of salary, this has been effective from the 2016 AGM. Executive directors are expected to build up the required shareholding within a five year period of joining the Board. As at 30 September 2016, Stephen Kelly held shares worth 191% of salary, and Steve Hare held no shares. However, Steve Hare has conditional awards of a total of 24,720 unvested shares under the deferred bonus plan, which, when net of tax count towards his shareholding, which is 18% of salary. See page 100 for details of shares granted under the Group Deferred Bonus Plan. The values for Executive Directors are derived from interests in shares valued using the average market price of a share between 1 July and 30 September 2016, which was 709.2p, and the executive's basic salary on 30 September 2016.

Interests in shares

The interests of each person who was a director of the Company as at 30 September 2016 (together with interests held by his or her connected persons) were:

Director	Ordinary shares at 30 September 2016 number	Ordinary shares at 30 September 2015 number
D H Brydon	53,024	53,024
R Markland	4,753	4,753
N Berkett	47,999	47,999
D Hall	10,000	10,000
S Hare	0	0
J Howell	31,000	31,000
S Kelly	212,346	212,346
I Kuznetsova	10,000	10,000
Total	369,122	369,122

Notes:

- There have been no changes in the directors' holdings in the share capital of the Company, as set out in the table above, between 30 September 2016 and the date of this report.
- Details of the executive directors' interests in outstanding share awards under the ESOS, PSP, deferred shares and all-employee plans are set out below.

All-employee share options (audited information)

UK-based executive directors are entitled to participate in The Sage Group Savings-Related Share Option Plan on the same terms as other UK-based employees. In the year under review, Stephen Kelly and Steve Hare participated in this scheme. The outstanding all-employee share options granted to each director of the Company are as follows:

Director	Exercise price per share	Shares under option at 1 October 2015 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	Shares under option at 30 September 2016 number	Date exercisable
S Kelly	456p	6,578	–	–	–	6,578	1 August 2020– 1 January 2021
S Hare	317p	9,463	–	–	–	9,463	1 August 2019–31 January 2020
Total		16,041	–	–	–	16,041	

Notes:

- No options were varied during the year. No performance conditions apply to options granted under this Plan. For the 2015 SRSOP grant, the exercise price was set at 456p, a 20% discount to the average share price of 570p on 18, 19 and 20 May 2015. For the 2014 SRSOP, the exercise price was set at 317p, a 20% discount to the average share price on 15, 16 and 19 May 2014 of 396.25p.
- The market price of a share of the Company at 30 September 2016 was 732.25p (mid-market average) and the lowest and highest market price during the year was 506.25p and 746.0p respectively.

Directors' remuneration report continued

Directors' annual remuneration report continued

Performance Share Plan (audited information)

The outstanding awards granted to each executive director of the Company under the Performance Share Plan are as follows:

Director	Under award 1 October 2015 number	Awarded during the year number	Vested during the year number	Lapsed during the year number	Under award 30 September 2016 number	Vesting date
S Kelly		327,909	–	–	327,909	2 March 2019
	426,842	–	–	–	426,842	12 January 2018
	213,421	–	–	–	213,421	12 January 2021
	640,263	327,909	–	–	968,172	
S Hare	–	211,356	–	–	211,356	2 March 2019
	267,127	–	–	–	267,127	12 January 2018
	286,088	–	–	–	286,088	10 March 2017
	116,873	–	–	–	116,873	20 January 2017
	670,088	211,356	–	–	881,444	
Total	1,310,351	539,265	–	–	1,849,616	

Notes:

- No variations were made in the terms of the awards in the year
- The market price of a share on 2 March 2016, the date of the awards made in the year ended 30 September 2016, was 602.3p
- The performance conditions for awards vesting in March 2017 are set out earlier in this report. An equivalent performance condition applies to awards that vest in January 2017, and January 2018
- For Stephen Kelly's awards that vest in January 2021, Sage's TSR must have been at least 15% (CAGR) over the performance period. If this underpin condition is met, the award will vest based on Sage's relative TSR performance over the performance period as set out on page 86 of the 2015 Annual Report
- The performance conditions for awards granted during the year 1 October 2015 – 30 September 2016 are detailed on page 97 of this report

Deferred shares (audited information)

The outstanding awards granted to each executive director of the Company under The Sage Group Deferred Bonus Plan are as follows:

Director	Shares at 1 October 2015 number	Shares awarded during the year number	Shares vested during the year number	Shares lapsed during the year number	Shares at 30 September 2016 number	Vesting date
S Hare	11,047	–	–	–	11,047	12 January 2018
	–	13,673	–	–	13,673	9 December 2018
Total	11,047	13,673	–	–	24,720	

Notes:

- Awards are not subject to further performance conditions once granted. The market price of a share on 9 December 2015, the date of the awards made in the year ended 30 September 2016, was 606.0p. Stephen Kelly did not receive a deferred share award in 2015 as he met the then-prevailing shareholding requirement of 150% of salary.
- No variations were made in the terms of the awards in the year.

There are limits on the number of newly issued and treasury shares that can be used to satisfy awards under the Group's employee share schemes in any 10-year period. The limits and the Group's current position against those limits as at 24 November 2016 (the last practicable date prior to publication of this document) are set out below.

The Company has previously satisfied all awards under the Performance Share Plan through the market purchase of shares or transfer of treasury shares and will continue to consider the most appropriate approach, based on the relevant factors at the time.

Limit	Current position
5% of Group's share capital can be used for discretionary share schemes	2.22%
10% of Group's share capital can be used for all share schemes	2.90%

External appointments

Executive directors are permitted, where appropriate and with Board approval, to take non-executive directorships with other organisations in order to broaden their knowledge and experience in other markets and countries. Fees received by the directors in their capacity as directors of these companies are retained, reflecting the personal responsibility they undertake in these roles. The Board recognises the significant demands that are made on executive and non-executive directors and has therefore adopted a policy that no executive director should hold more than two directorships of other listed companies. The Board encourages executive directors to limit other directorships to one listed company. Except in exceptional circumstances where approved in advance by the Chairman of the Committee, if an executive director holds non-executive positions at more than one listed company then only the fees from one such company will be retained by the director.

No formal limit on other board appointments applies to non-executive directors under the policy but prior approval (not to be unreasonably withheld) from the Chairman on behalf of the Board is required in the case of any new appointment. In the case of the Chairman, prior approval of the Nomination Committee is required on behalf of the Board.

Unexpired term of contract table

Director	Date of contract	Unexpired term of contract on 30 September 2016, or on date of contract if later	Notice period under contract
Executive directors			
S Kelly	5 November 2014	12 months	12 months from the Company and/or individual
S Hare	3 January 2014	12 months	12 months from the Company and/or individual
Non-executive directors			
N Berkett	1 July 2016	2 years 9 months	6 months from the Company or 1 month from individual
D H Brydon	6 July 2012	9 months	6 months from the Company and/or individual
J Howell	15 May 2016	2 years 8 months	6 months from the Company or 1 month from individual
R Markland	13 September 2016	1 year	6 months from the Company or 1 month from individual
D Hall	1 January 2014	3 months	6 months from the Company or 1 month from individual
I Kuznetsova	6 March 2014	5 months	6 months from the Company or 1 month from individual

Consideration by the directors of matters relating to directors' remuneration

The following directors were members of the Remuneration Committee when matters relating to the directors' remuneration for the year were being considered:

- Ruth Markland
- Donald Brydon
- Neil Berkett
- Drummond Hall (Chair)
- Jonathan Howell
- Inna Kuznetsova

The Committee received assistance from Sandra Campopiano (Chief People Officer), Tina Clayton (Executive Vice President, Reward & Recognition), Michael Robinson (former Company Secretary) and Vicki Bradin (Company Secretary) and other members of management, who may attend meetings by invitation, except when matters relating to their own remuneration are being discussed.

Activities of the Remuneration Committee ("the Committee")

The main activities of the Committee since the last report were as follows:

- Reviewed the performance of the Group for the year, and the performance of the executive directors in order to determine bonus outcomes
- Approved share awards for FY16
- Set base salaries and established the executive directors' bonus arrangements for 2017
- Reviewed the Directors' remuneration report
- Considered remuneration market trends and corporate governance developments
- Approved the base salaries for 2017 and the 2016 bonuses of Executive Committee members
- Reviewed the long-term performance of the Group over the last three years in order to determine vesting levels for the PSP granted in March 2014

Directors' remuneration report continued

Directors' annual remuneration report continued

External advisers

The Remuneration Committee continues to receive advice from Deloitte, an independent firm of remuneration consultants appointed by the Committee after consultation with the Board. During the year, Deloitte's executive compensation advisory practice advised the Committee on developments in market practice, corporate governance, institutional investor views and in the development of the Company's incentive arrangements. Total fees for advice provided to the Committee during the year were £48,505.

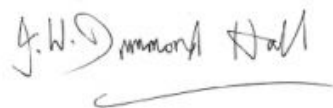
The Committee is satisfied that the advice they have received has been objective and independent.

Deloitte is a founding member of the Remuneration Consultants Group and adheres to its Code in relation to executive remuneration consulting in the UK. Other parts of Deloitte have provided tax advice, specific corporate finance support in the context of merger and acquisition activity and unrelated corporate advisory services.

Statement of shareholding voting

The table below sets out the results of the vote on the Remuneration report and policy at the 2016 AGM:

	Votes for		Votes against		Votes cast	Votes withheld
	Number	%	Number	%		
Remuneration report	772,197,384	98.01	15,684,604	1.99	787,881,988	2,911,089
Policy	767,613,442	97.43	20,268,897	2.57	787,882,339	2,910,738



Drummond Hall

Chairman of the Remuneration Committee

29 November 2016

Directors' report

The Directors present their report together with the audited consolidated financial statements for the year ended 30 September 2016. The Annual Report & Accounts contains statements that are not based on current or historical fact and are forward-looking in nature. Please refer to the "Disclaimer" on page 105.

Strategic report

The information that fulfils the reporting requirements relating to the following matters can be found on the following pages of the Strategic report:

Subject matter	Page
Future developments	31 – Chief Executive's review
Greenhouse gas emissions	62-63 – Environment section

Corporate governance statement

The Disclosure Guidance and Transparency Rules ("DTR") require certain information to be included in a corporate governance statement in the Directors' report. This information can be found in the Corporate governance report on pages 70 to 80, which is incorporated into this Directors' report by reference and, in the case of the information referred to in DTR 7.2.6, in this Directors' report.

Disclosure of information under Listing Rule 9.8.4

Information on allotments of shares for cash pursuant to the Group employee share schemes can be found on page 153 within the notes to the Group financial statements.

Results and dividends

The results for the year are set out from page 113. Full details of the proposed final dividend payment for the year ended 30 September 2016 are set out on page 159. The Board is proposing a final dividend of 9.35p per share following the payment of an interim dividend of 4.80p per share on 3 June 2016. The proposed total dividend for the year is therefore 14.15p per share.

Going concern

After making enquiries, the directors have a reasonable expectation that Sage has adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. In reaching this conclusion, the directors have had due regard to the following:

- The cash generated from operations, available cash resources and committed bank facilities and their maturities, which taken together, provide confidence that Sage will be able to meet its obligations as they fall due. Further information on the available cash resources and committed bank facilities is provided in Note 14 to the financial statements
- The financial position of Sage, its cash flows, financial risk management policies and available debt facilities, which are described in the financial statements, and Sage's business activities, together with the factors likely to impact its future growth and operating performance, which are set out in the Strategic Report on pages 1 to 63.

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, the directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for the next three years. A period of three years has been chosen for the purpose of this viability statement, for the reasons explained on page 41.

The directors' robust assessment has been made with reference to the Group's current position and prospects, the business transformation strategy, the Board's risk appetite and the Group's principal risks and how these are managed, as detailed in pages 36 to 45 of the Strategic Report.

The strategy and associated principal risks, which the directors review at least annually, are a foundation for the Group's strategic plan and scenario testing. The plan makes certain assumptions about the uptake of subscription services, the ability to refinance debt as it falls due and the acceptable performance of the core revenue streams and market segments.

The plan is stress tested using sensitivity analysis which reflects plausible but severe combinations of the principal risks of the business, primarily through reducing revenues and cash flows.

Research and development

During the year, we incurred a cost of £144m (2015: £141m) in respect of research and development. Please see page 126 for further details.

Political donations

No political donations were made in the year.

Directors and their interests

A list of directors, their interests in the ordinary share capital of the Company, their interests in its long-term performance share plan and details of their options over the ordinary share capital of the Company are given in the Directors' remuneration report on page 97. No director had a material interest in any significant contract, other than a service contract or contract for services, with the Company or any of its operating companies at any time during the year.

The names of all persons who, at any time during the year, were directors of the Company can be found on pages 66 to 67.

As at the date of this report, indemnities (which are qualifying third-party indemnity provisions under the Companies Act 2006) are in place under which the Company has agreed to indemnify the directors of the Company to the extent permitted by law and by the Company's articles of association, in respect of all liabilities incurred in connection with the performance of their duties as a director of the Company or its subsidiaries. Copies of these indemnities are available for review at the Company's registered office.

Employment policy

The Group continues to give full and fair consideration to applications for employment made by disabled persons, having regard to their respective aptitudes and abilities. The policy includes, where practicable, the continued employment of those who may become disabled during their employment and the provision of training and career development and promotion, where appropriate.

Directors' report continued

The Group has continued its policy of employee involvement by making information available to employees on matters of concern to them. Colleagues regularly receive updates on the financial and economic factors affecting the Group. Many colleagues are stakeholders in the Company through participation in share option schemes and a long-term performance share plan. Further details of colleague engagement are given on pages 54 to 57.

Substantial shareholdings

At 30 September 2016, the Company had been notified, in accordance with the DTRs, of the following interests in its ordinary share capital:

Name	Ordinary shares	% of capital	Nature of holding
Aviva Investors	62,996,904	5.83%	Direct and indirect
BlackRock Inc	58,605,472	5.42%	Indirect
Standard Life	56,480,398	5.23%	Direct and indirect

In the period from 30 September 2016 to the date of this report, we received a further notification from Standard Life, Inc. indicating that the holdings of Standard Life stood at 4.63% of capital.

Information provided to the Company under the DTRs is publicly available via the regulatory information service and on the Company website.

Share capital

The Company's share capital is as set out on page 153. The Company has a single class of share capital which is divided into ordinary shares of 1⁴/77p each.

Rights and obligations attaching to shares

Voting

In a general meeting of the Company, subject to the provisions of the articles of association and to any special rights or restrictions as to voting attached to any class of shares in the Company (of which there are none):

- On a show of hands, a qualifying person (being an individual who is a member of the Company, a person authorised to act as the representative of a corporation or a person appointed as a proxy of a member) shall have one vote, except that a proxy has one vote for and one vote against a resolution if the proxy has been appointed by more than one member and has been given conflicting voting instructions by those members, or has been given discretion as to how to vote
- On a poll, every member who is present in person or by proxy shall have one vote for every share of which he or she is the holder

No member shall be entitled to vote at any general meeting or class meeting in respect of any shares held by him or her if any call or other sum then payable by him or her in respect of that share remains unpaid. Currently, all issued shares are fully paid.

Deadlines for voting rights

Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the Annual General Meeting to be held on 28 February 2017 will be set out in the Notice of Annual General Meeting.

Dividends and distributions

Subject to the provisions of the Companies Act 2006, the Company may, by ordinary resolution, declare a dividend to be paid to the members, but no dividend shall exceed the amount recommended by the Board.

The Board may pay interim dividends, and also any fixed rate dividend, whenever the financial position of the Company, in the opinion of the Board, justifies its payment. All dividends shall be apportioned and paid pro-rata according to the amounts paid up on the shares.

Liquidation

If the Company is in liquidation, the liquidator may, with the authority of a special resolution of the Company and any other authority required by the statutes (as defined in the articles of association):

- Divide among the members in specie the whole or any part of the assets of the Company; or
- Vest the whole or any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit.

Transfer of shares

Subject to the articles of association, any member may transfer all or any of his or her certificated shares by an instrument of transfer in any usual form or in any other form which the Board may approve. The Board may, in its absolute discretion, decline to register any instrument of transfer of a certificated share which is not a fully paid share (although not so as to prevent dealings in shares taking place on an open and proper basis) or on which the Company has a lien.

The Board may also decline to register a transfer of a certificated share unless the instrument of transfer is: (i) left at the office, or at such other place as the Board may decide, for registration; and (ii) accompanied by the certificate for the shares to be transferred and such other evidence (if any) as the Board may reasonably require to prove the title of the intending transferor or his or her right to transfer the shares.

The Board may permit any class of shares in the Company to be held in uncertificated form and, subject to the articles of association, title to uncertificated shares to be transferred by means of a relevant system and may revoke any such permission. Registration of a transfer of an uncertificated share may be refused where permitted by the statutes (as defined in the articles of association).

Repurchase of shares

The Company obtained shareholder authority at the last Annual General Meeting (1 March 2016) to buy back up to 107,913,441 ordinary shares. The minimum price which must be paid for each ordinary share is its nominal value and the maximum price set out in the resolution is the higher of 105% of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately before the purchase is made and the amount stipulated by article 5(1) of the Buy-back and Stabilisation Regulation 2003 (in each case exclusive of expenses). Share repurchases are used from time to time as a method to control the Group's leverage and decisions are made against strict price, volume and returns criteria that are agreed by the Board and regularly reviewed.

In the year under review, the Company made no share repurchases. The Employee Benefit Trust purchased a total of 385,000 ordinary shares of 1⁴/77p at a price of 619.9p per share.

In the year under review no treasury shares were cancelled. Total share awards of 3,006,938 were made out of shares held by the Employee Benefit Trust.

Amendment of the Company's articles of association

Any amendments to the Company's articles of association may be made in accordance with the provisions of the Companies Act 2006 by way of special resolution.

Appointment and replacement of directors

Directors shall be no less than two and no more than 15 in number. Directors may be appointed by the Company by ordinary resolution or by the Board. A director appointed by the Board holds office only until the next Annual General Meeting and is then eligible for election by the shareholders. The Board may from time to time appoint one or more directors to hold employment or executive office for such period (subject to the Companies Act 2006) and on such terms as they may determine and may revoke or terminate any such appointment.

Under the articles of association, at every Annual General Meeting of the Company, every director shall retire from office (but shall be eligible for election or re-election by the shareholders). The Company may by special resolution (or by ordinary resolution of which special notice has been given) remove, and the Board may, by unanimous decision remove, any director before the expiration of his or her term of office. The office of director shall be vacated if: (i) he or she resigns; (ii) he or she has become physically or mentally incapable of acting as a director and may remain so for more than three months and the Board resolves that his or her office is vacated; (iii) he or she is absent without permission of the Board from meetings of the Board for six consecutive months and the Board resolves that his or her office is vacated; (iv) he or she becomes bankrupt or makes an arrangement or composition with his or her creditors generally; (v) he or she is prohibited by law from being a director; or (vi) he or she is removed from office pursuant to the articles of association.

Powers of the directors

The business of the Company will be managed by the Board which may exercise all the powers of the Company, subject to the provisions of the Company's articles of association, the Companies Act 2006 and any ordinary resolution of the Company.

Shares held in the Employee Benefit Trust

The trustee of The Sage Group plc Employee Benefit Trust ("EBT") has agreed not to vote any shares held in the EBT at any general meeting. If any offer is made to shareholders to acquire their shares the trustee will not be obliged to accept or reject the offer in respect of any shares which are at that time subject to subsisting awards, but will have regard to the interests of the award holders and will have power to consult them to obtain their views on the offer. Subject to the above the trustee may take action with respect to the offer it thinks fair.

Significant agreements

The following significant agreements contain provisions entitling the counterparties to exercise termination or other rights in the event of a change of control of the Company:

- Under a note purchase agreement dated 11 March 2010 relating to US\$50 million senior notes, Series C, due 11 March 2017 between the Company and the note holders, on a change of control, the Company will not take any action that consummates or finalises a change of control unless at least 15 business days prior to such action it shall have given to each holder of notes written notice containing and constituting an offer to prepay all notes on a date specified in such offer which shall be a business day occurring subsequent to the effective date of the change of control which is not less than 30 days or more than 60 days after the date of the notice of prepayments. Where a holder of notes accepts the offer to prepay, the prepayment shall be 100% of the principal amount of the notes together with accrued and unpaid interest thereon and shall be made on the proposed prepayment date. No prepayment under a change of control shall include any premium of any kind.
- Under a note purchase agreement dated 20 May 2013 relating to US\$50 million senior notes, Series D, due 20 May 2018, US\$150 million senior notes, Series E, due 20 May 2020, US\$150 million senior notes, Series F, due 20 May 2023 and US\$50 million senior notes, Series G, due 20 May 2025 between Sage Treasury Company Ltd and the note holders and guaranteed by the Company, on a change of control of the Company, the Company will not take any action that consummates or finalises a change of control unless at least 15 business days prior to such action it shall have given to each holder of notes written notice containing and constituting an offer to prepay all notes on a date specified in such offer which shall be a business day occurring subsequent to the effective date of the change of control which is not less than 30 days or more than 60 days after the date of the notice of prepayments. Where a holder of notes accepts the offer to prepay, the prepayment shall be 100% of the principal amount of the notes together with accrued and unpaid interest thereon and shall be made on the proposed prepayment date. No prepayment under a change of control shall include any premium of any kind.
- Under a dual tranche US\$551 million and €218 million five-year multi-currency revolving credit facility agreement dated 26 June 2014 between, amongst others, Sage Treasury Company Limited and Lloyds Bank plc (as facility agent) and guaranteed by the Company, on a change of control, if any individual lender so requires and after having consulted with Sage Treasury Company Limited in good faith for not less than 30 days following the change of control, the facility agent shall, by not less than 10 business days' notice to Sage Treasury Company Limited, cancel the commitment of that lender and declare the participation of that lender in all outstanding loans, together with accrued interest and all other amounts accrued under the finance documents, immediately due and payable, whereupon the commitment of that lender will be cancelled and all such outstanding amounts will become immediately due and payable.

- Under a note purchase agreement dated 26 January 2015 relating to €55 million senior notes, Series H, due 26 January 2022, €30 million senior notes, Series I, due 26 January 2023 and US\$200 million senior notes, Series J, due 26 January 2025 between Sage Treasury Company Limited and the note holders and guaranteed by the Company, on a change of control of the Company, the Company will not take any action that consummates or finalises a change of control unless at least 15 business days prior to such action it shall have given to each holder of notes written notice containing and constituting an offer to prepay all notes on the date specified in such offer which shall be a business day occurring subsequent to the effective date of the change of control which is not less than 30 days or more than 60 days after the date of notice of prepayments. Where a holder of notes accepts the offer to prepay, the prepayment shall be 100% of the principal amount of the notes together with accrued and unpaid interest thereon and any applicable net loss and, in each case, including the deduction of any applicable net gain and shall still be made on the proposed payment date. No prepayment under a change of control shall include any premium of any kind.

Under the terms of all four agreements above, a "change of control" occurs if any person or group of persons acting in concert gains control of the Company.

- The platform reseller agreement dated 31 January 2015 relating to the Company's strategic arrangements with Salesforce.com EMEA Limited contains a change of control right enabling Salesforce to terminate the agreement in the event there is a change of control in favour of a direct competitor of Salesforce.com EMEA Limited. The agreement contains post termination requirements upon Salesforce to support a transition for up to a specified period.
- In respect of the platform reseller agreement with Salesforce.com EMEA Limited, "change of control" occurs where a corporate transaction results in the owners of the subject entity owning less than 50% of the voting interests in that entity as a result of the corporate transaction.

Financial risk management

The Group's exposure to and management of capital, liquidity, credit, interest rate and foreign currency risk are summarised below.

Capital risk

The Group's objectives when managing capital (defined as net debt plus equity) are to safeguard our ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders, while optimising returns to shareholders through an appropriate balance of debt and equity funding. The Group manages its capital structure and makes adjustments to it with respect to changes in economic conditions and our strategic objectives. The Group has set a long-term minimum leverage target of 1x net debt to EBITDA and will work to maintain this going forward.

Liquidity risk

The Group manages its exposure to liquidity risk by reviewing cash resources required to meet business objectives through both short and long-term cash flow forecasts. The Company has committed facilities which are available to be drawn for general corporate purposes including working capital. The Treasury function has responsibility for optimising the level of cash across the business.

Credit risk

The Group's credit risk primarily arises from trade and other receivables. The Group has a very low operational credit risk due to the transactions being principally of a high volume, low value and short maturity. The Group has no significant concentration of operational credit risk, with the exposure spread over a large number of counterparties and customers.

The credit risk on liquid funds is considered to be low, as the Board-approved Group treasury policy limits the value that can be invested with each approved counterparty to minimise the risk of loss. All counterparties must meet minimum credit rating requirements.

Interest rate risk

The Group is exposed to interest rate risk on floating rate deposits and borrowings. The US private placement loan notes comprise 100% of borrowings and are at fixed interest rates, the bank revolving credit facility, which was undrawn at the year end is subject to floating interest rates. At 30 September 2016, the Group had £265m (2015: £263m) of cash and cash equivalents.

The Group regularly reviews forecast debt, cash and cash equivalents and interest rates to monitor this risk. Interest rates on debt and deposits are fixed when management decides this is appropriate.

At 30 September 2016, the Group's principal borrowings comprised US private placement loan notes of £575m (2015: £525m), which have an average fixed interest rate of 3.40%, (2015: £3.48%).

Foreign currency risk

Although a substantial proportion of the Group's revenue and profit is earned outside the UK, operating companies generally only trade in their own currency. The Group is therefore not subject to any significant foreign exchange transactional exposure within these subsidiaries.

The Group's principal exposure to foreign currency lies in the translation of overseas profits into sterling; this exposure is not hedged.

The Group's external US Dollar and Euro denominated borrowings are designated as a hedge of the net investment in its subsidiaries in the US and Eurozone. The foreign exchange movements on translation of the borrowings into Sterling have therefore been recognised in the translation reserve. Certain of the Group's intercompany balances have been identified as part of the Group's net investment in foreign operations. Foreign exchange effects on these balances that remain on consolidation are also reflected in the translation reserve. The Group's other currency exposures comprise those currency gains and losses recognised in the income statement, reflecting other monetary assets and liabilities of the Group that are not denominated in the functional currency of the entity involved. At 30 September 2016 and 30 September 2015, these exposures were immaterial to the Group.

Disclaimer

The purpose of this Annual Report & Accounts is to provide information to the members of the Company. The Annual Report & Accounts has been prepared for, and only for, the members of the Company, as a body, and no other persons. The Company, its directors and employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed.

The Annual Report & Accounts contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report & Accounts and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report & Accounts should be construed as a profit forecast.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report & Accounts, including the Directors' remuneration report and the Group and parent Company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group and the Company for that period.

In preparing these financial statements the directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether IFRS as adopted by the EU, and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent Company financial statements respectively
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group's financial statements, Article 4 of the International Accounting Standards Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' statement

The directors as at the date of this report, whose names and functions are listed in the Board of Directors on pages 66 to 67, confirm that:

- To the best of their knowledge, the Group's financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group
- To the best of their knowledge, the Directors' report and the Strategic report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces

Each director as at the date of this report further confirms that:

- So far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware
- The director has taken all the steps that he or she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

In addition, the directors as at the date of this report consider that the Annual Report & Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's and the Group's position and performance, business model and strategy.

By Order of the Board



Vicki Bradin
Company Secretary
29 November 2016

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Independent auditor's report to the members of the Sage Group plc

Our opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 September 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

What we have audited

The Sage Group plc's financial statements comprise:

Group	Parent company
Consolidated balance sheet as at 30 September 2016	Company balance sheet as at 30 September 2016
Consolidated income statement for the year then ended	Company statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Company accounting policies
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 9 to the financial statements
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 18 to the financial statements	

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Overview of our audit approach

Risks of material misstatement	<ul style="list-style-type: none"> – Revenue recognition – Carrying value of goodwill – (New in 2016) Changes in finance systems and processes, including classification of restructuring costs as non-recurring as a result of the Group's business transformation
Audit scope	<ul style="list-style-type: none"> – We performed an audit of the complete financial information of 6 components and audit procedures on specific balances for a further 6 components. – The components where we performed full or specific audit procedures accounted for 99% of adjusted Profit before tax* and 90% of Revenue.
Materiality	– Overall Group materiality was £19.1m which represents 5% of adjusted Profit before tax*.

Note:

* Profit before tax adjusted for non-recurring items as defined in the 'Our application of materiality' section of this report

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
<p>Revenue recognition</p> <p>Refer to the Audit and Risk Committee Report (page 76); and Notes 1 and 3.1 of the Group financial statements</p> <p>The Group has reported revenues of £1,569.1m (2015: £1,435.5m). We identified 3 specific risks of fraud and error in respect of improper revenue recognition given the nature of the Group's products and services as follows:</p> <ul style="list-style-type: none"> – Inappropriate cut-off and deferral of revenue; 	<p>At each full and specific scope audit location with significant revenue streams:</p> <ul style="list-style-type: none"> – We performed walkthroughs of each significant class of revenue transactions and assessed the design effectiveness of key controls. For 4 components we tested the operating effectiveness of controls. – For products and services where the risks and rewards are transferred over a period of time, we tested a sample of transactions to ensure that the amount of revenue was accurately calculated based on the state of completion of the contract and recognised in the appropriate period. – Our procedures in relation to inappropriate accounting for complex one-off arrangements, changes to existing products and new products or services ensured that the policies adopted were appropriate and consistently applied. 	<p>Based on the procedures performed, we did not identify any evidence of material misstatement in the revenue recognised in the year and deferred at 30 September 2016.</p>

Independent auditor's report to the members of The Sage Group plc continued

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
<p>Revenue recognition continued</p> <ul style="list-style-type: none"> – Inappropriate accounting for complex one-off arrangements; changes to existing products and new products or services; and – Inappropriate allocation of revenue between the components of bundled products. <p>There is no change in the risk profile in the current year.</p>	<ul style="list-style-type: none"> – For bundled products, we tested on a sample basis, that (1) the calculation of the fair value attributed to each element of the bundle was reasonable, and (2) that the allocation of any discount was consistent with the relative fair value of each element of the bundle. – We performed other substantive, transactional testing and analytical procedures to validate the recognition of revenue throughout the year. Where practicable, at component level we performed testing over full populations of transactions using data analysis. – For revenue recorded through journal entries outside of normal business processes, we performed testing to establish whether a service had been provided or a sale had occurred in the financial year to support the revenue recognised <p>We also considered the adequacy of the Group's disclosures for the accounting policies for revenue recognition in notes 1 and 3.1 respectively.</p>	
<p>Carrying value of goodwill</p> <p>Refer to the Audit and Risk Committee Report (page 76); and Notes 1 and 6 of the Group financial statements</p> <p>We focussed on this area due the size of the goodwill balance £1,658.5m (2014: £1,446m) and because the directors' assessment of 'value in use' of the Group's Cash Generating Units ("CGUs") involves judgement about the future performance of the business and the discount rates applied to future cash flow forecasts.</p> <p>The risk has decreased in the year as the goodwill most sensitive to a material impairment was fully impaired in the prior year.</p>	<p>At each full and specific scope audit location with significant revenue streams (9 components) we performed audit procedures which covered 90% of the Group's revenue. We also performed review procedures in 6 locations, which covered a further 8% of the Group's revenue.</p> <p>We challenged management's assumptions used in its impairment models for assessing the recoverability of the carrying value of goodwill. We focused on the appropriateness of CGU identification, methodology applied to estimate recoverable values, discount rates, and forecast cash flows. Specifically</p> <ul style="list-style-type: none"> – We have validated that the CGUs identified are the lowest level at which management monitors goodwill. – We tested the methodology applied in the value in use calculation as compared to the requirements of IAS 36, Impairment of Assets, and the mathematical accuracy of management's model. – We obtained an understanding of, and assessed the basis for, key underlying assumptions for the 2017 budget. – We have validated that the cash flow forecasts used in the valuation are consistent with information approved by the Board and have reviewed the historical accuracy of management's forecasts. – We challenged management on its cash flow forecasts and the implied growth rates for 2017 and beyond by considering evidence available to support these assumptions and their consistency with findings from other areas of our audit. – The discount rates and long term growth rates applied within the model were assessed by an EY business valuation specialist, including comparison to economic and industry forecasts where appropriate – For all CGUs, we performed sensitivity analyses by stress testing key assumptions in the model with downside scenarios to understand the parameters that, should they arise, could lead to a different conclusion in respect of the carrying value of goodwill. <p>We considered the appropriateness of the related disclosures provided in note 6.1 in the Group financial statements.</p> <p>The entire goodwill was subject to full scope audit procedures by the Primary audit team.</p>	<p>Based on the results of our work, we agree with management's conclusion that no impairment of goodwill is required in the current year. We agree with management that no reasonably possibly change in assumptions would result in a material impairment in any Cash Generating Unit and hence no additional sensitivity disclosures are required in note 6.1 of the Group financial statements.</p>

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
<p>(New in 2016) Changes in finance systems and processes, including classification of restructuring costs as non-recurring as a result of the Group's business transformation</p> <p>Refer to the Audit and Risk Committee Report (page 76); and Note 3.6 of the Group financial statements</p> <p>We focussed on this area as the Group commenced its finance transformation in the current year which included for the UK and South Africa the implementation of its X3 ERP systems for certain processes and the establishment of Financial Shared Services Centres.</p> <p>During a period of finance operational and systems changes there is an increased risk to the internal financial control environment.</p> <p>In addition costs of £109.9m have been classified as non-recurring on the basis that they relate to the Group's business transformation and consequently are excluded from the Group's underlying results. As such, the audit team focussed its procedures on the following risks:</p> <ul style="list-style-type: none"> - Inappropriate classification of costs as non-recurring; - Inconsistent treatment of non-recurring items from year to year; and - Inappropriate quantification of non-recurring items and recognition of amounts in an incorrect accounting period. 	<p>We performed the following procedures in respect of the X3 implementation for certain processes in both the UK and South Africa:</p> <ul style="list-style-type: none"> - Walkthroughs of new processes, and identification of key IT dependent manual and IT application controls; - Obtained an understanding of data cleansing prior to migration, and tested data migration with associated reconciliations; - Discussed and assessed IT access and segregation of duties for all users; and - Inspected evidence in respect of project governance, and in particular in relation to key gateway decisions. <p>Whilst our audit strategy did not seek to rely on controls over the processes impacted by the changes in finance operations and X3 implementation, in performing our substantive audit procedures, we evaluated the robustness of the financial statement close process in both Financial Shared Services Centres at the year end.</p> <p>With respect to the non-recurring transformation costs:</p> <ul style="list-style-type: none"> - We assessed whether the constituent costs are recorded in line with the Group's policy as summarised in Note 3.6 and that the policy has been applied consistently with prior years. - We tested a sample of costs classified as non-recurring to verify that they are directly attributable to the business transformation and are recorded at the correct amount and in the appropriate period. - We considered the level of transparency of the disclosures provided in note 6.3 in the Group financial statements with reference to the Financial Reporting Council's 2013 guidance to directors on the use of exceptional items. <p>Component teams at 6 locations performed audit procedures on people related reorganisation costs and on certain net property exit costs. The Primary audit team performed audit procedures on the remaining business transformations costs.</p>	<p>Based on the procedures performed, for the relevant processes we were satisfied that data had been appropriately migrated from legacy systems to X3 and the access to the system was properly set up.</p> <p>Whilst the processes subject to change in both locations did not generally impact our procedures in respect of the significant audit risk of revenue recognition, we noted a number of control observations which are currently being addressed as part of management's stabilisation plan prior to further migration of finance operations in to the European Financial Shared Services Centre in 2017.</p> <p>Based on the procedures performed, we did not identify any evidence of material misstatement of business transformations costs and that the classification of these costs as non-recurring was in accordance with the Group's disclosed accounting policy.</p> <p>On the basis that further costs are anticipated to be incurred and reported as non-recurring in 2017, we recommended that appropriate disclosure outlining the rationale for the expense timeline is included in the Group financial statements.</p>

In the prior year, our auditor's report included a risk of material misstatement in respect of 'Accounting for taxation'. Following our first year audit in 2015, the audit team re-assessed this audit risk and no longer considers it a risk of material misstatement that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of efforts in the audit team.

The scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each component within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent Internal Audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 46 reporting components of the Group, we selected 12 components covering entities within UK and Ireland, France, Germany, Spain, North America, South Africa, and Brazil which represent the principal business units within the Group.

Of the 12 components selected, we performed an audit of the complete financial information of 6 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 6 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. For the remaining 34 components, audit procedures were undertaken as set out in Note 4 below to respond to any potential risks of material misstatement to the Group financial statements.

Independent auditor's report to the members of The Sage Group plc continued

Reporting components	2016				2015		
	Number	% Group adjusted Profit before tax	% Group Revenue	See note	Number	% Group adjusted Profit before tax	% Group Revenue
Full scope	6	68%	58%	1,2	6	63%	58%
Specific scope	6	31%	32%	2,3	6	27%	32%
Full and specific scope coverage	12	99%	90%		12	90%	90%
Remaining components	34	1%	10%	4	33	10%	10%
Total Reporting components	46	100%	100%		45	100%	100%

Notes:

- 3 of the 6 full scope components relate to the parent company and other corporate entities whose activities include the Group's treasury management and consolidation adjustments. The Group audit risk in relation to the carrying value of goodwill was subject to audit procedures by the Primary audit team on the entire balance.
- The Group audit risk in relation to revenue recognition was subject to full audit procedures at each of the full and specific scope locations with significant revenue streams.
- The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts selected for testing by the Primary audit team.
- The remaining 34 components contributed a net 1% of adjusted Profit before tax and none are individually greater than 3% of the Group's adjusted Profit before tax. We instructed a component team to undertake specified procedures over certain cash balances at one location. For 6 components, including 2 in Asia and Australia, we performed review scope procedures. For the remaining components, the Primary audit team performed other procedures, including analytical review procedures and testing of consolidation journals, intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the Primary audit team, or by component auditors from other EY global network firms operating under our instruction. Of the 6 full scope components, audit procedures were performed on 3 of these directly by the Primary audit team and 3 by component audit teams. For the 6 specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement with the component teams to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

At the start of the audit, a Global Team Planning Event was held in the UK with representatives from all full and specific scope component audit team in attendance. In addition, the Primary audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor, or her designate, would visit all full and selected specific scope audit locations. During the current year's audit cycle, visits were undertaken at least once by the primary audit team to the component teams in the UK, France, Spain, North America, and South Africa. These visits involved discussing the audit approach with the component team and any issues arising from their work, meeting with local management, and reviewing key audit working papers on the Group risk areas. The Primary audit team interacted regularly with the component teams where appropriate during various stages of the audit, attended all closing meeting calls, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

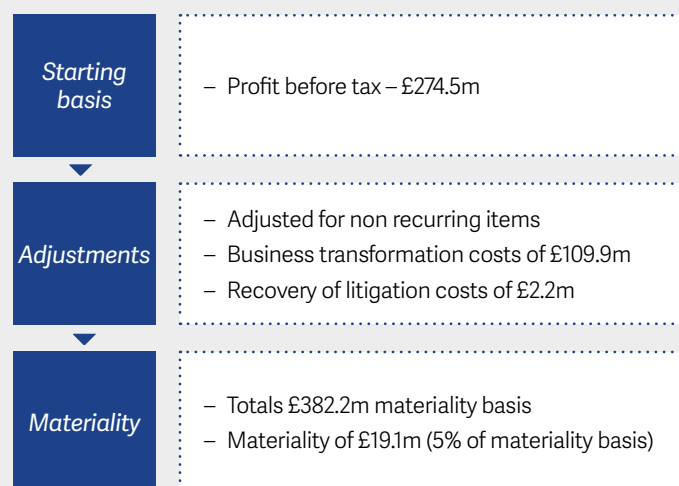
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £19.1 million (2015: £16.9 million), which is 5% (2015: 5%) of Profit before tax adjusted for non-recurring items reported by the Group. We believe that adjusted Profit before tax provides us with a consistent year on year basis for determining materiality and is the most relevant performance measure to the stakeholders of the entity. Non-recurring items are set out in Note 3.6 of the Group's financial statements. Given the scale of, and multi-year timeline for, the Group's business transformation, further non-recurring transformation costs will be incurred in 2017.

During the course of our audit, we reassessed initial materiality and the only change in the final materiality from our original assessment at planning was to reflect the actual reported performance of the Group in the year.



Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2015: 50%) of our planning materiality, namely £9.5m (2015: £8.5m). Our performance materiality percentage has remained at 50% to reflect the risk associated with the Group wide business transformation, and specifically changes across the finance organisation that commenced during the current year, which included for the UK and South Africa the implementation of their respective X3 ERP system for certain processes and the establishment of Financial Shared Services Centres.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to full and specific scope components was £0.9m to £5.2m (2015: £0.9m to £4.3m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £1.0m (2015: £0.9m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts 2016 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 105, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of The Sage Group plc continued

Matters on which we are required to report by exception

ISAs (UK and Ireland) reporting	<p>We are required to report to you if, in our opinion, financial and non-financial information in the annual report is:</p> <ul style="list-style-type: none"> – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or – otherwise misleading. <p>In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed.</p>	We have no exceptions to report.
Companies Act 2006 reporting	<p>We are required to report to you if, in our opinion:</p> <ul style="list-style-type: none"> – adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or – the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or – certain disclosures of directors' remuneration specified by law are not made; or – we have not received all the information and explanations we require for our audit. 	We have no exceptions to report.
Listing Rules review requirements	<p>We are required to review:</p> <ul style="list-style-type: none"> – the directors' statement in relation to going concern and longer-term viability, both set out on page 101; and – the part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. 	We have no exceptions to report.

Statement on the Directors' Assessment of the Principal Risks that Would Threaten the Solvency or Liquidity of the Entity

ISAs (UK and Ireland) reporting	<p>We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to:</p> <ul style="list-style-type: none"> – the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; – the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated; – the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and – the directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. 	We have nothing material to add or to draw attention to.
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Alison Duncan (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

29 November 2016

Notes:

1. The maintenance and integrity of the The Sage Group plc's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

For the year ended 30 September 2016

	Note	Underlying 2016 £m	Adjustments (note 3.6) 2016 £m	Statutory 2016 £m	Underlying as reported * 2015 £m	Adjustments (note 3.6) 2015 £m	Statutory 2015 £m
Revenue	2.1, 3.1	1,569.1	–	1,569.1	1,435.5	–	1,435.5
Cost of sales		(103.0)	–	(103.0)	(86.7)	–	(86.7)
Gross profit		1,466.1	–	1,466.1	1,348.8	–	1,348.8
Selling and administrative expenses		(1,039.1)	(126.6)	(1,165.7)	(968.9)	(82.7)	(1,051.6)
Operating profit	2.2, 3.2, 3.3, 3.6	427.0	(126.6)	300.4	379.9	(82.7)	297.2
Share of loss of an associate	8	(0.4)	(0.6)	(1.0)	–	–	–
Finance income	3.5	2.4	2.7	5.1	2.2	–	2.2
Finance costs	3.5	(24.1)	(5.9)	(30.0)	(23.6)	–	(23.6)
Profit before income tax		404.9	(130.4)	274.5	358.5	(82.7)	275.8
Income tax expense	4	(105.1)	38.2	(66.9)	(90.3)	8.8	(81.5)
Profit for the year		299.8	(92.2)	207.6	268.2	(73.9)	194.3
Profit attributable to:							
Owners of the parent		299.8	(92.2)	207.6	268.2	(73.9)	194.3
Earnings per share attributable to the owners of the parent (pence)							
– Basic	5	27.84p		19.28p	25.00p		18.11p
– Diluted	5	27.67p		19.16p	24.85p		18.00p

All operations in the year relate to continuing operations.

Note:

* Underlying as reported is at 2015 reported exchange rates.

Consolidated statement of comprehensive income

For the year ended 30 September 2016

	Note	2016 £m	2015 £m
Profit for the year		207.6	194.3
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss:			
Actuarial loss on post-employment benefit obligations	11, 15.4	(2.2)	(4.8)
Deferred tax credit on actuarial loss on post-employment benefit obligations	4, 15.4	0.8	0.6
		(1.4)	(4.2)
Items that may be reclassified to profit or loss:			
Deferred tax credit on foreign currency movements	4, 15.3	2.6	–
Exchange differences on translating foreign operations	15.3	117.1	(23.2)
		119.7	(23.2)
Other comprehensive income/(expense) for the year, net of tax		118.3	(27.4)
Total comprehensive income for the year		325.9	166.9
Total comprehensive income for the year attributable to:			
Owners of the parent		325.9	166.9

Consolidated balance sheet

As at 30 September 2016

	Note	2016 £m	2015 £m
Non-current assets			
Goodwill	6.1	1,658.5	1,446.0
Other intangible assets	6.2	109.3	105.5
Property, plant and equipment	7	123.4	122.7
Investment in an associate	8	9.0	–
Other financial assets		2.7	–
Deferred income tax assets	12	58.4	34.2
		1,961.3	1,708.4
Current assets			
Inventories	9.1	2.1	2.0
Trade and other receivables	9.2	419.5	320.9
Current income tax asset		7.9	–
Cash and cash equivalents (excluding bank overdrafts)	13.3	264.5	263.4
Assets classified as held for sale	16.3	1.0	–
		695.0	586.3
Total assets		2,656.3	2,294.7
Current liabilities			
Trade and other payables	9.3	(350.5)	(311.2)
Current income tax liabilities		(20.7)	(31.4)
Borrowings	13.4	(43.3)	(33.6)
Provisions	10	(37.6)	(9.9)
Deferred income	3.1	(535.8)	(436.5)
Liabilities classified as held for sale	16.3	(0.4)	–
		(988.3)	(822.6)
Non-current liabilities			
Borrowings	13.4	(534.4)	(571.4)
Post-employment benefits	11	(25.3)	(18.7)
Deferred income tax liabilities	12	(13.2)	(7.3)
Provisions	10	(29.4)	(10.4)
Trade and other payables		(7.5)	–
Deferred income	3.1	(4.9)	(2.2)
		(614.7)	(610.0)
Total liabilities		(1,603.0)	(1,432.6)
Net assets		1,053.3	862.1
Equity attributable to owners of the parent			
Ordinary shares	15.1	11.8	11.8
Share premium		544.4	541.2
Other reserves	15.3	186.6	66.9
Retained earnings		310.5	242.2
Total equity		1,053.3	862.1

The consolidated financial statements on pages 113 to 162 were approved by the Board of Directors on 29 November 2016 and are signed on their behalf by:

S Hare
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 30 September 2016

	Note	Attributable to owners of the parent				Total equity £m
		Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	
At 1 October 2015		11.8	541.2	66.9	242.2	862.1
Profit for the year		-	-	-	207.6	207.6
Other comprehensive income/(expense):						
Exchange differences on translating foreign operations	15.3	-	-	117.1	-	117.1
Deferred tax credit on foreign currency movements	4, 15.3	-	-	2.6	-	2.6
Actuarial loss on post-employment benefit obligations	11, 15.4	-	-	-	(2.2)	(2.2)
Deferred tax credit on actuarial loss on post-employment obligations	4, 15.4	-	-	-	0.8	0.8
Total comprehensive income for the year ended 30 September 2016		-	-	119.7	206.2	325.9
Transactions with owners:						
Employee share option scheme:						
- Proceeds from shares issued		-	3.2	-	-	3.2
- Value of employee services, net of deferred tax	15.4	-	-	-	9.3	9.3
Purchase of treasury shares	15.4	-	-	-	(2.4)	(2.4)
Dividends paid to owners of the parent	15.5	-	-	-	(144.8)	(144.8)
Total transactions with owners for the year ended 30 September 2016		-	3.2	-	(137.9)	(134.7)
At 30 September 2016		11.8	544.4	186.6	310.5	1,053.3

Consolidated statement of changes in equity

For the year ended 30 September 2015

	Note	Attributable to owners of the parent				Total equity £m
		Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	
At 1 October 2014		11.7	535.9	90.1	130.2	767.9
Profit for the year		-	-	-	194.3	194.3
Other comprehensive income/(expense):						
Exchange differences on translating foreign operations	15.3	-	-	(23.2)	-	(23.2)
Actuarial loss on post-employment benefit obligations	11, 15.4	-	-	-	(4.8)	(4.8)
Deferred tax credit on actuarial loss on post-employment obligations	4, 15.4	-	-	-	0.6	0.6
Total comprehensive (expense)/income for the year ended 30 September 2015		-	-	(23.2)	190.1	166.9
Transactions with owners:						
Employee share option scheme:						
- Proceeds from shares issued		0.1	5.3	-	-	5.4
- Value of employee services, net of deferred tax	15.4	-	-	-	10.1	10.1
Purchase of treasury shares	15.4	-	-	-	(14.6)	(14.6)
Expenses related to purchase of treasury shares	15.4	-	-	-	(0.1)	(0.1)
Close period share buyback programme	15.4	-	-	-	60.0	60.0
Dividends paid to owners of the parent	15.5	-	-	-	(133.5)	(133.5)
Total transactions with owners for the year ended 30 September 2015		0.1	5.3	-	(78.1)	(72.7)
At 30 September 2015		11.8	541.2	66.9	242.2	862.1

Consolidated statement of cash flows

For the year ended 30 September 2016

	Note	2016 £m	2015 £m
Cash flows from operating activities			
Cash generated from continuing operations	13.1	397.9	418.6
Interest paid		(21.1)	(19.2)
Income tax paid		(92.1)	(84.6)
Net cash generated from operating activities		284.7	314.8
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash acquired	16.1	(6.4)	(47.3)
Purchases of intangible assets	6.2	(7.7)	(6.0)
Purchases of property, plant and equipment	7	(23.5)	(16.4)
Purchase of investment in an associate		(10.0)	–
Proceeds from sale of property, plant and equipment		0.1	2.1
Interest received	3.5	2.4	2.2
Net cash generated used in investing activities		(45.1)	(65.4)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		3.2	5.4
Purchase of treasury shares		(2.4)	(17.7)
Finance lease principal payments		(0.6)	(1.4)
Proceeds from borrowings		69.2	481.2
Repayments of borrowings		(188.8)	(474.5)
Movements in cash held on behalf of customers		(13.0)	12.5
Borrowing costs		(1.5)	(1.3)
Dividends paid to owners of the parent	15.5	(144.8)	(133.5)
Net cash used in financing activities		(278.7)	(129.3)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts (before exchange rate movement)			
		(39.1)	120.1
Effects of exchange rate movement	13.2	35.9	(0.4)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		(3.2)	119.7
Cash, cash equivalents and bank overdrafts at 1 October	13.2	263.4	143.7
Cash, cash equivalents and bank overdrafts at 30 September	13.2	260.2	263.4

Basis of preparation and critical accounting estimates and judgements

1 Basis of preparation and critical accounting estimates and judgements

Accounting policies applicable across the financial statements are shown below. Accounting policies that are specific to a component of the financial statements have been incorporated into the relevant note.

Basis of preparation

The consolidated financial statements of The Sage Group plc have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). The consolidated financial statements have been prepared under the historical cost convention, except where adopted IFRS require an alternative treatment. The principal variations from the historical cost convention relate to derivative financial instruments which are measured at fair value through profit or loss.

The financial statements of the Group comprise the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared at the end of the reporting period. The accounting policies have been consistently applied across the Group. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity, which is usually from date of acquisition.

New or amended accounting standards

There are no IFRS, IAS amendments or IFRIC interpretations effective for the first time this financial year that have had a material impact on the Group.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report on pages 1 to 63.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future, for a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements, in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Foreign currencies

The consolidated financial statements are presented in sterling, which is the functional currency of the parent Company and the presentation currency for the consolidated financial statements.

Foreign currency transactions are recorded at the rates of exchange prevailing on the dates of the transactions. Foreign currency monetary items are translated at the rates prevailing at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlements of monetary items and on the retranslation of monetary items are included in profit or loss for the period, except for foreign currency movements on intercompany balances where settlement is not planned or likely in the foreseeable future, in which case they are recognised in other comprehensive income. Foreign exchange movements on external borrowings which are designated as a hedge of the net investment in its related subsidiaries are recognised in the translation reserve.

The assets and liabilities of the Group's subsidiaries outside of the UK are translated into sterling using period end exchange rates. Income and expense items are translated at the average exchange rates for the period. Where differences arise between these rates, they are recognised in other comprehensive income and the translation reserve.

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in other comprehensive income are recycled in the income statement as part of the gain or loss on sale, with the exception of exchange differences recorded in equity prior to the transition to IFRS on 1 October 2004, in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards".

Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates and assumptions by management. It also requires management to exercise its judgement in the process of applying the accounting policies. We continually evaluate our estimates, assumptions and judgements based on available information. The areas involving a higher degree of judgement or complexity are described below.

The judgements and management's rationale in relation to these accounting estimates and judgements are assessed and where material in value or in risk, are discussed with the Audit and Risk Committee.

Revenue recognition

Approximately 30% of the company's revenue is generated from sales to partners rather than to end users. The key judgement in accounting for the three principal ways in which our business partners are remunerated is determining whether the business partner is a customer of the Group in respect of the initial product sale. The key criteria in this determination is whether the business partner has paid for and taken on the risks and rewards of ownership of the software product from Sage. At this point the business partner is able to sell on the licence to the end user at a price of its determination and consequently bears the credit risk of the onward sale.

Where the business partner is a customer of Sage, there are two ways in which they can be remunerated. Firstly, there are discounts granted as a discount from the list price. These discounts are negotiated between the company and the business partner prior to the sale and invoices are raised, and revenue booked is based on the discounted price. Secondly, there are further discounts given to business partners for subsequent renewals or increased sales to the end user. These discounts are recognised as a deduction from the incremental revenue earned.

Where the business partner is not a customer of Sage and their part in the sale has simply been in the form of a referral, they are remunerated in the form of a commission payment. These payments are treated as a cost within selling and administrative costs.

An additional area of judgement is the recognition and deferral of revenue on bundled products, for example the sale of a perpetual licence with an annual maintenance and support contract. When products are bundled together for the purpose of sale, the associated revenue, net of all applicable discounts, is allocated between the constituent parts of the bundle on a relative fair value basis. The Group has a systematic basis for allocating relative fair values in these situations, based upon published list prices.

Goodwill impairment

There are two key judgement areas in relation to goodwill impairment.

The first is the ongoing appropriateness of the cash-generating units ("CGUs") for the purpose of impairment testing. In the current year CGUs were assessed in the context of the Group's evolving business model, the Sage strategy and the shift to global product development. As management continues to monitor goodwill at a country level and product cash flows are still predominantly generated by the existing product base within each country, it was determined that the existing CGUs remain appropriate.

The other key judgement area relates to the assumptions applied in calculating the value in use of the CGUs being tested for impairment. The key assumptions applied in the calculation relate to the future performance expectations of the business – average medium-term revenue growth and long term growth rate – as well as the discount rate to be applied in the calculation.

These key assumptions used in performing the impairment assessment are disclosed in note 6.1.

Basis of preparation and critical accounting estimates and judgements continued

1 Basis of preparation and critical accounting estimates and judgements continued

Tax provisions

The Group recognises certain provisions and accruals in respect of tax which involve a degree of estimation and uncertainty where the tax treatment cannot finally be determined until a resolution has been reached by the relevant tax authority. This approach resulted in providing £18.7m as at 30 September 2016 (2015: £32.8m).

The carrying amount is sensitive to the resolution of issues which is not always within the control of the Group and it is often dependent on the efficiency of the legal processes in the relevant taxing jurisdictions in which the Group operates. Issues can take many years to resolve and assumptions on the likely outcome have therefore been made by management.

The nature of the assumptions made by management when calculating the carrying amounts relates to the estimated tax which could be payable as a result of decisions with tax authorities in respect of transactions and events whose treatment for tax purposes is uncertain. In making the estimates, management's judgement was based on various factors, including:

- the status of recent and current tax audits and enquiries;
- the results of previous claims; and
- any changes to the relevant tax environments.

When making this assessment, we utilise our specialist in-house tax knowledge and experience of similar situations elsewhere to confirm these provisions. These judgements also take into consideration specialist tax advice provided by third party advisors on specific items.

Future accounting standards

The directors also considered the impact on the Group of new and revised accounting standards, interpretations or amendments. The following revised and new accounting standards may have a material impact on the Group. They are currently issued but not effective for the Group for the year ended 30 September 2016:

- IFRS 9, "Financial Instruments";
- IFRS 15, "Revenue from Contracts with Customers"; and
- IFRS 16, "Leases".

IFRS 9 and IFRS 16 have not yet been endorsed by the EU. The Group plans to adopt these standards in line with their effective dates, which for IFRSs 9 and 16 will be confirmed once the standards are endorsed by the EU. Currently, based on the expected timing of that endorsement, IFRSs 9 and 15 will be adopted for the financial year commencing 1 October 2018, and IFRS 16 for the financial year commencing 1 October 2019. The Group is in the process of assessing the impact that the application of these standards will have on the Group's financial statements, but it is currently too early to determine how significant any effect on actual financial results and financial position might be.

In the case of IFRS 15, the Group is in the initial stage of planning its evaluation of the impact of the standard. IFRS 15 will replace IAS 11 "Construction Contracts" and IAS 18 "Revenue" and related interpretations. It contains a new set of principles on when and how to recognise and measure revenue as well as new requirements related to presentation and disclosures.

Under IFRS 15, revenue earned from contracts with customers will be recognised based on a five-step model which requires, for each contract, the transaction price to be apportioned to the separate performance obligations arising under the contract on a relative standalone selling price basis, and recognised as revenue at the point at which control of goods or services is transferred to the customer. The transaction price will be the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer. The incremental costs of obtaining a contract and contract fulfilment costs will be recognised as an expense consistent with the transfer of the related goods or services to the customer. Depending on the particular contractual arrangements in place, application of the new standard may change the amount of revenue recognised on a contract and/or its timing, and the timing of the recognition of contract costs compared with current accounting policies.

Results for the year

2 Segment information

This note shows how Group revenue and Group operating profit are generated across the three reportable segments in which we operate, being Europe, North America and International (South America, Africa, Australia, Middle East and Asia).

For each geographical region, revenue and operating profit are compared to prior year in order to understand the movements in the year. This comparison is provided for statutory, underlying and organic revenue and operating profit.

- Statutory results reflect the Group's results prepared in accordance with the requirements of IFRS.
- Underlying and underlying as reported are non-GAAP measures. Adjustments are made to statutory results to arrive at an underlying result which is in line with how the business is managed and measured on a day to day basis. Adjustments are made for items that are individually important in order to understand the financial performance. If included, these items could distort understanding of the performance for the year and the comparability between periods. Management apply judgement in determining which items should be excluded from underlying performance. See note 3.6 for details of these adjustments.

In addition, the prior year underlying values are translated at current year exchange rates, so that exchange rate impacts do not distort comparisons. Prior year underlying values at prior year exchange rates are "underlying as reported"; prior year and current year values at current year exchange rates are "underlying".

- Organic is a non-GAAP measure. The contributions of current and prior year acquisitions, disposals and assets held for sale of standalone businesses are removed so that results can be compared to the prior year on a like for like basis. Acquisitions and disposals which occurred close to the start of the opening comparative period where the contribution impact would be immaterial are not adjusted.

In addition, the following reconciliations are made in this note.

- Revenue per segment reconciled to the profit for the year as per the income statement.
- Statutory operating profit reconciled to underlying operating profit per segment (detailing the adjustments made).

Accounting policy

In accordance with IFRS 8, "Operating Segments", information for the Group's operating segments has been derived using the information used by the chief operating decision maker. The Group's Executive Committee has been identified as the chief operating decision maker in accordance with their designated responsibility for the allocation of resources to operating segments and assessing their performance, through the Quarterly Business Reviews chaired by the Chief Executive Officer and Chief Financial Officer. The Executive Committee use organic and underlying data to monitor business performance. Operating segments are reported in a manner which is consistent with the operating segments produced for internal management reporting.

The Group is organised into four key operating segments, with Brazil being aggregated with AAMEA with which there are similar economic characteristics to form the International reporting segment. The UK is the home country of the parent. The reporting segments and their main operating territories are as follows:

- Europe (France, UK & Ireland, Spain, Germany, Switzerland, Poland, Portugal and Sagepay)
- North America (US and Canada)
- International (Brazil, Africa, Australia, Middle East and Asia)

The Africa operations are principally based in South Africa; the Middle East and Asia operations are principally based in Singapore, Malaysia and UAE.

Segment reporting

The tables overleaf show a segmental analysis of the results for continuing operations.

The revenue analysis in the table overleaf is based on the location of the customer which is not materially different from the location where the order is received and where the assets are located.

Revenue categories are defined in Note 3.1.

Results for the year continued

2 Segment information continued

2.1 Revenue by segment

	Year ended 30 September 2016			Change		
	Statutory and underlying £m	Organic adjustments £m	Organic £m	Statutory	Underlying	Organic
Recurring revenue by segment						
Europe	641.7	–	641.7	13.5%	10.2%	10.2%
North America	307.9	–	307.9	16.3%	8.5%	8.5%
International	143.3	(1.1)	142.2	7.7%	15.8%	16.0%
Recurring revenue	1,092.9	(1.1)	1,091.8	13.5%	10.4%	10.4%
Software and software related services (“SSRS”) revenue by segment						
Europe	149.1	–	149.1	(4.0%)	(7.4%)	(7.4%)
North America	70.5	–	70.5	(0.8%)	(7.6%)	(7.6%)
International	52.6	(0.8)	51.8	(18.2%)	(13.5%)	(12.4%)
SSRS revenue	272.2	(0.8)	271.4	(6.4%)	(8.7%)	(8.5%)
Processing revenue by segment						
Europe	36.2	–	36.2	11.7%	11.5%	11.5%
North America	157.1	–	157.1	11.3%	2.9%	2.9%
International	10.7	–	10.7	32.1%	49.8%	49.8%
Processing revenue	204.0	–	204.0	12.3%	6.1%	6.1%
Total revenue by segment						
Europe	827.0	–	827.0	9.8%	6.6%	6.6%
North America	535.5	–	535.5	12.3%	4.4%	4.4%
International	206.6	(1.9)	204.7	0.6%	7.8%	8.4%
Total revenue	1,569.1	(1.9)	1,567.2	9.3%	6.0%	6.1%

	Year ended 30 September 2015				
	Statutory and underlying as reported £m	Impact of foreign exchange £m	Underlying £m	Organic adjustments £m	Organic £m
Recurring revenue by segment					
Europe	565.3	17.1	582.4	–	582.4
North America	264.7	19.0	283.7	–	283.7
International	133.1	(9.3)	123.8	(1.2)	122.6
Recurring revenue	963.1	26.8	989.9	(1.2)	988.7
Software and software related services (“SSRS”) revenue by segment					
Europe	155.3	5.7	161.0	–	161.0
North America	71.1	5.2	76.3	–	76.3
International	64.3	(3.5)	60.8	(1.7)	59.1
SSRS revenue	290.7	7.4	298.1	(1.7)	296.4
Processing revenue by segment					
Europe	32.4	0.2	32.6	–	32.6
North America	141.2	11.5	152.7	–	152.7
International	8.1	(1.0)	7.1	–	7.1
Processing revenue	181.7	10.7	192.4	–	192.4
Total revenue by segment					
Europe	753.0	23.0	776.0	–	776.0
North America	477.0	35.7	512.7	–	512.7
International	205.5	(13.8)	191.7	(2.9)	188.8
Total revenue	1,435.5	44.9	1,480.4	(2.9)	1,477.5

2.2 Operating profit by segment

	Year ended 30 September 2016					Change		
	Statutory £m	Underlying adjustments £m	Underlying £m	Organic adjustments £m	Organic £m	Statutory	Underlying	Organic
Operating profit by segment								
Europe	167.6	88.1	255.7	–	255.7	(22.6%)	12.7%	12.7%
North America	106.0	28.3	134.3	–	134.3	11.7%	15.9%	15.9%
International	26.8	10.2	37.0	(0.1)	36.9	–	(25.5%)	(23.4%)
Total operating profit	300.4	126.6	427.0	(0.1)	426.9	1.1%	8.8%	9.2%

	Year ended 30 September 2015							
	Statutory £m	Underlying adjustments £m	Underlying as reported £m	Impact of foreign exchange £m	Underlying £m	Organic adjustments £m	Organic £m	
Operating profit by segment								
Europe	216.6	6.4	223.0	3.9	226.9	–	226.9	
North America	94.9	7.5	102.4	13.5	115.9	–	115.9	
International	(14.3)	68.8	54.5	(5.0)	49.5	(1.3)	48.2	
Total operating profit	297.2	82.7	379.9	12.4	392.3	(1.3)	391.0	

The results by segment from continuing operations were as follows:

Year ended 30 September 2016	Note	Europe £m	North America £m	International £m	Group £m
Revenue		827.0	535.5	206.6	1,569.1
Segment statutory operating profit		167.6	106.0	26.8	300.4
Share of loss of an associate					(1.0)
Finance income	3.5				5.1
Finance costs	3.5				(30.0)
Profit before income tax					274.5
Income tax expense	4				(66.9)
Profit for the year					207.6

Reconciliation of underlying operating profit to statutory operating profit

	Europe £m	North America £m	International £m	Group £m
Underlying operating profit	255.7	134.3	37.0	427.0
Amortisation of acquired intangible assets (note 3.6)	(6.4)	(8.0)	(3.8)	(18.2)
Other acquisition-related items (note 3.6)	(0.1)	(0.6)	–	(0.7)
Non-recurring items (note 3.6)	(81.6)	(19.7)	(6.4)	(107.7)
Statutory operating profit	167.6	106.0	26.8	300.4

Results for the year continued

2 Segment information continued

2.2 Operating profit by segment continued

The results by segment from continuing operations were as follows:

Year ended 30 September 2015	Note	Europe £m	North America £m	International £m	Group £m
Revenue		753.0	477.0	205.5	1,435.5
Segment statutory operating profit		216.6	94.9	(14.3)	297.2
Finance income	3.5				2.2
Finance costs	3.5				(23.6)
Profit before income tax					275.8
Income tax expense	4				(81.5)
Profit for the year					194.3

Year ended 30 September 2015		Europe £m	North America £m	International £m	Group £m
Underlying operating profit (as reported)		223.0	102.4	54.5	379.9
Amortisation of acquired intangible assets		(6.4)	(7.5)	(4.3)	(18.2)
Fair value adjustments and goodwill impairment		–	–	(64.5)	(64.5)
Statutory operating profit		216.6	94.9	(14.3)	297.2

2.3 Analysis by geographic location

Management deems countries which generate more than 10% of total group revenue to be material. Additional disclosures have been provided below to show the proportion of revenue from these countries.

Revenue by individually significant countries	2016 £m	2015 £m
UK	319.5	298.6
France	246.6	221.2
USA	473.6	374.6
Other individually immaterial countries	529.4	541.1
	1,569.1	1,435.5

Management deems countries which contribute more than 10% to total group non-current assets to be material. Additional disclosures have been provided below to show the proportion of non-current assets from these countries.

Non-current assets presented below excludes deferred tax assets, post-employment benefit assets and financial instruments.

Non-current assets by geographical location	2016 £m	2015 £m
UK	272.5	295.8
France	239.1	217.0
USA	1,010.9	871.6
Other individually immaterial countries	377.7	289.8
	1,900.2	1,674.2

3 Profit before income tax

This note sets out the Group's profit before tax, by looking in more detail at the key operating costs, including a breakdown of the costs incurred as an employer, research and development costs, the cost of the external audit of the Group's financial statements and finance costs. This note also sets out the Group's revenue recognition policy.

In addition, this note analyses the future amounts payable under operating lease agreements, which the Group has entered into as at the year-end. These commitments are not included as liabilities in the consolidated balance sheet.

This note also provides a breakdown of any material recurring and non-recurring costs that have been reported separately on the face of the income statement.

3.1 Revenue

Accounting policy

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received or receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

The Group reports revenue under three revenue categories and the basis of recognition for each category is described below:

Category & Examples	Accounting Treatment
Recurring revenue Subscription contracts Maintenance and support contracts	Recurring revenue is revenue earned from customers for the provision of a good or service, where risks and rewards are transferred to the customer over the term of a contract, with the customer being unable to continue to benefit from the full functionality of the good or service without ongoing payments. Subscription revenue is revenue earned from customers for the provision of a good or service, where the risk and rewards are transferred to the customer over the term of a contract. In the event that the customer stops paying, they lose the legal right to use the software and the Company has the ability to restrict the use of the product or service. (Also known as 'Pay to play'). Subscription revenue and maintenance and support revenue is recognised on a straight-line basis over the term of the contract (including non-specified upgrades, when included). Revenue relating to future periods is classified as deferred income on the balance sheet to reflect the transfer of risk and reward.
Software and software-related services Perpetual software licences Upgrades to perpetual licences Professional services Training Hardware and stationary	Perpetual software licences and specified upgrades revenue is recognised when the significant risks and rewards of ownership relating to the licence have been transferred and it is probable that the economic benefits associated with the transaction will flow to the Group. This is when the goods have left the warehouse to be shipped to the customer or when electronic delivery has taken place. Other product revenue (which includes hardware and stationary) is recognised as the products are shipped to the customer. Other services revenue (which includes the sale of professional services and training) is recognised when delivered, or by reference to the stage of completion of the transaction at the end of the reporting period. This assessment is made by comparing the proportion of contract costs incurred to date to the total expected costs to completion.
Processing revenue Payment processing services Payroll processing services	Processing revenue is revenue earned from customers for the processing of payments or where Sage colleagues process our customers' payroll. Processing revenue is recognised at the point that the service is rendered on a per transaction basis.

When products are bundled together before being sold to the customer, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. The associated revenue is allocated between the constituent parts of the bundle on a relative fair value basis. When customers are offered discounts on bundled products and/or services, the combined discount is allocated to the constituent elements of the bundle, based upon publically available list prices.

Results for the year continued

3 Profit before income tax continued

3.2 Operating profit

Accounting policy

Cost of sales includes items such as third party royalties, transaction and credit card fees related to the provision of payment processing services and the cost of hardware and inventories. These also include the third party costs of providing training and professional services to customers. All other operating expenses incurred in the ordinary course of business are recorded in selling and administrative expenses.

The following items have been included in arriving at operating profit	Note	2016 £m	2015 £m
Staff costs	3.3	671.5	639.2
Cost of inventories recognised as an expense (included in cost of sales)	9.1	9.4	8.0
Depreciation of property, plant and equipment	7	22.2	18.2
Amortisation of intangible assets	6.2	29.6	29.1
Impairment of property, plant and equipment	7	6.6	–
Fair value adjustments and goodwill impairment	3.6	–	64.5
Other operating lease rentals payable		27.9	27.9
Net foreign exchange (gain)/ losses		(0.1)	0.3
Acquisition-related items		0.7	2.0

The Group incurred £144.0m (2015: £141.2m) of research and development expenditure in the year, of which £128.8m (2015: £123.5m) is included above in staff costs. See note 6.2 for the research and development accounting policy. The Group also incurred £109.9m (2015: nil) of transformation costs. See note 3.6 for a detailed explanation of these costs.

Services provided by the Group's auditors and network firms

During the year, the Group (including its overseas subsidiaries) obtained the following services from the Group's auditors at costs as detailed below:

	2016 £m	2015 £m
Fees payable to the Group's auditor for the audit of the Plc's companies and the consolidated accounts	1.2	0.9
Fees payable to the Group's auditor for the audit of the Company's subsidiaries	2.1	1.8
Fees payable to the Group's auditor for audit-related assurance services	0.1	0.1
Total audit and audit related services	3.4	2.8
Tax compliance services	–	–
Tax advisory services	–	–
Other non-audit services	–	–
Total fees	3.4	2.8

A summary of the Board's policy in respect of the procurement of non-audit services for the Group's auditor is set out on page 80.

3.3 Employees and directors

Average monthly number of people employed (including directors)	2016 number	2015 number
By segment:		
Europe	7,361	7,277
North America	2,569	2,508
International	3,811	3,486
	13,741	13,271

Staff costs (including directors on service contracts)	Note	2016 £m	2015 £m
Wages and salaries		572.2	546.2
Social security costs		79.8	72.1
Post-employment benefits	11	11.6	11.8
Share-based payments	15.2	7.9	9.1
		671.5	639.2

Key management compensation		2016 £m	2015 £m
Salaries and short-term employee benefits		7.3	10.0
Post-employment benefits		0.5	0.4
Share-based payments		2.7	2.4
		10.5	12.8

Key management personnel are deemed to be members of the Executive Committee as shown on page 68. The key management figures given above include the executive directors of the Group.

3.4 Operating lease commitments

Accounting policy

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

	2016 Property, vehicles, plant and equipment £m	2015 Property, vehicles, plant and equipment £m
Total future minimum lease payments under non-cancellable operating leases falling due for payment as follows:		
Within one year	33.6	29.4
Later than one year and less than five years	94.6	73.7
After five years	37.2	15.7
	165.4	118.8

The Group leases various offices and warehouses under non-cancellable operating lease agreements. These leases have various terms, escalation clauses and renewal rights. The Group also leases vehicles, plant and equipment under non-cancellable operating lease agreements.

Results for the year continued

3 Profit before income tax continued

3.5 Finance income and costs

Accounting policy

Finance income and costs are recognised using the effective interest method. Finance costs are recognised in the income statement simultaneously with the recognition of an increase in a liability or the reduction in an asset. Derivative financial instruments are measured at fair value through profit or loss. Foreign currency movements on intercompany balances are recognised in the profit and loss account unless settlement is not planned or likely in the foreseeable future, in which case they are recognised in other comprehensive income.

	2016 £m	2015 £m
Finance income:		
Interest income on short-term deposits	2.4	2.2
Fair value adjustments to debt related financial instruments	2.7	–
Finance income	5.1	2.2
Finance costs:		
Finance costs on bank borrowings	(3.9)	(3.6)
Finance costs on US senior loan notes	(19.2)	(18.7)
Amortisation of issue costs	(1.0)	(1.3)
Foreign currency movements on intercompany balances	(5.9)	–
Finance costs	(30.0)	(23.6)
Finance costs – net	(24.9)	(21.4)

3.6 Adjustments between underlying and statutory results

Accounting policy

The business is managed and measured on a day to day basis using underlying results. To arrive at underlying results, certain adjustments are made for items that are individually important and which could, if included, distort the understanding of the performance for the year and the comparability between periods.

Management apply judgement in determining which items should be excluded from underlying performance.

Recurring items

These are items which occur regularly but which management judge to have a distorting effect on the underlying results of the Group. These items relate mainly to fair value adjustments on financial instruments and merger & acquisition (“M&A”) activity, although other types of recurring items may arise. M&A activity by its nature is irregular in its impact and includes amortisation and acquisition related costs, but not operating or integration costs relating to an acquired business. Foreign currency movements on intercompany balances that are charged through the income statement are excluded from underlying so that exchange rate impacts do not distort comparisons. Recurring items are adjusted each year irrespective of materiality to ensure consistent treatment.

Non-recurring items

These are items which are non-recurring and are identified by virtue of either their size or their nature. These items can include, but are not restricted to, gains and losses on the disposal of assets, impairment charges and reversals, and restructuring related costs. As these items are one-off or non-operational in nature, management considers that they would distort the Group’s underlying business performance.

	Recurring 2016 £m	Non-recurring 2016 £m	Total 2016 £m	Recurring 2015 £m	Non-recurring 2015 £m	Total 2015 £m
Amortisation of acquired intangibles	18.2	–	18.2	18.2	–	18.2
Fair value adjustments	–	–	–	2.2	–	2.2
Other acquisition-related items	0.7	–	0.7	–	–	–
Litigation related items	–	(2.2)	(2.2)	–	–	–
Transformation costs	–	109.9	109.9	–	–	–
Goodwill impairment	–	–	–	–	62.3	62.3
Total adjustments made to operating profit	18.9	107.7	126.6	20.4	62.3	82.7
Fair value adjustments	(2.7)	–	(2.7)	–	–	–
Amortisation of acquired intangibles	0.6	–	0.6	–	–	–
Foreign currency movements on intercompany balances	5.9	–	5.9	–	–	–
Total adjustments made to profit before income tax	22.7	107.7	130.4	20.4	62.3	82.7

Recurring items

Acquired intangibles are assets which have previously been recognised as part of business combinations. These assets are predominantly brands, customer relationships and technology rights. Further details including specific accounting policies in relation to these assets can be found in note 6.2.

Other acquisition-related items relate to completed transaction costs and include advisory, legal, accounting, valuation and other professional or consulting services.

The fair value adjustment relates to an embedded derivative asset which relates to contractual terms agreed as part of the US private placement debt.

Amortisation of acquired intangibles below operating profit relates to the Group's share of the amortisation of intangible assets arising on the acquisition of an investment in an associate accounted for under the equity method.

Foreign currency movements on intercompany balances of £5.9m occurs due to retranslation of intercompany balances other than those where settlement is not planned or likely in the foreseeable future. The balance arises in the current year due to fluctuation in exchange rates, predominately the movement in Euro and US Dollar compared to sterling.

The prior year fair value adjustment of £2.2m relates to an accounting loss on fair valuation of the call option in relation to the possible acquisition of Mastermaq.

Non-recurring items

Net charges in respect of non-recurring items amounted to £107.7m (2015: £62.3m).

Charges of £109.9m have been incurred in the current year as a result of the implementation of the business transformation strategy. This is comprised of people reorganisation charges of £51.5m, net property exit costs of £39.7m and other directly attributable costs, mainly relating to consultancy, contractor and asset write downs, of £18.7m.

The people reorganisation charges comprise severance costs of £43.8m with the remaining cost largely arising from retention payments, transition and overlap costs whilst implementing the new operating model. The property exit costs consist of net lease exit costs following consolidation of office space used and impairment and accelerated depreciation of leasehold improvement assets and other related assets that are no longer in use due to the property exits. The other costs include expenditure that is directly attributable to the implementation of the new operating model under the business transformation strategy, including advisory, legal, accounting, valuation and other professional or consulting services.

These charges are one-off in nature and directly linked to the business transformation that is under way. Given the scale of the change, further non-recurring costs will be incurred in the next financial year.

Total cash paid in relation to the business transformation strategy totalled £57.9m in the year.

In addition, there has been income of £2.2m in the year arising from recovery of costs relating to the Archer Capital litigation case following its conclusion in 2015. All other litigation costs which may be incurred through the normal course of business are charged through operating expenses.

As a result of the prior year annual goodwill impairment review, an impairment of the goodwill held in the Brazilian business was recognised in 2015, totalling £62.3m.

See note 4 for the tax impact of these adjustments.

Results for the year continued

4 Income tax expense

This note analyses the tax expense for this financial year which includes both current and deferred tax. Current tax expense represents the amount payable on this year's taxable profits and any adjustments relating to prior years. Deferred tax is an accounting adjustment to provide for tax that is expected to arise in the future due to differences between the carrying values of assets and liabilities and their respective tax bases.

This note outlines the tax accounting policies, analyses the current and deferred tax expenses in the year and presents a reconciliation between profit before tax in the income statement multiplied by the UK rate of corporation tax and the tax expense for the year.

Accounting policy

The taxation expense for the year represents the sum of current tax payable and deferred tax. The expense is recognised in the income statement and statement of comprehensive income according to the accounting treatment of the related transaction.

Current tax payable or receivable is based on the taxable income for the period and any adjustment in respect of prior periods. Current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax arises due to certain temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases (note 12).

Analysis of charge in the year	Note	2016 £m	2015 £m
Current tax			
– Current tax on profit for the year		90.3	106.9
– Adjustment in respect of prior years		(16.2)	(11.0)
Current tax		74.1	95.9
Deferred tax			
– Origination and reversal of temporary differences		(12.1)	(13.9)
– Adjustment in respect of prior years		4.9	(0.5)
Deferred tax	12	(7.2)	(14.4)
The current year tax expense is split into the following:			
Underlying tax expense		105.1	90.3
Tax credit on adjustments between the underlying and statutory operating profit		(38.2)	(8.8)
Income tax expense		66.9	81.5

The majority of the current tax adjustment in respect of prior years of £16.2m (2015: £11.0m) reflects the resolution of a number of historical tax matters, including settlements with a number of tax authorities and true ups to prior year estimates.

	2016 £m	2015 £m
Tax on items credited to other comprehensive income		
Deferred tax credit on actuarial loss on post-employment benefit obligations	(0.8)	(0.6)
Deferred tax credit on foreign exchange movements	(2.6)	-
Total tax on items credited to other comprehensive income	(3.4)	(0.6)

Deferred tax credit relating to share options of £1.4m (2015: £1.2m) has been recognised directly in equity.

The tax for the year is higher (2015: higher) than the rate of UK corporation tax applicable to the Group of 20% (2015: 20.5%). The differences are explained below:

Note	2016 £m	2015 £m
Statutory profit before income tax	274.5	275.8
Statutory profit before income tax multiplied by the rate of UK corporation tax of 20% (2015: 20.5%)	54.9	56.5
Tax effects of:		
Adjustments in respect of prior years	(11.3)	(11.5)
Adjustments in respect of foreign tax rates	23.3	22.4
Non-deductible expenses and permanent items	(0.1)	6.4
Non-deductible impairment	–	10.5
Foreign tax credit	(3.0)	–
Local business tax	2.8	3.3
R&D tax credits	(0.7)	(1.7)
Recognition of amortisation claims	1.0	(4.4)
Total statutory income tax	66.9	81.5

The effective tax rate on statutory profit before tax was 24% (2015: 30%), whilst the effective tax rate on underlying profit before tax was 26% (2015: 25%). The difference between the statutory effective tax rate and the underlying tax rate relates to non-recurring items which are deductible in countries with a tax rate higher than the UK.

The underlying effective tax rate is higher than the UK corporation tax rate applicable to the Group due to the geographic profile of the Group. In addition, there is an obligation to account for local business taxes in the corporate tax expense. These additional tax expenses are offset by research and development tax credits which are a government incentive in a number of operating territories.

5 Earnings per share

This note shows how earnings per share (“EPS”) is calculated. EPS is the amount of post-tax profit attributable to each ordinary share. Diluted EPS shows what the impact would be if all outstanding, exercisable share options were exercised and treated as ordinary shares at the year-end.

This note also provides a reconciliation between the statutory profit figure, which ties to the consolidated income statement on page 113, and the Group’s internal measure of performance, underlying profit. See note 3.6 for details of the adjustments made between statutory and underlying profit, and note 4 for the tax impact on these adjustments.

Accounting policy

Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the parent by the weighted average number of ordinary shares in issue during the year, excluding those held as treasury shares, which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares, exercisable at the end of the year. The Group has one class of dilutive potential ordinary shares. They are share options granted to employees where the exercise price is less than the average market price of the Company’s ordinary shares during the year.

Results for the year continued

5 Earnings per share continued

	Underlying 2016	Underlying as reported 2015	Underlying 2015	Statutory 2016	Statutory 2015
Reconciliations of the earnings and weighted average number of shares					
Earnings (£m)					
Profit for the year attributable to owners of the parent	299.8	268.2	274.0	207.6	194.3
Number of shares (millions)					
Weighted average number of shares	1,077.0	1,073.0	1,073.0	1,077.0	1,073.0
Dilutive effects of shares	6.3	6.5	6.5	6.3	6.5
	1,083.3	1,079.5	1,079.5	1,083.3	1,079.5
Earnings per share					
Basic earnings per share (pence)	27.84	25.00	25.54	19.28	18.11
Diluted earnings per share (pence)	27.67	24.85	25.38	19.16	18.00
Reconciliation between statutory and underlying earnings per share				2016	2015
				£m	£m
Earnings: Statutory profit for the year attributable to owners of the parent				207.6	194.3
Adjustments:					
Amortisation of acquired intangible assets				18.8	18.2
Goodwill impairment and fair value adjustments				(2.7)	64.5
Foreign currency movements on intercompany balances				5.9	–
Other acquisition-related items				0.7	–
Transformation costs and litigation related items				107.7	–
Taxation on adjustments				(38.2)	(8.8)
Net adjustments				92.2	73.9
Earnings – underlying profit for the year (before exchange movement)				299.8	268.2
Exchange movement				–	7.8
Taxation on exchange movement				–	(2.0)
Net exchange movement				–	5.8
Earnings – underlying profit for the year (after exchange movement) attributable to owners of the parent				299.8	274.0

Exchange movement relates to the retranslation of prior year results to current year exchange rates as shown in the table on page 49 within the financial review.

Operating assets and liabilities

6 Intangible assets

This note provides details of the non-physical assets used by the Group to generate revenues and profits. These assets include items such as goodwill, and other intangible assets such as brands, customer relationships, computer software, in-process R&D and technology which have predominantly been acquired as part of business combinations. These assets are initially measured at fair value, which is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

Goodwill represents the excess of the amount paid to acquire a business over the fair value of the net assets of that business at the acquisition date.

This section also explains the accounting policies applied and the specific judgements and estimates made by the directors in arriving at the carrying value of these assets.

6.1 Goodwill

Accounting policy

Goodwill arising from the acquisition of a subsidiary represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's total identifiable net assets acquired. Goodwill is carried at cost less accumulated impairment losses.

Goodwill previously written-off directly to reserves under UK GAAP prior to 1 October 1998 has not been reinstated and is not recycled to the income statement on the disposal of the business to which it relates.

Goodwill is tested for impairment annually and when circumstances indicate that it may be impaired. Impairment is determined by assessing the recoverable amount of each CGU to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised.

Goodwill is allocated to CGUs expected to benefit from the synergies of the combination and the allocation represents the lowest level at which goodwill is monitored.

	2016 £m	2015 £m
Cost at 1 October	1,526.4	1,476.7
– Additions	–	61.9
– Exchange movement	246.2	(12.2)
At 30 September	1,772.6	1,526.4
Impairment at 1 October	80.4	43.7
– Impairment in the year	–	62.3
– Exchange movement	33.7	(25.6)
At 30 September	114.1	80.4
Net book amount at 30 September	1,658.5	1,446.0

In the prior year the Group acquired Paychoice and recorded goodwill of £59.6m and also incurred a fair value adjustment of £2.3m in relation to the acquisition of Exact which was acquired on 15 September 2014.

Operating assets and liabilities continued

6 Intangible assets continued

6.1 Goodwill continued

Goodwill impairment tests

The following table shows the allocation of the carrying value of goodwill at the end of the reporting period by CGU:

	2016 £m	2015 £m
France	218.5	186.3
UK & Ireland	180.6	180.6
Spain	125.5	107.0
Sage Pay Europe	25.3	23.6
Germany	37.6	32.1
Switzerland	40.3	34.5
Poland	6.7	5.8
Portugal	5.5	4.7
North America		
– Sage Business Solutions Division (SBS)	741.3	635.4
– Sage Payment Solutions Division (SPS)	192.6	165.0
South Africa	42.7	36.3
Australia	22.6	19.0
Malaysia	13.9	11.2
Singapore	5.4	4.5
	1,658.5	1,446.0

The recoverable amount of a CGU is determined as the higher of its fair value less costs of disposal and its value in use. In determining value in use, estimated future cash flows are discounted to their present value.

In all cases, the 2017 budget and the approved Group plan for the three years following the current financial year form the basis for the cash flow projections for a CGU. Beyond the three year plan these projections are extrapolated using an estimated long-term growth rate. The key assumptions in the value in use calculations are the average medium-term revenue growth rates and the long-term growth rates of net operating cash flows.

- The average medium-term revenue growth rates represent the compound annual revenue growth for the first five (2015: five) years. The average medium-term revenue growth rate applied to CGUs reflects the specific rates for each territory.
- Long-term growth rates of net operating cash flows are assumed to be equal to the long-term growth rate in the gross domestic product of the country in which the CGU's operations are undertaken reflecting the specific rates for each territory.

Range of rates used across the different CGUs

	2016	2015
– Average medium-term revenue growth rates*	1%-14%	0%-20%
– Long-term growth rates to net operating cash flows	1.0%-3.5%	1.1%-4.2%

Note:

* Average Medium-Term Revenue Growth Rate is calculated on value in use projections that exclude intercompany revenue.

In accordance with IAS 36, key assumptions for those CGUs where significant goodwill is held are disclosed. These are deemed by management to be CGUs holding more than 10% of total goodwill. The discount rate, average medium-term revenue growth rate and long-term growth rate assumptions used for the value in use calculation are shown below:

	Local Discount Rate (post-tax)	Approximate Local Discount Rate (pre-tax) equivalent	Long-Term Growth Rate	Average Medium- Term Revenue Growth Rate*
2016				
– UKI	8.8%	10.3%	2.1%	6.1%
– France	8.0%	11.4%	1.8%	6.3%
– North America – SBS	9.0%	14.1%	1.9%	7.4%
– North America – SPS	9.0%	14.3%	1.9%	1.3%
	Local Discount Rate (post tax)	Approximate Local Discount Rate (pre-tax) equivalent	Long-Term Growth Rate	Average Medium- Term Revenue Growth Rate*
2015				
– UKI	9.1%	10.7%	2.5%	6.7%
– France	8.5%	12.2%	2.1%	4.9%
– North America – SBS	8.9%	13.2%	2.3%	10.0%
– North America – SPS	8.9%	13.2%	2.3%	10.0%

Note:

* Average Medium-Term Revenue Growth Rate is calculated on value in use projections that exclude intercompany revenue.

Discount rate

The Group uses a discount rate based on a local Weighted Average Cost of Capital (“WACC”) for each CGU, applying local government yield bonds and tax rates to each CGU on a geographical basis. The discount rate applied to a CGU represents a post-tax rate that reflects the market assessment of the time value of money at the end of the Q3 2016 and the risks specific to the CGU. The post-tax discount rates applied to CGUs were in the range of 6.96% (2015: 7.24%) to 14.67% (2015: 17.48%), reflecting the specific rates for each territory.

Sensitivity analysis

A sensitivity analysis was performed for each of the significant CGUs and management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of any CGU to materially exceed its recoverable amount.

Impairment charge

The Group performed its annual test for impairment in the third quarter of 2016. The recoverable amount exceeded the carrying value for all CGUs. In the prior year an impairment of £62.3m was recognised, driven by economic uncertainty in Brazil.

Operating assets and liabilities continued

6 Intangible assets continued

6.2 Other intangibles

Accounting policy

Intangible assets arising on business combinations are recognised initially at cost, which is their fair value at the date of acquisition. Subsequently they are carried at cost less accumulated amortisation and impairment losses. The main intangible assets recognised are brands, technology, in-process R&D, computer software and customer relationships.

Amortisation is charged to the income statement on a straight-line basis over their estimated useful lives.

The estimated useful lives are as follows:

Brand names	– 3 to 20 years
Technology/In process R&D ("IPR&D")	– 3 to 7 years
Customer relationships	– 4 to 15 years
Computer software	– 2 to 5 years

Other intangible assets that are acquired by the Group are stated at cost, which is the asset's purchase and any directly attributable costs of preparing the asset for its intended use, less accumulated amortisation and impairment losses if applicable. Software assets are amortised on a straight-line basis over their estimated useful lives, which do not exceed seven years.

The carrying value of intangibles is reviewed for impairment whenever events indicate that the carrying value may not be recoverable.

Internally generated software development costs qualify for capitalisation when the Group can demonstrate all of the following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete the intangible asset and use or sell it;
- Its ability to use or sell the intangible asset; how the intangible asset will generate probable future economic benefits;
- The existence of a market or, if it is to be used internally, the usefulness of the intangible asset;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- Its ability to measure reliably the expenditure attributable to the intangible asset during development.

Generally, commercial viability of new products is not proven until all high risk development issues have been resolved through testing pre-launch versions of the product. As a result, technical feasibility is proven only after completion of the detailed design phase and formal approval, which occurs just before the products are ready to go to market. Accordingly, development costs have not been capitalised. However, the group continues to assess the eligibility of development costs for capitalisation on a project by project basis.

Costs which are incurred after the general release of internally generated software or costs which are incurred in order to enhance existing products are expensed in the period in which they are incurred and included within research and development expense in the financial statements.

	Brands £m	Technology £m	Acquired IPR&D £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
Cost at 1 October 2015	34.3	106.3	0.3	5.6	70.8	120.0	337.3
– Additions	–	0.7	–	–	6.6	0.4	7.7
– Acquisitions	–	–	–	–	–	6.4	6.4
– Disposals	–	–	–	(1.8)	(0.5)	–	(2.3)
– Exchange movement	6.6	19.4	0.1	(0.3)	16.0	20.2	62.0
At 30 September 2016	40.9	126.4	0.4	3.5	92.9	147.0	411.1
Accumulated amortisation at 1 October 2015	23.5	72.6	0.3	5.6	39.9	89.9	231.8
– Charge for the year	2.3	9.4	–	–	11.5	6.4	29.6
– Disposals	–	–	–	(1.8)	(0.3)	–	(2.1)
– Exchange movement	4.7	13.6	0.1	(0.3)	10.3	14.1	42.5
At 30 September 2016	30.5	95.6	0.4	3.5	61.4	110.4	301.8
Net book amount at 30 September 2016	10.4	30.8	–	–	31.5	36.6	109.3

	Brands £m	Technology £m	Acquired IPR&D £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
Cost at 1 October 2014	36.7	83.3	0.3	5.6	64.4	111.6	301.9
- Additions	-	-	-	-	4.6	1.4	6.0
- Acquisitions	-	28.5	-	-	0.3	5.4	34.2
- Disposals	-	(0.1)	-	-	(0.2)	-	(0.3)
- Exchange movement	(2.4)	(5.4)	-	-	1.7	1.6	(4.5)
At 30 September 2015	34.3	106.3	0.3	5.6	70.8	120.0	337.3
Accumulated amortisation at 1 October 2014	21.9	67.6	0.3	5.6	28.4	80.0	203.8
- Charge for the year	2.3	9.2	-	-	10.9	6.7	29.1
- Disposals	-	-	-	-	(0.1)	-	(0.1)
- Exchange movement	(0.7)	(4.2)	-	-	0.7	3.2	(1.0)
At 30 September 2015	23.5	72.6	0.3	5.6	39.9	89.9	231.8
Net book amount at 30 September 2015	10.8	33.7	-	-	30.9	30.1	105.5

All amortisation charges in the year have been charged through selling and administrative expenses.

7 Property, plant and equipment

This note details the physical assets used by the Group to operate the business and generate revenues and profits. Assets are shown at their purchase price less depreciation, which is an expense that is charged over the useful life of these assets to reflect annual usage and wear and tear, and impairment.

Accounting policy

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation on property, plant and equipment is provided on a straight-line basis to write down an asset to its residual value over its useful life as follows:

Freehold buildings	- 50 years
Long leasehold buildings and improvements	- over period of lease
Plant and equipment	- 2 to 7 years
Motor vehicles	- 4 years
Office equipment	- 2 to 7 years

Freehold land is not depreciated.

The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

An item of property, plant and equipment is reviewed for impairment whenever events indicate that its carrying value may not be recoverable.

Operating assets and liabilities continued

7 Property, plant and equipment continued

	Land and buildings £m	Plant and equipment £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 October 2015	91.3	143.5	54.3	289.1
– Additions	–	15.9	7.6	23.5
– Disposals	–	(16.6)	(12.4)	(29.0)
– Exchange movement	2.6	14.3	6.4	23.3
At 30 September 2016	93.9	157.1	55.9	306.9
Accumulated depreciation at 1 October 2015	14.2	112.8	39.4	166.4
– Charge for the year	1.3	15.7	5.2	22.2
– Impairment	–	5.3	1.3	6.6
– Disposals	–	(16.6)	(12.3)	(28.9)
– Exchange movement	1.1	10.5	5.6	17.2
At 30 September 2016	16.6	127.7	39.2	183.5
Net book amount at 30 September 2016	77.3	29.4	16.7	123.4
	Land and buildings £m	Plant and equipment £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 October 2014	92.5	141.7	49.9	284.1
– Additions	0.1	11.3	5.0	16.4
– Disposals	–	(6.5)	(2.3)	(8.8)
– Acquisition of subsidiaries	–	1.0	–	1.0
– Exchange movement	(1.3)	(4.0)	1.7	(3.6)
At 30 September 2015	91.3	143.5	54.3	289.1
Accumulated depreciation at 1 October 2014	15.2	106.8	35.4	157.4
– Charge for the year	1.3	12.8	4.1	18.2
– Disposals	–	(6.1)	(0.6)	(6.7)
– Exchange movement	(2.3)	(0.7)	0.5	(2.5)
At 30 September 2015	14.2	112.8	39.4	166.4
Net book amount at 30 September 2015	77.1	30.7	14.9	122.7

Assets held under finance leases with a net book value of £0.8m (2015: £1.0m) are included in the above tables.

Depreciation expenses of £22.2m (2015: £18.2m) and impairment of £6.6m (2015: nil) have been charged through selling and administrative expenses (note 3.2).

8 Investment in an associate

This note presents information about the Group's investment in its associate, which is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control of those policies. The Group determines whether it has significant influence based on the voting and any other rights it holds as a result of its investment and also any contractual arrangements in place. Normally, if the Group holds over 20% of the voting rights of an entity without having control or joint control of that entity, the investment will be treated as an associate unless it can be clearly demonstrated that this is not the case.

Accounting policy

The Group's investment in its associate is accounted for using the equity method. Under the equity method, the investment is initially measured at cost. Subsequently, the carrying amount is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately. The income statement reflects the Group's share of the associate's profit or loss after tax and any non-controlling interests in the subsidiaries of the associate. Any change in the group's share of the associate's other comprehensive income is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any such changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate. The aggregate of the Group's share of profit or loss of the associate is shown on the face of the income statement outside operating profit. The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group. After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment. At each reporting date, the Group determines whether there is objective evidence that the investment is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss in the income statement.

On 4 May 2016, the Group acquired a 20.7% interest in Fairsail Limited (Fairsail), a leading Human Capital Management (HCM) cloud provider to mid-sized, multinational companies. Fairsail is a private entity incorporated in the UK and not listed on any public exchange. The cost of this investment totalled £10.0m. The Group's investment constitutes 100% of Fairsail's C Ordinary Shares. At 30 September 2016, the carrying amount of the Group's investment in its associate was £9.0m, and the Group's share of its total comprehensive income for the year ended 30 September 2016 was a loss of £1.0m, comprising losses from continuing operations. The Group had no contingent liabilities in relation to its investment in its associate at 30 September 2016.

9 Working capital

This note provides the amounts invested by the Group in working capital balances at the end of the financial year. Working capital is made up of inventories, trade and other receivables and trade and other payables.

Inventories mainly consist of warehouse stock of Sage products, awaiting shipment to business partners or distributors. Trade and other receivables are made up of amounts owed to the Group by customers and amounts that we pay to our suppliers in advance. Trade receivables are shown net of an allowance for bad and doubtful debts. Our trade and other payables are amounts we owe to our suppliers that have been invoiced to us or accrued by us. They also include taxes and social security amounts due in relation to our role as an employer.

This note also gives some additional detail on the age and recoverability of our trade receivables, which provide an understanding of the credit risk faced by the Group as a part of everyday trading. Credit risk is further disclosed in the Directors' Report.

Operating assets and liabilities continued

9 Working capital continued

9.1 Inventories

Accounting policy

Inventories are stated at the lower of cost and net realisable value after making allowances for slow moving or obsolete items.

Cost includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Cost is calculated using the first-in-first-out method.

	2016 £m	2015 £m
Materials	0.7	0.6
Work in progress	0.1	0.1
Finished goods	1.3	1.3
	2.1	2.0

The Group consumed £9.4m (2015: £8.0m) of inventories, included in cost of sales, during the year. There was no material write down of inventories during the current or prior year.

9.2 Trade and other receivables

Accounting policy

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

	2016 £m	2015 £m
Amounts falling due within one year:		
Trade receivables	363.2	292.7
Less: provision for impairment of receivables	(20.7)	(17.8)
Trade receivables – net	342.5	274.9
Other receivables	41.4	20.6
Prepayments and accrued income	35.6	25.4
	419.5	320.9

The Group's credit risk on trade and other receivables is primarily attributable to trade receivables. The Group has no significant concentrations of credit risk since the risk is spread over a large number of unrelated counterparties.

The Group considers the credit quality of trade and other receivables by geographical location. The Group considers that the carrying value of the trade and other receivables that is disclosed below gives a fair presentation of the credit quality of the assets.

	2016 £m	2015 £m
Trade and other receivables (excluding prepayments and accrued income) by geographical location:		
Europe	262.9	210.7
North America	63.8	52.0
International	57.2	32.8
	383.9	295.5

Movements on the Group provision for impairment of trade receivables were as follows:	2016 £m	2015 £m
At 1 October	17.8	25.5
Increase in provision for receivables impairment	7.6	5.7
Receivables written-off during the year as uncollectible	(6.4)	(6.1)
Unused amounts reversed	(1.3)	(6.0)
Exchange movement	3.0	(1.3)
At 30 September	20.7	17.8

In determining the recoverability of a trade receivable, the Group considers the ageing of each receivable and any change in the circumstances of the individual receivables. The directors believe that there is no further provision required in excess of the provision for impairment of receivables.

The creation and releases of the provision for impaired receivables have been included in selling and administrative expenses in the income statement. Amounts charged to the provision are generally written-off when there is no expectation of recovering additional cash.

At 30 September 2016, trade receivables of £33.4m (2015: £30.2m) were either partially or fully impaired.

The ageing of these receivables was as follows:	2016 £m	2015 £m
Not due	0.3	7.1
Less than six months past due	14.1	5.9
More than six months past due	19.0	17.2
	33.4	30.2

Trade receivables which were past their due date but not impaired at 30 September 2016 were £52.9m (2015: £45.8m).

The ageing of these receivables was as follows:	2016 £m	2015 £m
Less than six months past due	46.4	41.2
More than six months past due	6.5	4.6
	52.9	45.8

The maximum exposure to credit risk at the end of the reporting period is the fair value of each class of receivables mentioned above. The Group held no collateral as security. The directors estimate that the carrying value of trade receivables approximated their fair value.

9.3 Trade and other payables

Accounting policy

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Trade and other payables can be analysed as follows:	2016 £m	2015 £m
Trade payables	35.4	23.3
Other tax and social security payable	43.2	41.8
Other payables	37.2	22.2
Cash held on behalf of customers (see note 13.3)	83.8	83.8
Accruals	150.9	140.1
	350.5	311.2

Operating assets and liabilities continued

10 Provisions

This note provides details of the provisions recognised by the Group, where a liability exists of uncertain timing or amount. The main estimates in this area relate to legal exposure, employee severance, onerous leases and dilapidation charges.

This section also explains the accounting policies applied and the specific judgements and estimates made by the directors in arriving at the value of these liabilities.

Accounting policy

A provision is recognised only when all three of the following conditions are met:

- The Group has a present obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the present value of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, i.e. the present value of the amount that the Group would rationally pay to settle the obligation at the balance sheet date or to transfer it to a third party.

	Restructuring £m	Legal £m	Building £m	Other £m	Total £m
At 1 October 2015	–	15.2	3.5	1.6	20.3
– Additional provision in the year	17.6	0.4	29.1	2.2	49.3
– Provision utilised in the year	(0.4)	(3.3)	(1.2)	(1.2)	(6.1)
– Unused amounts reversed	–	(1.8)	(2.4)	–	(4.2)
– Exchange movement	1.9	1.8	3.4	0.6	7.7
At 30 September 2016	19.1	12.3	32.4	3.2	67.0
	Restructuring £m	Legal £m	Building £m	Other £m	Total £m
Maturity profile					
< 1 year	19.1	7.0	8.7	2.8	37.6
1–2 years	–	1.9	6.4	0.3	8.6
2–5 years	–	3.3	17.3	0.1	20.7
> 5 years	–	0.1	–	–	0.1
At 30 September 2016	19.1	12.3	32.4	3.2	67.0

Restructuring provisions are for the estimated costs of group restructuring activities and relate mainly to employee severance. These provisions will be utilised as obligations are settled which is generally expected to be within one year.

Legal provisions have been made in relation to ongoing disputes with third parties and other claims against the Group. The ageing of legal provisions is assessed regularly, based upon internal and external legal advice, as required.

Building provisions relate to dilapidation charges and onerous lease commitments. The timing of the cash flows associated with building provisions is dependent on the timing of lease agreement termination.

Other provisions comprise mainly those for the costs of warranty cover provided by the Group in respect of products sold to third parties. The timing of the cash flows associated with warranty provisions is spread over the period of warranty with the majority of the claims expected in the first year.

11 Post-employment benefits

This note explains the accounting policies governing the Group's pension schemes, analyses the deficit on the defined benefit pension scheme and shows how it has been calculated.

The majority of the Group's employees are members of defined contribution pension schemes. Additionally, the Group operates two small defined benefit schemes in France and Switzerland.

For defined contribution schemes, the Group pays contributions into separate funds on behalf of the employee and has no further obligations to employees. The risks associated with this type of plan are assumed by the member. Contributions paid by the Group in respect of the current period are included in the income statement.

The defined benefit scheme is a pension arrangement under which participating members receive a pension benefit at retirement determined by the scheme rules, salary and length of pensionable service. The income statement charge for the defined benefit scheme is the current/past service cost and the net interest cost which is the change in the net defined benefit liability that arises from the passage of time. The Group underwrites both financial and demographic risks associated with this type of plan.

Accounting policy

Obligations under defined contribution schemes are recognised as an operating cost in the income statement as incurred.

The Group also operates a small defined benefit pension scheme in Switzerland and other post-employment benefit schemes in France. The assets of these schemes are held separately from the assets of the Group. Under French legislation, the Group is required to make one-off payments to employees in France who reach retirement age while still in employment. The costs of providing benefits under these schemes are determined using the projected unit credit actuarial valuation method.

The current service cost and gains and losses on settlements and curtailments are included in selling and administrative expenses in the income statement. Past service costs should be recognised on the earlier of the date of the plan amendment and the date the Group recognises restructuring-related costs. Interest on the pension plan assets and the imputed interest on pension plan liabilities are included within selling and administrative expenses in the income statement.

Changes in the post-employment benefit obligation due to experience and changes in actuarial assumptions are included in the statement of comprehensive income in full in the period in which they arise.

The liability recognised in the balance sheet in respect of the defined benefit pension scheme is the present value of the defined benefit obligation and future administration costs at the end of the reporting period, less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximate to the terms of the related pension liability.

The calculation of the defined benefit obligation of a defined benefit plan requires estimation of future events, for example salary and pension increases, inflation and mortality rates. In the event that future experience does not bear out the estimates made in previous years, an adjustment will be made to the plan's defined benefit obligation in future periods which could have a material effect on the Group.

A sensitivity analysis has been performed on the significant assumptions. The relevant assumptions are deemed to be the discount rate and salary increases, as these are most likely to have a material impact on the defined benefit obligations. The analysis has been performed by the independent actuaries.

Pension costs included in the consolidated income statement	Note	2016 £m	2015 £m
Defined contribution schemes		9.6	9.8
Defined benefit plans		2.0	2.0
	3.3	11.6	11.8

Operating assets and liabilities continued

11 Post-employment benefits continued

Defined benefit plans

The most recent actuarial valuations of the post-employment benefit plans were performed by KPMG (France) and PwC (Switzerland) in October 2016 for the year ended 30 September 2016.

Weighted average principal assumptions made by the actuaries	2016 %	2015 %
Rate of increase in pensionable salaries	2.00	2.02
Discount rate	0.43	1.12
Inflation assumption	2.00	2.02

Mortality rate assumptions made by the actuaries	2016 years	2015 years
Average life expectancy for 65-year-old male	21.0	22.2
Average life expectancy for 65-year-old female	23.8	24.5
Average life expectancy for 45-year-old male	39.9	42.5
Average life expectancy for 45-year-old female	43.5	45.0

Amounts recognised in the balance sheet	2016 £m	2015 £m
Present value of funded obligations	(46.0)	(36.6)
Fair value of plan assets	20.7	17.9
Net liability recognised in the balance sheet	(25.3)	(18.7)

Major categories of plan assets as a percentage of total plan assets	£m	2016 %	£m	2015 %
Bonds (quoted)	8.3	40.1	6.3	35.2
Equities (quoted)	5.0	24.1	5.9	33.0
Other (unquoted)	7.4	35.8	5.7	31.8
	20.7	100.0	17.9	100.0

Expected contributions to post-employment benefit plans for the year ending 30 September 2017 are £1.2m (2015: expected contributions year ending 30 September 2016 £2.0m).

Amounts recognised in the income statement	2016 £m	2015 £m
Net interest costs on obligation	(0.3)	(0.3)
Current service cost	(1.7)	(1.7)
Total included within staff costs – all within selling and administrative expenses	(2.0)	(2.0)

Changes in the present value of the defined benefit obligation	2016 £m	2015 £m
At 1 October	(36.6)	(30.8)
Exchange movement	(6.6)	(0.2)
Service cost	(1.7)	(1.7)
Plan participant contributions	(0.6)	(0.6)
Interest cost	(0.4)	(0.5)
Benefits paid	1.9	1.5
Actuarial gain – demographic assumptions	0.8	–
Actuarial loss – financial assumptions	(3.5)	(1.8)
Actuarial gain/(loss) – experience	0.7	(2.5)
At 30 September	(46.0)	(36.6)

Changes in the fair value of plan assets	2016 £m	2015 £m
At 1 October	17.9	17.2
Exchange movement	3.1	1.0
Interest income	0.1	0.2
Employer's contributions	1.1	0.9
Plan participant contributions	0.6	0.6
Benefits paid	(1.9)	(1.5)
Actuarial loss on plan assets	(0.2)	(0.5)
At 30 September	20.7	17.9

Analysis of the movement in the balance sheet liability	2016 £m	2015 £m
At 1 October	(18.7)	(13.6)
Exchange movement	(3.5)	0.8
Total expense as recognised in the income statement	(2.0)	(2.0)
Contributions paid	1.1	0.9
Actuarial loss	(2.2)	(4.8)
At 30 September	(25.3)	(18.7)

Sensitivity analysis on significant actuarial assumptions		2016 £m	2015 £m
Discount rate applied to Scheme obligations	+/- 0.5% pa	2.6	2.1
Salary increases	+/- 0.5% pa	1.4	0.9

12 Deferred income tax

Deferred income tax is an accounting adjustment to provide for tax that is expected to arise in the future due to differences in the carrying value of assets and liabilities and their respective tax bases. In this note we outline the accounting policies, movements in the year on the deferred tax account and the net deferred tax asset or liability at the year-end.

A deferred tax asset represents a tax reduction that is expected to arise in a future period.

A deferred tax liability represents taxes which will become payable in a future period as a result of a current or an earlier transaction.

Accounting policy

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

Tax assets and liabilities are offset when there is a legally enforceable right and there is an intention to settle the balances net.

Operating assets and liabilities continued

12 Deferred income tax continued

	2016 £m	2015 £m
The movement on the deferred tax account is as shown below:		
At 1 October	26.9	10.3
Income statement credit	7.2	14.4
Acquisition of subsidiaries	–	2.3
Exchange movement	6.3	(1.7)
Other comprehensive income/equity movement in deferred tax	4.8	1.6
At 30 September	45.2	26.9

On 16 March 2016, the Chancellor of the Exchequer announced that the planned reduction to 18% from 1 April 2020 would instead be a reduction to 17%. The Finance Bill has been substantively enacted and as such the UK tax balances which are expected to unwind beyond 1 April 2020 have been remeasured to account for these planned changes.

Deferred tax assets have been recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered. A potential deferred tax asset on losses of £15.0m (2015: £10.7m) has not been recognised as it is not expected that these losses will be recovered in the foreseeable future. All underlying temporary differences where a deferred tax liability arising from investments in subsidiaries and associates have been appropriately recognised where it is probable the temporary difference will reverse in the foreseeable future.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12, "Income Taxes") during the year are shown below.

The offsetting of these balances is shown within the reclassification line of the notes below. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Deferred tax assets and liabilities categorised as "other deferred tax" of £49.3m (2015: £22.3m) includes various balances in relation to accounting provisions / accruals (asset £37.1m) (2015: £15.5m), goodwill amortisation (liability £18.1m) (2015: £24.1m), deferred revenue (asset £19.1m) (2015: £20.8m) and other sundry amounts (asset £11.2m) (2015: £10.1m).

	Intangible assets £m	Tax losses £m	Other £m	Total £m
Deferred tax assets				
At 1 October 2015	(3.8)	2.8	35.2	34.2
Income statement credit	4.3	1.4	7.2	12.9
Reclassification to deferred tax liability	(6.8)	–	4.8	(2.0)
Other comprehensive income/equity movement in deferred tax	–	–	4.8	4.8
Exchange movement	(1.9)	1.3	9.1	8.5
At 30 September 2016	(8.2)	5.5	61.1	58.4
Deferred tax liabilities				
At 1 October 2015	(12.7)	18.3	(12.9)	(7.3)
Income statement credit/(debit)	3.7	(4.4)	(5.0)	(5.7)
Reclassification from deferred tax asset	(7.2)	0.7	8.5	2.0
Exchange movement	(2.8)	3.0	(2.4)	(2.2)
At 30 September 2016	(19.0)	17.6	(11.8)	(13.2)
Net deferred tax (liability)/asset at 30 September 2016	(27.2)	23.1	49.3	45.2

	Intangible assets £m	Losses £m	Other £m	Total £m
Deferred tax assets				
At 1 October 2014	(8.6)	3.0	35.0	29.4
Income statement credit	3.3	0.3	2.9	6.5
Acquisition of subsidiaries	–	18.6	(0.3)	18.3
Reclassification to deferred tax liability	2.9	(18.3)	(0.9)	(16.3)
Other comprehensive income/equity movement in deferred tax	–	–	1.6	1.6
Exchange movement	(1.4)	(0.8)	(3.1)	(5.3)
At 30 September 2015	(3.8)	2.8	35.2	34.2
Deferred tax liabilities				
At 1 October 2014	(3.7)	–	(15.4)	(19.1)
Income statement credit	5.4	–	2.5	7.9
Reclassification from deferred tax asset	(16.5)	–	0.5	(16.0)
Reclassification to other deferred tax	(2.9)	18.3	0.9	16.3
Change in tax rate	2.8	–	(2.8)	–
Exchange movement	2.2	–	1.4	3.6
At 30 September 2015	(12.7)	18.3	(12.9)	(7.3)
Net deferred tax (liability)/asset at 30 September 2015	(16.5)	21.1	22.3	26.9

Net debt and capital structure

13 Cash flow and net debt

This note analyses our operational cash generation, shows the movement in our net debt in the year, and explains what is included within our cash balances and borrowings at the year-end.

Cash generated from operations is the starting point of our cash flow statement on page 117. This section outlines the adjustments for any non-cash accounting items to reconcile our accounting profit for the year to the amount of cash we generated from our operations.

Net debt represents the amount of cash held less borrowings, overdrafts, finance lease payments due and cash held on behalf of customers.

Borrowings are mostly made up of fixed-term external debt which the Group has taken out in order to finance acquisitions in the past.

13.1 Cash flow generated from continuing operations

	2016 £m	2015 £m
Reconciliation of profit for the year to cash generated from continuing operations		
Profit for the year	207.6	194.3
Adjustments for:		
Income tax	66.9	81.5
Finance income	(5.1)	(2.2)
Finance costs	30.0	23.6
Share of loss of an associate	1.0	–
Amortisation and impairment of intangible assets	29.6	29.1
Depreciation and impairment of property, plant and equipment	28.8	18.2
R&D tax credits	(2.0)	(2.3)
Equity-settled share-based transactions	7.9	9.1
Fair value adjustments and goodwill impairment	–	64.5
Exchange movement	(0.4)	(4.7)
Changes in working capital (excluding effects of acquisitions and disposals of subsidiaries):		
– Decrease/(increase) in inventories	0.2	(0.2)
– Increase in trade and other receivables	(53.8)	(8.4)
– Increase/(decrease) in trade and other payables	50.8	(6.8)
– Increase in deferred income	36.4	22.9
Cash generated from continuing operations	397.9	418.6

13.2 Net debt

	2016 £m	2015 £m
Reconciliation of net cash flow to movement in net debt (inclusive of finance leases)		
(Decrease)/increase in cash in the year (pre-exchange movements)	(22.7)	90.5
Cash inflow/(outflow) from movement in loans, finance leases and cash held on behalf of customers	133.2	(17.8)
Change in net debt resulting from cash flows	110.5	72.7
Acquisitions	(16.4)	(21.3)
Non-cash movements	(1.0)	–
Exchange movement	(64.7)	(39.6)
Movement in net debt in the year	28.4	11.8
Net debt at 1 October	(425.4)	(437.2)
Net debt at 30 September	(397.0)	(425.4)

	At 1 October 2015 £m	Cash flow £m	Acquisitions £m	Non-cash movements £m	Exchange movement £m	At 30 September 2016 £m
Analysis of change in net debt (inclusive of finance leases)						
Cash and cash equivalents	263.4	(18.4)	(16.4)	–	35.9	264.5
Bank overdrafts	–	(4.3)	–	–	–	(4.3)
Cash, cash equivalents and bank overdrafts	263.4	(22.7)	(16.4)	–	35.9	260.2
Finance leases due within one year	(0.6)	0.5	–	(0.2)	(0.1)	(0.4)
Loans due within one year	(33.0)	34.7	–	(34.7)	(5.6)	(38.6)
Loans due after more than one year	(571.0)	84.9	–	33.7	(81.8)	(534.2)
Finance leases due after more than one year	(0.4)	0.1	–	0.2	(0.1)	(0.2)
Cash held on behalf of customers	(83.8)	13.0	–	–	(13.0)	(83.8)
Total	(425.4)	110.5	(16.4)	(1.0)	(64.7)	(397.0)

Included in cash above is £83.8m (2015: £83.8m) relating to cash held on behalf of customers. This arises as a consequence of providing payment transaction processing and electronic fund transfer services. The balance represents cash in transit from third parties to Sage Customers. Accordingly, a liability for the same amount is included in trade and other payables on the balance sheet and is classified within net debt.

13.3 Cash and cash equivalents (excluding bank overdrafts)

Accounting policy

For the purpose of preparation of the consolidated statement of cash flows and the consolidated balance sheet, cash and cash equivalents include cash at bank and in hand and short-term deposits with an original maturity period of three months or less. Bank overdrafts that are an integral part of a subsidiary's cash management are included in cash and cash equivalents where they have a legal right of set-off and there is an intention to settle net, against positive cash balances, otherwise bank overdrafts are classified as borrowings.

	2016 £m	2015 £m
Cash at bank and in hand	126.6	179.6
Cash held on behalf of customers	83.8	83.8
Short-term bank deposits	54.1	–
	264.5	263.4

In line with contractual obligations or company practice, cash held on behalf of customers is held in separate bank accounts by the Group until such time as these amounts are paid.

The credit risk on liquid funds is considered to be low, as the Board-approved Group treasury policy limits the value that can be invested with each approved counterparty to minimise the risk of loss. The Group policy is to place cash and cash equivalents with counterparties which are well established banks with high credit ratings where available. In some jurisdictions there is limited availability of such counterparties.

At 30 September 2016, 81% (2015: 83%) of the cash and cash equivalents balance was deposited with financial institutions rated at least A3 by Moody's Investors Service. The investment instruments utilised are money market funds, money market term deposits and bank deposits.

The Group's maximum exposure to credit risk in relation to cash and cash equivalents is their carrying amount in the balance sheet.

Net debt and capital structure continued

13 Cash flow and net debt continued

13.4 Borrowings

Accounting policy

Assets held under finance leases are initially recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of borrowing on an effective interest basis.

	2016 £m	2015 £m
Current		
Bank overdrafts	4.3	–
Finance lease obligations	0.4	0.6
US senior loan notes – unsecured	38.6	33.0
	43.3	33.6
Non-current		
Finance lease obligations	0.2	0.4
Bank loans – unsecured	–	80.0
US senior loan notes – unsecured	534.2	491.0
	534.4	571.4

Included in loans above is £572.8m (2015: £604.0m) of unsecured loans (after unamortised issue costs). These borrowings were utilised for acquisitions and managing the Group's minimum leverage target of 1x net debt to EBITDA.

In the table above, bank loans and loan notes are stated net of unamortised issue costs of £1.9m (2015: £3.0m). The Group has in the year incurred total issue costs amounting to £nil (2015: £0.8m) in respect of the note issue into the US private placement market. These issue costs were paid during the year ended 30 September 2015 and are allocated to the income statement over the term of the facility using the effective interest method.

Borrowings	Year issued	Interest coupon	Maturity	Loan value	
				2016 £m	2015 £m
US private placement					
– USD 50m loan note	2010	4.78%	11-Mar-16	–	33.0
– USD 50m loan note	2010	5.15%	11-Mar-17	38.6	33.0
– USD 50m loan note	2013	2.60%	20-May-18	38.6	33.0
– USD 150m loan note	2013	3.08%	20-May-20	115.7	99.1
– USD 150m loan note	2013	3.71%	20-May-23	115.7	99.1
– USD 50m loan note	2013	3.86%	20-May-25	38.6	33.0
– EUR 55m loan note	2015	1.89%	26-Jan-22	47.6	40.6
– EUR 30m loan note	2015	2.07%	26-Jan-23	26.0	22.2
– USD 200m loan note	2015	3.73%	26-Jan-25	154.2	132.2

There were £nil drawings (2015: £81.6m) under the multi-currency revolving credit facility of £613.5m (2015: £525.2m) expiring on 26 June 2019, which consists both of US\$551.0m (£424.8m, 2015: £364.1m) and of €218.0m (£188.7m, 2015: £161.1m) tranches.

14 Financial instruments

This note shows details of the fair value and carrying value of short and long term borrowings, trade and other payables, trade and other receivables, short-term bank deposits, cash at bank and in hand and other financial liabilities. These items are all classified as “financial instruments” under accounting standards. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In order to assist users of these financial statements in making an assessment of any risks relating to financial instruments, this note also shows the ageing of these items and analyses their sensitivity to changes in key inputs, such as interest rates and foreign exchange rates. Further explanation of the Group’s exposure to and management of capital, liquidity, credit, interest rate and foreign currency risk is set out in the financial risk management section of the Directors’ Report.

Accounting policy

Financial assets and financial liabilities are recognised in the Group’s balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised (i.e., removed from the Group’s balance sheet) when the rights to receive cash flows from the asset have expired; or when the Group has transferred those rights and either has also transferred substantially all the risks and rewards of the asset or has neither transferred nor retained substantially all the risks and rewards of the asset but no longer has control of the asset.

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

14.1 Fair values of financial instruments

The carrying amounts of the following financial assets and liabilities approximate to their fair values: trade and other payables excluding tax and social security, trade and other receivables excluding prepayments and accrued income, short-term bank deposits, cash at bank and in hand and other financial liabilities. The fair value of borrowings differs from their carrying amounts due to their bearing interest at fixed rates which are currently higher than floating rates.

The fair value of borrowings is determined by reference to interest rate movements on the US \$ private placement market and therefore can be considered as a level 2 fair value as defined within IFRS 13.

	Note	2016		2015	
		Book value £m	Fair value £m	Book value £m	Fair value £m
Long term-borrowing	13.4	(534.4)	(559.0)	(571.4)	(572.8)
Short term borrowing	13.4	(43.3)	(43.9)	(33.6)	(34.1)

The carrying amounts of trade receivables (note 9.2) and cash and cash equivalents (note 13.3) represents the Group’s maximum exposure to credit risk.

14.2 Maturity of financial liabilities

The maturity profile of the undiscounted contractual amount of the Group’s financial liabilities at 30 September was as follows:

	2016		
	Borrowings £m	Trade and other payables excluding other tax and social security £m	Total £m
In less than one year	63.3	307.3	370.6
In more than one year but not more than two years	57.5	4.2	61.7
In more than two years but not more than five years	161.2	2.5	163.7
In more than five years	414.6	0.8	415.4
	696.6	314.8	1,011.4

Net debt and capital structure continued

14 Financial instruments continued

14.2 Maturity of financial liabilities continued

			2015
	Borrowings £m	Trade and other payables excluding other tax and social security £m	Total £m
In less than one year	53.0	269.4	322.4
In more than one year but not more than two years	51.3	–	51.3
In more than two years but not more than five years	259.2	–	259.2
In more than five years	366.2	–	366.2
	729.7	269.4	999.1

The maturity profile of provisions is disclosed in Note 10.

14 Financial instruments continued

14.3 Borrowing facilities

The Group has the following undrawn committed borrowing facilities available at 30 September in respect of which all conditions precedent had been met at that date:

	2016 £m	2015 £m
Expiring in more than two years but not more than five years	613.5	443.6

The facilities have been arranged to help finance the expansion of the Group's activities. All these facilities incur commitment fees at market rates. In addition, the Group maintains overdraft and uncommitted facilities to provide short-term flexibility and has also utilised the US private placement market.

14.4 Market risk sensitivity analysis

Financial instruments affected by market risks include borrowings and deposits.

The following analysis, required by IFRS 7, "Financial Instruments: Disclosures", is intended to illustrate the sensitivity to changes in market variables, being sterling, US Dollar and Euro interest rates, and sterling/US Dollar and sterling/Euro exchange rates.

The sensitivity analysis assumes reasonable movements in foreign exchange and interest rates before the effect of tax. The Group considers a reasonable interest rate movement in LIBOR to be 1%, based on interest rate history. Similarly, sensitivity to movements in sterling/US Dollar and sterling/Euro exchange rates of 10% are shown, reflecting changes of reasonable proportion in the context of movement in those currency pairs over the last year.

Using the above assumptions, the following table shows the illustrative effect on the consolidated income statement and equity.

	2016		2015	
	Income (losses)/gains £m	Equity (losses)/gains £m	Income (losses)/gains £m	Equity (losses)/gains £m
1% increase in market interest rates	(0.5)	(0.5)	(1.4)	(1.4)
1% decrease in market interest rates	0.4	0.4	1.2	1.2
10% strengthening of sterling versus the US Dollar	(6.5)	(38.2)	(6.1)	(30.1)
10% strengthening of sterling versus the Euro	(6.3)	(31.2)	(7.1)	(20.9)
10% weakening of sterling versus the US Dollar	7.1	42.1	6.7	33.2
10% weakening of sterling versus the Euro	6.9	34.3	7.9	23.0

14.5 The minimum lease payments under finance leases fall due as follows:

	2016 £m	2015 £m
In less than one year	0.4	0.6
In more than one year but not more than five years	0.2	0.4
	0.6	1.0
Future finance charges on finance leases	–	–
Present value of finance lease liabilities	0.6	1.0

14.6 Hedge accounting

Accounting policy

The Group's external US Dollar and Euro denominated borrowings are designated as a hedge of the net investment in its subsidiaries in the US and Eurozone. The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation which is determined to be an effective hedge is recognised in other comprehensive income. The ineffective portion is recognised immediately in profit or loss. On disposal of the net investment, the foreign exchange gains and losses on the hedging instrument are recycled to the income statement from equity.

The fair values of the Group's external US Dollar and Euro denominated borrowings at 30 September 2016 were USD 650.0m and EUR 85.0m (2015: USD 772.5m and EUR 126.5m). These borrowings were used to hedge the Group's exposure to the USD and EUR foreign exchange risk on its investments in subsidiaries in the US and Eurozone.

15 Equity

This note analyses the movements recorded through shareholders' equity that are not explained elsewhere in the financial statements, being changes in the amount which shareholders have invested in the Group.

The Group utilises share award schemes as part of its employee remuneration package. Share option schemes for our employees include The Sage Group Performance Share Plan for directors and senior executives and The Sage Group Savings-related Share Option Plan (the "SAYE Plan") for all qualifying employees. We incur a cost in respect of these schemes in our income statement, which is set out below along with a detailed description of each scheme and the number of options outstanding.

This note also shows the dividends paid in the year and any dividends that are to be proposed and paid post year-end. Dividends are paid as an amount per ordinary share held.

15.1 Ordinary shares

Accounting policy

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the owners of the Company until the shares are cancelled or reissued.

	2016 shares	2016 £m	2015 shares	2015 £m
Issued and fully paid ordinary shares of 1⁴/77 pence each				
At 1 October	1,118,298,748	11.8	1,115,892,047	11.7
Proceeds from shares issued	1,181,615	–	2,406,701	0.1
At 30 September	1,119,480,363	11.8	1,118,298,748	11.8

Issues of ordinary shares

Under Executive Share Option Scheme, 500,489 1⁴/77 p ordinary shares were issued during the year for aggregate proceeds of £0.9m.

Under the Savings-related Share Option Scheme, 675,608 1⁴/77 p ordinary shares were issued during the year for aggregate proceeds of £2.3m.

Net debt and capital structure continued

15 Equity continued

15.2 Share-based payments

Accounting policy

Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest allowing for the effect of non-market-based vesting conditions.

Fair value is measured using the Black-Scholes or the Monte Carlo pricing models, based on observable market prices. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

All outstanding Sage Performance Share Plans ("PSPs") and certain Restricted Share Plans ("RSPs") are subject to some non-market performance conditions. These are organic revenue and EPS growth. The element of the income statement charge relating to market performance conditions is fixed at the grant date.

At the end of the reporting period, the Group revises its estimates for the number of options expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The total charge for the year relating to employee share-based payment plan was £7.9m (2015: £9.1m), all of which related to equity-settled share-based payment transactions.

Scheme	2016 £m	2015 £m
Performance Share Plan	6.9	6.8
Restricted Share Plan	0.6	1.8
Savings-related Share Option Scheme	0.4	0.5
Total	7.9	9.1

The Sage Group Performance Share Plan

Annual grants of performance shares will normally be made to executive directors and senior executives across the Group after the preliminary declaration of the annual results. Under the Performance Share Plan 3,410,056 (2015: 5,411,495) awards were made during the year.

Awards prior to 2013

Annual awards under the Plan were limited to shares worth up to 300% of base salary. In practice, annual grants to executive directors were limited to shares with a maximum value on award of 210% of base salary except in exceptional circumstances, such as a promotion or recruitment or to reflect local market practice.

The performance shares were subject to a service condition and performance conditions on a sliding scale based on EPS. 25% of the award vested at the end of the period if the increase in EPS exceeded RPI by 9% (an average of 3% per year); 100% of the award vested at that time only where RPI was exceeded in that period by 27% (an average of 9% per year). Between those targets, awards vested on a straight-line basis, and if those targets were not met there was no opportunity for re-testing. Awards were then subject to a total shareholder return (TSR) "multiplier" whereby the level of vesting based on EPS achievement was adjusted according to TSR performance over the same three-year period compared with a group of international software and computer services companies.

The comparator group for awards made in 2012 comprised the following companies:

– Adobe Systems	– Cegid	– Logica	– Salesforce.com
– ARM Holdings	– Dassault Systèmes	– Micro Focus International	– SAP
– Blackbaud	– Exact	– Microsoft	– Software AG
– Cap Gemini	– Intuit	– Oracle	

If Sage's TSR was ranked at lower quartile in the group, the multiplier was 0.75. If Sage's TSR was ranked at median in the group, the multiplier was 1. If Sage's TSR was ranked at upper quartile in the group, then the multiplier was 1.5. Straight-line pro-rating applied between 0.75 and 1, and between 1 and 1.5, but the multiplier could not be higher or lower than these figures.

Awards from 2013-2015

These performance shares are subject to a service condition and three performance conditions. Performance conditions are weighted one third on the achievement of an EPS target, and one third on the achievement of an organic revenue growth target. The remaining one third is based on a TSR target.

The EPS vesting percentage is based on compound EPS growth. Where compound EPS growth is between 6% and 12%, the EPS vesting percentage will be calculated on a straight-line pro-rata basis between 6.7% and 26.7%, and where compound EPS growth is between 12% and 15%, the EPS vesting percentage will be calculated on a straight-line pro-rata basis between 26.7% and 33.3%.

The organic revenue growth target is based on the Company's compound annual organic revenue growth. Where growth is between 4% and 8% the organic revenue growth vesting percentage will be calculated on a straight-line pro-rata basis between 6.7% and 26.7%, and where the Company's compound organic revenue growth is between 8% and 10%, the organic revenue growth vesting percentage will be calculated on a straight-line pro-rata basis between 26.7% and 33.3%. In order for the organic revenue growth target proportion to vest, the underlying operating profit margin in the financial year of vesting must not be less than that of the underlying operating profit margin for the financial year in which the award is granted.

The final third of the award is the performance target relating to TSR which measures share price performance against a designated comparator group. Where the Company's TSR is between median and upper quartile, the TSR vesting percentage will be calculated on a straight-line pro-rata basis between 6.7% and 26.7% and where the Company's TSR is between upper quartile and upper decile, the TSR vesting percentage will be calculated on a straight-line pro-rata basis between 26.7% and 33.3%. The TSR vesting percentage may only exceed 26.7% ("Stretch" level) if performance against either the EPS target or the organic revenue growth target is also at "Stretch" level.

The comparator group for awards granted from 2013-2015 is the companies comprised in the FTSE 100 Index at the start of the performance period, excluding financial services and extraction companies.

Awards were valued using the Monte Carlo option-pricing model. The market based performance condition were included in the fair value calculations, which were based on observable market prices at grant date. All options granted under performance share awards have an exercise price of nil. The fair value per award granted in the prior year and the assumptions used in the calculation were as follows:

Grant date	January 2015	January 2015	January 2015	May 2015	May 2015	June 2015	June 2015	September 2015	September 2015
Share price at grant date	£4.65	£4.65	£4.65	£5.44	£5.44	£5.13	£5.13	£4.91	£4.91
Number of employees	150	111	1	12	11	3	3	9	8
Shares under award	3,930,755	485,199	213,421	422,406	52,090	59,829	13,959	197,067	36,769
Vesting period (years)	3	3	3	3	3	3	3	2	2
Expected volatility	20%	20%	20%	20%	20%	20%	20%	20%	20%
Award life (years)	3	3	3	3	3	3	3	2	2
Expected life (years)	3	3	3	3	3	3	3	2	2
Risk free rate	0.67%	0.67%	0.67%	0.91%	0.91%	0.96%	0.96%	0.65%	0.65%
Fair value per award	£4.13	£4.65	£3.06	£5.14	£5.44	£4.82	£5.13	£4.54	£4.91

Awards from 2016 onwards

These performance shares are subject to a service condition and two performance conditions. Performance conditions are weighted one half on the achievement of a revenue growth target and one half on the achievement of a TSR target. The revenue growth target is subject to two underpin performance conditions relating to EPS growth and organic revenue growth.

The revenue growth target is based on the Company's compound annual organic revenue growth. Where the Company's annual Revenue growth is between 8% and 10% or 10% and 12%, the extent to which the Revenue Performance Condition is satisfied will be calculated on a straight-line pro rata basis between 10% and 40% or between 40% and 50% respectively. Notwithstanding the extent to which the Revenue Performance Condition has been satisfied, the Revenue Tranche will not be released and will lapse on the Board's determination that (1) the compound growth of the Company's underlying EPS over the Performance Period is less than 8% per annum; or (2) the compound growth of the Company's organic revenue over the Performance Period is less than 6% per annum.

The performance target relating to TSR measures share price performance against a designated comparator group. Where the Company's TSR is between median and upper quartile, the TSR vesting percentage will be calculated on a straight-line pro-rata basis between 10% and 40% and where the Company's TSR is between upper quartile and upper decile, the TSR vesting percentage will be calculated on a straight-line pro-rata basis between 40% and 50%.

The comparator group for awards granted from 2016 onwards is the companies comprised in the FTSE 100 Index at the start of the performance period, excluding financial services and extraction companies.

Net debt and capital structure continued

15 Equity continued

15.2 Share-based payments continued

Awards were valued using the Monte Carlo option-pricing model. Performance conditions were included in the fair value calculations, which were based on observable market prices at grant date. All options granted under performance share awards have an exercise price of nil. The fair value per award granted and the assumptions used in the calculation are as follows:

Grant date	March 2016	June 016	September 2016
Share price at grant date	£6.04	£6.04	£7.47
Number of employees	94	9	11
Shares under award	2,980,575	175,487	253,994
Vesting period (years)	3	3	2
Expected volatility	21.2%	21.3%	21.3%
Award life (years)	3	3	2
Expected life (years)	3	3	2
Risk free rate	0.47%	0.32%	0.06%
Fair value per award	£4.28	£4.28	£5.23

The expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed award life.

A reconciliation of award movements over the year is shown below:

	2016		2015	
	Number '000s	Weighted average exercise price £	Number '000s	Weighted average exercise price £
Outstanding at 1 October	13,063	–	13,891	–
Awarded	3,410	–	5,411	–
Forfeited	(3,996)	–	(4,697)	–
Exercised	(2,442)	–	(1,542)	–
Outstanding at 30 September	10,035	–	13,063	–
Exercisable at 30 September	–	–	–	–

Range of exercise prices	2016		2015	
	Expected	Contractual	Expected	Contractual
N/A	1.2	1.2	1.3	1.3

The Sage Group Restricted Share Plan

The Group's Restricted Share Plan is a long-term incentive plan used in limited circumstances and usually on a one-off basis, under which contingent share awards, other than the award made in December 2013, are usually made only with service conditions. Executive directors are not permitted to participate in the plan and shares are purchased in the market to satisfy vesting awards. During the year 91,653 (2015: 362,530) awards were made. These awards only have service conditions and their fair values are equal to the share price on the date of grant, ranging from 606-742p.

The plan options granted in December 2013 have vested at 67.5% of the total award, based upon FY15 organic revenue growth.

A reconciliation of award movements over the year is shown below:

	2016		2015	
	Number '000s	Weighted average exercise price £	Number '000s	Weighted average exercise price £
Outstanding at 1 October	1,168	–	1,451	–
Awarded	92	–	363	–
Forfeited	(389)	–	(296)	–
Exercised	(334)	–	(350)	–
Outstanding at 30 September	537	–	1,168	–
Exercisable at 30 September	–	–	–	–

Range of exercise prices	2016		2015	
	Weighted average remaining life years		Weighted average remaining life years	
	Expected	Contractual	Expected	Contractual
N/A	1.7	1.7	1.1	1.0

The Sage Group Savings-related Share Option Plan (the "SAYE Plan")

The Group operates an approved savings-related share option scheme for UK employees. The fair value is expensed over the service period of three, five or seven years on the assumption that 20% of options will lapse over the service period as employees leave the Group.

In the year, no (2015: 1,241,905) options were granted under the terms of the Savings-related Share Option Scheme.

Net debt and capital structure continued

15 Equity continued

15.3 Other reserves

	Translation reserve £m	Merger reserve £m	Total other reserves £m
At 1 October 2014	29.0	61.1	90.1
Exchange differences on translating foreign operations	(23.2)	–	(23.2)
At 30 September 2015	5.8	61.1	66.9
Exchange differences on translating foreign operations	117.1	–	117.1
Deferred tax credit on foreign currency movements	2.6	–	2.6
At 30 September 2016	125.5	61.1	186.6

Translation reserve

The translation reserve represents the accumulated exchange differences arising since the transition to IFRS from the following sources:

- The impact of the translation of subsidiaries with a functional currency other than sterling; and
- Exchange differences arising on hedging instruments that are designated hedges of a net investment in foreign operations, net of tax where applicable.

Exchange differences arising prior to the IFRS transition were offset against retained earnings.

Merger reserve

Merger reserve brought forward relates to the merger reserve which was present under UK GAAP and frozen on transition to IFRS.

15.4 Retained earnings

Retained earnings	2016 £m	2015 £m
At 1 October	242.2	130.2
Profit for the year	207.6	194.3
Actuarial loss on post-employment benefit obligations (note 11)	(2.2)	(4.8)
Deferred tax credit on actuarial loss on post-employment obligations	0.8	0.6
Value of employee services net of deferred tax	9.3	10.1
Purchase of treasury shares	(2.4)	(14.6)
Expenses related to purchase of treasury shares	–	(0.1)
Close period share buyback programme	–	60.0
Dividends paid to owners of the parent (note 15.5)	(144.8)	(133.5)
Total	310.5	242.2

Treasury shares

Purchase of treasury shares

Shares purchased under the Group's buyback programme are not cancelled but are retained in issue and represent a deduction from equity attributable to owners of the parent. During the year the Group purchased nil shares (2015: 3,457,020) at a cost of £nil (2015: £12.4m).

At the 30 September 2016 the Group held 39,522,431 (2015: 39,522,431) of treasury shares.

Employee Share Trust

The Group holds treasury shares in a trust which was set up for the benefit of Group employees. The Trust purchases the Company's shares in the market or is gifted them by the Company for use in connection with the Group's share-based payments arrangements. The Trust holds 1,016,311 ordinary shares in the Company (2015: 3,638,249) at a cost of £0.2m (2015: £0.6m) and a nominal value of £10,691 (2015: £38,272).

During the year, the Trust agreed to satisfy the vesting of certain PSP and RSP awards, utilising a total of 3,006,938 (2015: 1,768,906) shares held in the Trust. Furthermore, the Trust received additional funds of £2.4m (2015: £2.2m) which were used to purchase 385,000 (2015: 377,860) shares in the market.

The costs of funding and administering the scheme are charged to the profit and loss account of the Company in the period to which they relate. The market value of the shares at 30 September 2016 was £7.5m (2015: £18.2m).

15.5 Dividends

Accounting policy

Dividends are recognised through equity when approved by the Company's shareholders or on payment, whichever is earlier.

	2016	2015
	£m	£m
Final dividend paid for the year ended 30 September 2015 of 8.65p per share (2015: final dividend paid for the year ended 30 September 2014 of 8.00p per share)	93.0 –	– 85.7
Interim dividend paid for the year ended 30 September 2016 of 4.80p per share (2015: interim dividend paid for the year ended 30 September 2015 of 4.45p per share)	51.8 –	– 47.8
	144.8	133.5

In addition, the directors are proposing a final dividend in respect of the financial year ended 30 September 2016 of 9.35p per share which will absorb an estimated £101m of shareholders' funds. It will be paid on 3 March 2017 to shareholders who are on the register of members on 10 February 2017. These financial statements do not reflect this dividend payable.

Other notes

16 Acquisitions and disposals

The following note outlines acquisitions and disposals during the year and the accompanying accounting policies. Each acquisition or disposal during the year is discussed and the effects on the results of the Group are highlighted.

Accounting policy

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, "Business Combinations" are recognised at their fair values at the acquisition date.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in the income statement. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's total identifiable net assets acquired. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the difference is recognised directly in the consolidated income statement. Any subsequent adjustment to reflect changes in consideration arising from contingent consideration amendments is recognised in the consolidated income statement.

On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Acquisition-related items such as legal or professional fees are expensed to the income statement as incurred.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. The difference between fair value of any consideration paid and the relevant shares acquired of the carrying value of net assets of the subsidiary is recorded in equity.

Where the Group enters into put and call arrangements over shares held by a non-controlling interest, the Group continues to recognise the non-controlling interest until the ownership risks and rewards of those shares transfer to the Group.

16.1 Acquisitions

Acquisitions made during the current year

On 2 November 2015 the Group acquired trade and business from People's United Bank, a provider of payroll services for small and medium sized business in North America, for a total consideration of £6.4m. The transaction price included deferred consideration of £2.0m, which was fully paid in the year. The acquisition strengthens Sage's position in the large and growing US payroll market.

The acquisition resulted in the recognition of intangible assets of £6.4m, consisting of customer lists. No goodwill was recognised.

16.2 Costs relating to business combinations in the year

Costs relating to business combinations in the year of £0.7m (2015: £2.0m) have been included in selling and administrative expenses in the consolidated income statement. These acquisition-related items relate to completed transactions and include advisory, legal, accounting, valuation and other professional or consulting services.

16.3 Assets and liabilities held for sale

The assets and liabilities held for sale relate to the Group's subsidiary Sage XRT Brasil Ltda. The sale is expected to be finalised during the year ending 30 September 2017. The business forms part of the Group's International reporting segment. Assets held for sale comprise trade and other receivables of £1.0m and liabilities held for sale comprise trade and other payables of £0.4m.

17 Related party transactions

This note provides information about transactions between the Group and its related parties. A group's related parties include any entities over which it has control, joint control or significant influence, and any persons who are members of its key management personnel.

The Group's related parties are its subsidiary undertakings, its associated undertaking and its key management personnel, which comprises the Group's Executive Committee members. The Group has taken advantage of the exemption available under IAS 24, "Related Party Disclosures", not to disclose details of transactions with its subsidiary undertakings. Compensation paid to the Executive Committee is disclosed in note 3.3.

Supplier transactions occurred during the year between Sage South Africa (Pty) Ltd, one of the Group's subsidiary companies, and Ivan Epstein, President, International and Executive Committee member. These transactions relate to the lease of four properties in which Ivan Epstein has a minority and indirect shareholding. During the year £4.0m (2015: £4.3m) relating to these transactions was charged through selling and administrative expenses. There were no outstanding amounts payable for the year ended 2016 (2015: £nil).

Supplier transactions occurred during the year between Sage SP, S.L., one of the Group's subsidiary companies, and Álvaro Ramírez, who held the role of President, Europe and Executive Committee member during the year. These transactions relate to the lease of a property in which Álvaro Ramírez has a minority shareholding. During the year £0.9m (2015: £1.0m) relating to these transactions was charged through selling and administrative expenses. There were no outstanding amounts payable for the year ended 2016 (2015: £nil).

These arrangements are subject to independent review using external advisers to ensure all transactions are at arm's length.

18 Group undertakings

While we present consolidated results in these financial statements, our structure is such that there are a number of different operating and holding companies that contribute significantly to the overall result.

Our subsidiaries and associates are located around the world and each contributes to the profits, assets and cash flow of the Group.

The entities listed below and on the following page are subsidiaries of the Company or Group. The Group percentage of equity capital and voting rights is 100% for all subsidiaries listed. The results for all of the subsidiaries have been consolidated within these financial statements.

Name	Country of incorporation	Direct or indirect holding	Name	Country of incorporation	Direct or indirect holding
ACCPAC Middle East FZ – LLC	UAE	Indirect	Sage S.A.	Belgium	Indirect
ACCPAC UK Limited	UK	Indirect	Sage (UK) Limited	UK	Indirect
Apex Software International Limited	Ireland	Indirect	Sage Alchemex (Pty) Limited	South Africa	Indirect
Apex Software Systems Limited	Ireland	Indirect	Sage Australia Holdings Pty Limited	Australia	Indirect
BSG (Best Software Ger.)	Germany	Indirect	Sage Baurer AG	Switzerland	Indirect
Computer Resources (Research) Limited	Ireland	Indirect	Sage Baurer GmbH	Germany	Indirect
Computer Resources (Software) Limited	Ireland	Indirect	Sage Brasil 3 Empreendimentos e Participacoes Limitada.	Brazil	Indirect
Computer Resources (Supplies) Limited	Ireland	Indirect	Sage Brasil Software S.A.	Brazil	Indirect
Computer Resources Limited	Ireland	Indirect	Sage Brazilian Investment One Limited	UK	Indirect
Creative Purpose Sdn Bhd	Malaysia	Indirect	Sage Brazilian Investment Two Limited	UK	Indirect
eWare GmbH	Germany	Indirect	Sage Business Solutions (NZ) Limited	New Zealand	Indirect
Handisoft Software Pty Limited	Australia	Indirect	Sage Business Solutions Pty Limited	Australia	Indirect
Intelligent Apps Holdings Limited	Bahamas	Indirect	Sage CRM Solutions GmbH	Germany	Indirect
Interact UK Holdings Limited	UK	Direct	Sage CRM Solutions Limited	UK	Indirect
IOB Informacoes Objetivas Publicacoes Juridicas Limitada	Brazil	Indirect	Sage Enterprise Solutions (Pty) Limited	South Africa	Indirect
KCS Global Holdings Limited	UK	Indirect	Sage Enterprise Solutions Limited	UK	Indirect
KHK Software AG	Switzerland	Indirect	Sage Euro Hedgeco 1	UK	Indirect
Multisoft Financial Systems Limited	UK	Indirect	Sage Euro Hedgeco 2	UK	Indirect
PAI Services LLC	US	Indirect	Sage Far East Investments Limited	UK	Indirect
Pastel Software (Europe) Limited	Ireland	Indirect	Sage Global Services (Ireland) Limited	Ireland	Indirect
Pastel Software (Ireland) Limited	Ireland	Indirect	Sage Global Services Limited	UK	Indirect
Pastel Software (UK) Limited	UK	Indirect	Sage Global Services US	US	Indirect
Protx Group Limited	UK	Indirect	Sage GmbH	Germany	Indirect
Protx Limited	UK	Indirect	Sage GmbH	Austria	Indirect

Other notes continued

Name	Country of incorporation	Direct or indirect holding	Name	Country of incorporation	Direct or indirect holding
Sage Hibernia Investments No.1 Limited	UK	Indirect	Sage Software Canada Limited	Canada	Indirect
Sage Hibernia Investments No.2 Limited	UK	Indirect	Sage Software East Africa Limited	Kenya	Indirect
Sage Hibernia Limited	Ireland	Indirect	Sage Software Holdings Inc.	US	Indirect
Sage Hibernia Services Limited	Ireland	Indirect	Sage Software International, Inc.	US	Indirect
Sage Holding Company Limited	UK	Direct	Sage Software Limited	UK	Indirect
Sage Holding France SAS	France	Indirect	Sage Software Middle East FZ-LLC	UAE	Indirect
Sage Holdings Limited	UK	Indirect	Sage Software Namibia (Pty) Limited	Namibia	Indirect
Sage Irish Finance Company	Ireland	Indirect	Sage Software Nigeria Limited	Nigeria	Indirect
Sage Irish Investments LLP	UK	Indirect	Sage Software North America	US	Indirect
Sage Irish Investments One Limited	UK	Direct	Sage Software Sdn Bhd	Malaysia	Indirect
Sage Irish Investments Two Limited	UK	Direct			
Sage Management & Services GmbH	Germany	Indirect	Sage Software, Inc.	US	Indirect
Sage Newco SAS	France	Indirect	Sage South Africa (Pty) Limited	South Africa	Direct
Sage One Pty Limited	Australia	Indirect	Sage sp. zoo.	Poland	Indirect
Sage Online Holdings Limited	UK	Indirect	Sage Spain Investment Company Limited	UK	Direct
Sage Overseas Limited	UK	Indirect	Sage Spain, S.L.	Spain	Indirect
Sage Overseas Limited Sucursal	Spain	Indirect	Sage Technologies Limited	Ireland	Indirect
Sage Pay (Dublin) Limited	Ireland	Indirect	Sage Treasury Company Limited	UK	Direct
Sage Pay (GB) Limited	UK	Indirect	Sage USD Hedgeco 1	UK	Indirect
Sage Pay (Pty) Limited	South Africa	Indirect	Sage USD Hedgeco 2	UK	Indirect
Sage Pay Europe Limited	UK	Indirect	Sage Whitley Limited	UK	Indirect
Sage Pay GmbH	Germany	Indirect	Sage XRT Brasil Limiteda.	Brazil	Indirect
Sage Pay Ireland Limited	Ireland	Indirect	Sagesoft	UK	Indirect
Sage Pay S.L.	Spain	Indirect	Sandco 1191 Limited	UK	Direct
Sage Payment Solutions EFT, Inc.	US	Indirect	Snowdrop Systems Limited	UK	Indirect
Sage Payment Solutions, Inc.	US	Indirect	Snowdrop Systems Pty Limited	Australia	Indirect
Sage Payments (UK) Limited	UK	Indirect	Softline Australia Holdings Pty Limited	Australia	Indirect
Sage Portugal – Software, S.A.	Portugal	Indirect	Softline Holdings USA Inc.	US	Indirect
Sage SAS	France	Indirect	Softline Software Holdings Limited	Ireland	Indirect
Sage Schweiz AG	Switzerland	Indirect	Softline Software Inc. (USA)	US	Indirect
Sage Services GmbH	Germany	Indirect	Softline Software Limited	Ireland	Indirect
Sage Singapore Holdings Pte. Limited	Singapore	Indirect	Softline Software USA LLC	US	Indirect
			Syska Gesellschaft für betriebliche Datenverarbeitung mbH	Germany	Indirect
Sage Software (India) Private Limited	India	Indirect	Syntax Sistemas S.A	Brazil	Indirect
Sage Software (Maroc)	Morocco	Indirect	TAS Software Limited	UK	Indirect
Sage Software Asia Pte. Limited	Singapore	Indirect	TAS Software Limited	Ireland	Indirect
Sage Software Australia Pty Limited	Australia	Indirect	Tetra Limited	UK	Direct
Sage Software Botswana (Pty) Limited	Botswana	Indirect	Tonwomp	Ireland	Indirect
Sage Software Canada Holdings Limited	Canada	Indirect	Ulysoft	Tunisia	Indirect

Associated undertaking

An associated undertaking is an undertaking in which the Group has a participating interest and over whose operating and financial policy it exercises a significant influence, and which is neither a subsidiary undertaking nor a joint venture of the Group. The Group's investment in its associated undertaking is included in the consolidated financial statements using the equity method of accounting. Details of the Group's associated undertaking are as follows.

Name	Country of incorporation	Direct or indirect holding	Class of share and proportion of nominal value held
Fairsail Limited	UK	Indirect	100% of C Ordinary Shares, representing 20.6% of equity and voting rights.

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Company balance sheet

At 30 September 2016

	Note	2016 £m	2015 £m
Fixed assets: investments	2	3,088.2	3,088.2
Current assets			
Cash at bank and in hand	3	0.8	3.1
Debtors – amounts due greater than one year £349.2m (2015: £286.9m)	4	795.9	574.7
		796.7	577.8
Creditors: amounts falling due within one year			
Trade and other payables	5	(1,015.2)	(763.0)
Net current liabilities		(218.5)	(185.2)
Total assets less current liabilities		2,869.7	2,903.0
Creditors: amounts falling due after more than one year	6	–	(33.0)
Net assets		2,869.7	2,870.0
Capital and reserves			
Called up share capital	8.1	11.8	11.8
Share premium account		544.4	541.2
Other reserves	8.2	(101.4)	(101.8)
Profit and loss account		2,414.9	2,418.8
Total shareholders' funds		2,869.7	2,870.0

The financial statements on pages 164 to 169 were approved by the Board of Directors on 29 November 2016 and are signed on their behalf by:

.....
S Hare
 Chief Financial Officer

Company statement of changes in equity

	Attributable to owners of the parent				
	Called up share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total equity £m
At 1 October 2015	11.8	541.2	(101.8)	2,418.8	2,870.0
Profit for the year	-	-	-	135.8	135.8
Total comprehensive (expense)/income for the year ended 30 September 2016	-	-	-	135.8	135.8
Transactions with owners:					
Employee share option scheme:					
- Proceeds from shares issued	-	3.2	-	-	3.2
- Value of employee services, net of deferred tax	-	-	-	7.9	7.9
Utilisation of treasury shares	-	-	2.8	(2.8)	-
Purchase of treasury shares	-	-	(2.4)	-	(2.4)
Dividends paid to owners of the parent	-	-	-	(144.8)	(144.8)
Total transactions with owners for the year ended 30 September 2016	-	3.2	0.4	(139.7)	(136.1)
At 30 September 2016	11.8	544.4	(101.4)	2,414.9	2,869.7

	Attributable to owners of the parent				
	Called up share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total equity £m
At 1 October 2014	11.7	535.9	(87.2)	2,419.0	2,879.4
Profit for the year	-	-	-	64.3	64.3
Total comprehensive income for the year ended 30 September 2015	-	-	-	64.3	64.3
Transactions with owners:					
Employee share option scheme:					
- Proceeds from shares issued	0.1	5.3	-	-	5.4
- Value of employee services, net of deferred tax	-	-	-	9.1	9.1
Purchase of treasury shares	-	-	(14.6)	-	(14.6)
Expenses related to purchase of treasury shares	-	-	-	(0.1)	(0.1)
Close period share buyback programme	-	-	-	60.0	60.0
Dividends paid to owners of the parent	-	-	-	(133.5)	(133.5)
Total transactions with owners for the year ended 30 September 2015	0.1	5.3	(14.6)	(64.5)	(73.7)
At 30 September 2015	11.8	541.2	(101.8)	2,418.8	2,870.0

Company accounting policies

Company accounting policies

Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 (FRS 102) "The Financial Reporting Standard applicable in the UK and Republic of Ireland", the transition date to this standard being 1 October 2014.

Basis of accounting

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006. A summary of the more important Company accounting policies, which have been consistently applied, is set out below. These accounting policies have been consistently applied to all periods presented and in preparing an opening FRS102 balance sheet at 1 October 2014 for the purposes of transition to FRS102.

The Company is deemed a qualifying entity under FRS102, and so may take advantage of the reduced disclosures permitted under the standard. As a result, the following disclosures have not been provided:

- a statement of cash flows and related disclosures under Section 7 Statement of Cash Flows and Section 3 Financial Statement Presentation paragraph 3.17(d);
- disclosures about financial instruments under Section 11 Basic Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c) and Section 12 Other Financial Instruments Issues paragraphs 12.26 (in relation to those cross-referenced paragraphs from which a disclosure exemption is available), 12.27, 12.29(a), 12.29(b), and 12.29A; this exemption is permitted as equivalent disclosures are included in the consolidated financial statements of The Sage Group plc;
- disclosures about share-based payments under Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23; this exemption is permitted as the Company is an ultimate parent, the share-based payment arrangements concern its own equity instruments, its separate financial statements are presented alongside the consolidated financial statements of The Sage Group plc and equivalent disclosures are included in those consolidated financial statements; and
- key management personnel compensation in total under Section 33 Related Party Disclosures paragraph 33.7.

The prior year financial statements have been restated for material adjustments on adoption of FRS102 in the current year. For more information see note 9.

Foreign currencies

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange prevailing at the balance sheet date. Transactions in foreign currencies are converted into sterling at the rate prevailing at the dates of the transactions. All differences on exchange are taken to the profit and loss account.

Investments

Fixed asset investments are stated at cost less provision for any diminution in value. Any impairment is charged to the profit and loss account as it arises.

Parent Company profit and loss account

The amount of profit for the financial year before dividends within the accounts of the parent Company is £135.8m (2015: £64.3m).

No profit and loss account is presented for the Company as permitted by section 408 of the Companies Act 2006.

Auditors' remuneration

The audit fees payable in relation to the audit of the financial statements of the Company are £30,000 (2015: £30,000).

Directors' remuneration

Details of the remuneration of Executive and Non-Executive Directors and their interest in shares and options of the Company are given in the audited part of the Directors' Remuneration Report on pages 82 to 100.

Share-based payments

The Company issues equity-settled share-based payments to certain employees and employees of its subsidiaries. Equity-settled share-based payments granted to employees of the company are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the shares that will eventually vest allowing for the effect of non-market-based vesting conditions.

Fair value is measured using the Black-Scholes or the Monte Carlo pricing models. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Company also provides certain employees and employees of its subsidiaries with the ability to purchase the Company's ordinary shares at a discount to the current market value at the date of the grant. For awards made to its own employees, the Company records an expense, based on its estimate of the discount related to shares expected to vest, on a straight-line basis over the vesting period.

At the end of each reporting period, the entity revises its estimates for the number of options expected to vest. It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to equity. For awards made to subsidiary employees, the fair value of awards made is recognised by the company as an addition to the cost of investment in the employing subsidiary. Intergroup recharges to the employing subsidiary, up to the fair value of awards made to employees of that subsidiary, subsequently reverse the increase to the cost of investment.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Financial instruments

The accounting policy of the Company for financial instruments is the same as that shown in the Group accounting policies. The Company is taking the exemption for financial instruments disclosure, because disclosures are provided under IFRS 7 'Financial Instruments: Disclosures' in note 14 to the Group financial statements.

Dividends

Dividends are recognised through equity when approved by the Company's shareholders or on payment, whichever is earlier.

Notes to the Company financial statements

1 Dividends

	2016 £m	2015 £m
Final dividend paid for the year ended 30 September 2015 of 8.65p per share (2015: final dividend paid for the year ended 30 September 2014 of 8.00p per share)	93.0	85.7
Interim dividend paid for the year ended 30 September 2016 of 4.80p per share (2015: interim dividend paid for the year ended 30 September 2015 of 4.45p per share)	51.8	47.8
	144.8	133.5

In addition, the directors are proposing a final dividend in respect of the financial year ended 30 September 2016 of 9.35p per share which will absorb an estimated £101m of shareholders' funds. It will be paid on 3 March 2017 to shareholders who are on the register of members on 10 February 2017. These financial statements do not reflect this dividend payable.

2 Fixed assets: investments

Equity interests in subsidiary undertakings are as follows:

	£m
Cost	
At 1 October 2015	3,224.0
At 30 September 2016	3,224.0
Provision for diminution in value	
At 1 October 2015	135.8
At 30 September 2016	135.8
Net book value	
At 30 September 2016	3,088.2
At 30 September 2015	3,088.2

The directors believe that the carrying value of the investments is supported by their underlying net assets.

Subsidiary undertakings, included in the Group financial statements for the year ended 30 September 2016, are shown in note 18 of the Group financial statements. All of these subsidiary undertakings are wholly owned. All subsidiaries are engaged in the development, distribution and support of business management software and related products and services for small and medium sized businesses.

All operating subsidiaries' results are included in the Group financial statements. The accounting reference date of all subsidiaries is 30 September, except for Brazilian subsidiaries which have an accounting reference of 31 December due to Brazilian statutory requirements.

3 Cash at bank and in hand

	2016 £m	2015 £m
Cash at bank and in hand	0.8	3.1

4 Debtors

	2016 £m	2015 £m
Prepayments and accrued income	1.1	–
Amounts owed by Group undertakings	794.8	574.7
	795.9	574.7

Of amounts owed by Group undertakings £349.2m (2015: £286.9m) is due greater than one year, on which interest is charged at 4.23% and is repayable in full on the 21 October 2023 but may be repaid, in whole or in part in advance of this date at the option of the borrower.

Notes to the Company financial statements continued

5 Creditors: amounts falling due within one year

	2016 £m	2015 £m
Bank loans and overdrafts	3.4	–
Amounts owed to Group undertakings	969.3	729.3
Accruals and deferred income	4.0	0.7
US senior bank loans –unsecured	38.5	33.0
	1,015.2	763.0

Included in loans above is £38.5m (2015: £66.0m) of unsecured external loans (after unamortised issue costs).

The Company has US\$50.0m (2015: US\$100.0m) (£38.5m, 2015: £66.0m) of US senior loan notes, which were issued into the US private placement market in 2010. These notes mature US\$50.0m (£38.5m, 2015: £33.0m) in 2017 and carry interest coupons of 5.15% (2015: 4.78% and 5.15%).

In the table above, bank loans and loan notes are stated net of unamortised issue costs of £nil (2015: £nil).

Amounts owed to Group undertakings are unsecured and attract a rate of interest of between 0.0% and 8.3% (2015: 0.0% and 7.5%).

6 Creditors: amounts falling due in more than one year

	2016 £m	2015 £m
In more than two years but not more than five years		
US senior loan notes – unsecured	–	33.0
	–	33.0

7 Obligations under operating leases

	2016 Property, vehicles, plant and equipment £m	2015 Property, vehicles, plant and equipment £m
Total future minimum lease payments under non-cancellable operating leases falling due for payment as follows:		
Within one year	0.9	–
Later than one year and less than five years	1.0	–
After five years	–	–
	1.9	–

The company leases various offices under non-cancellable operating lease agreements. These leases have various terms, escalation clauses and renewal rights.

8 Equity

8.1 Called up share capital

Issued and fully paid ordinary share of 1 ¹ /77 pence each	2016 shares	2016 £m	2015 shares	2015 £m
At 1 October	1,118,298,748	11.8	1,115,892,047	11.7
Proceeds from shares issued	1,181,615	–	2,406,701	0.1
At 30 September	1,119,480,363	11.8	1,118,298,748	11.8

8.2 Other reserves

	Treasury shares £m	Merger reserve £m	Capital redemption reserve £m	Total other reserves £m
At 01 October 2015	(164.5)	61.1	1.6	(101.8)
Utilisation of treasury shares	2.8	–	–	2.8
Purchase of treasury shares	(2.4)	–	–	(2.4)
At 30 September 2016	(164.1)	61.1	1.6	(101.4)

	Treasury shares £m	Merger reserve £m	Capital redemption reserve £m	Total other reserves £m
At 01 October 2014	(149.9)	61.1	1.6	(87.2)
Purchase of treasury shares	(14.6)	–	–	(14.6)
At 30 September 2015	(164.5)	61.1	1.6	(101.8)

8.2 Other reserves

Treasury shares

Purchase of treasury shares

Shares purchased under the Group's buyback programme are not cancelled but are retained in issue and represent a deduction from equity attributable to owners of the parent. During the year the company purchased nil shares (2015: 3,457,020) at a cost of £nil (2015: £12.4m).

At the 30 September 2016 the company held 39,522,431 (2015: 39,522,431) of treasury shares.

Employee Share Trust

The Company holds treasury shares in a trust which was set up for the benefit of Group employees. The Trust purchases the Company's shares in the market or is gifted them by the Company for use in connection with the Group's share-based payments arrangements. The Trust holds 1,016,311 ordinary shares in the Company (2015: 3,638,249) at a cost of £0.2m (2015: £0.6m) and a nominal value of £10,691 (2015: £38,272).

During the year, the Trust agreed to satisfy the vesting of certain PSP and RSP awards, utilising a total of 3,006,938 (2015: 1,768,906) shares held in the Trust. Furthermore, the Trust received additional funds of £2.4m (2015: £2.2m) which were used to purchase 385,000 (2015: 377,860) shares in the market.

The costs of funding and administering the scheme are charged to the profit and loss account of the Company in the period to which they relate. The market value of the shares at 30 September 2016 was £7.5m (2015: £18.2m).

9 Explanation of transition to FRS102

This is the first year that the Company has presented its financial statements under Financial Reporting Standard 102 (FRS102) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under previous UK GAAP were for the year ended 30 September 2015 and the date of transition to FRS102 was therefore 1 October 2014. As a consequence of adopting FRS102, the basis of accounting has changed to comply with that standard.

9.1 Reconciliation of equity

There is no impact on total shareholders' funds as at 30 September 2015 and 1 October 2014.

Glossary

Measure /Description	Why we use it
Underlying	
<p>Prior period underlying measures are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations.</p> <p>Underlying operating profit excludes:</p> <p>Recurring items:</p> <ul style="list-style-type: none"> – Amortisation of acquired intangible assets – Acquisition-related items – Fair value adjustments on non-debt-related financial instruments – Foreign currency movements on intercompany balances <p>Non-recurring items that management judge are one-off or non-operational</p> <p>Underlying profit before tax excludes:</p> <ul style="list-style-type: none"> – All the items above – Imputed interest – Fair value adjustments on debt-related financial instruments. <p>Underlying profit after tax and earnings per share excludes:</p> <ul style="list-style-type: none"> – All the items above net of tax. 	<p>Underlying measures allow management and investors to compare performance without the potentially distorting effects of foreign exchange movements, one-off items or non-operational items.</p> <p>By including part-period contributions from acquisitions, disposals and products held for sale in the current and/or prior periods, the impact of M&A decisions on earnings per share growth can be evaluated.</p>
Organic	
<p>In addition to the adjustments made for underlying measures, organic measures exclude the contribution from acquisitions, disposals and products held for sale of standalone businesses, in the current and prior period.</p> <p>Acquisitions and disposals which occurred close to the start of the opening comparative period where the contribution impact would be immaterial are not adjusted.</p>	<p>Organic measures allow management and investors to understand the like-for-like performance of the business.</p>
Underlying cash conversion	
<p>Underlying cash conversion is underlying cash flow from operating activities divided by underlying operating profit. Underlying cash flow from operating activities is statutory cash flow from operating activities less net capital expenditure and adjusted for movements on foreign exchange rates and non-recurring cash items.</p>	<p>Underlying cash conversion informs management and investors about the cash operating cycle of the business and how efficiently operating profit is converted into cash.</p>
Underlying (as reported)	
<p>Where prior period underlying measures are included without retranslation at current period exchange rates, they are labelled as underlying (as reported).</p>	<p>This measure is used to report comparative figures for external reporting purposes where it would not be appropriate to retranslate. For instance, on the face of primary financial statements.</p>
Processing revenue	
<p>Processing revenue is revenue earned from customers for the processing of payments or where Sage colleagues process our customers' payroll.</p>	
Recurring revenue	
<p>Recurring revenue is revenue earned from customers for the provision of a good or service, where risks and rewards are transferred to the customer over the term of a contract, with the customer being unable to continue to benefit from the full functionality of the good or service without on-going payments.</p> <p>Recurring revenue includes both software subscription revenue and maintenance and service revenue.</p>	
Software subscription revenue	
<p>Subscription revenue is revenue earned from customers for the provision of a good or service, where the risk and rewards are transferred to the customer over the term of a contract. In the event that the customer stops paying, they lose the legal right to use the software and the Company has the ability to restrict the use of the product or service. (Also known as 'Pay to play').</p>	
Software and software related services ("SSRS")	
<p>SSRS revenue is for goods or services where the entire benefit is passed to the customer at the point of delivery. It comprises revenue for software or upgrades sold on a perpetual license basis and software related services, including hardware sales, professional services and training.</p>	

A&RC

Audit and Risk Committee

AAMEA

Africa Australia Middle East Asia

AGM

Annual General Meeting

API

Application Program Interface

ASB

Annualised Subscriber Base

C4L

Customer For Life

CAGR

Compound Annual Growth Rate

CBC

Customer Business Centre

CDP

Carbon Disclosure Project

CFO

Chief Financial Officer

CGU

Cash Generating Unit

CMD

Capital Markets Day

CR

Corporate Responsibility

CRM

Customer Relationship Management

DEFRA

Department for Environment, Food & Rural Affairs

DTR

Disclosure Rules and Transparency Rules

EBITDA

Earnings Before Interest Taxes Depreciation and Amortisation

EBT

Employee Benefit Trust

EPS

Earnings Per Share

ERP

Enterprise Resource Planning

ESOS

Executive Share Operating Scheme

EU

European Union

FCF

Free Cash Flow

FY15

Financial year ending 30 September 2015

FY16

Financial year ending 30 September 2016

G&A

General and Administrative

GAC

Global Accounting Core

GHG

Green House Gas

HR

Human Resources

HCM

Human Capital Management

IFRS

International Financial Reporting Standards

ISV

Independent Software Vendor

KPI

Key Performance Indicator

LSE

London Stock Exchange

LTIP

Long Term Incentive Plan

NPS

Net Promoter Score

PBT

Profit Before Tax

PSP

Performance Share Plan

R&D

Research and Development

S&M

Sales and Marketing

SaaS

Software as a Service

SSRS

Software & Software Related Services

TSR

Total Shareholder Return

VSGM

Vision, Strategy, Goals, Measures

WRVS

Women's Royal Voluntary Service

Shareholder information

Financial calendar

Annual General Meeting	28 February 2017
Dividend payments	
Final payable – year ended 30 September 2016	3 March 2017
Interim payable – period ending 31 March 2017	2 June 2017
Results announcements	
Interim results – period ending 31 March 2017	3 May 2017
Final results – year ending 30 September 2017	15 November 2017

Shareholder information online

The Sage Group plc's registrars are able to notify shareholders by e-mail of the availability of an electronic version of shareholder information. Whenever new shareholder information becomes available, such as The Sage Group plc's interim and full year results, Equiniti will notify you by e-mail and you will be able to access, read and print documents at your own convenience.

To take advantage of this service for future communications, please go to www.shareview.co.uk, where full details of the shareholder portfolio service are provided. When registering for this service, you will need to have your 11 character shareholder reference number to hand, which is shown on your dividend tax voucher, share certificate or form of proxy.

Should you change your mind at a later date, you may amend your request to receive electronic communication by entering your shareview portfolio online and amending your preferred method of communication from "e-mail" to "post". If you wish to continue receiving shareholder information in the current format, there is no need to take any action.

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Information for investors

Information for investors is provided on the internet as part of the Group's website which can be found at: www.sage.com/investors.

Investor enquiries

Enquiries can be directed via our website or by contacting our Investor Relations department:

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Newcastle upon Tyne, NE13 9AA.

Registered in England
Company number 2231246

Stay up to date
www.sage.com

Our corporate website has more information about our business, products, investors, media, sustainability, and careers at Sage Group.



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