

Remuneration policy

As outlined in the Statement of the Remuneration Committee Chairman in the 2014 Report, the Remuneration Committee introduced a number of changes to the previous policy primarily to ensure consistency with our future strategic and operational implementation plans. Shareholder approval was granted at the 2016 AGM for the remuneration policy set out below. The policy took effect 1 March 2016.

The key proposed changes from the current policy are:

- A minimum of one-third of the annual bonus paid to executive directors will be delivered in deferred shares. Under the previous policy, executive directors were only required to defer 20% of their bonus into shares if they were non-compliant with their shareholding guideline
- The Remuneration Committee will have flexibility to apply an additional mandatory holding period beyond the expiry of a performance period applicable to PSP awards
- In order to provide consistency with Sage's future strategy, performance measures for future PSP awards will be based on recurring revenue growth and relative Total Shareholder Return (TSR) performance (subject to underpin conditions). Under the previous policy, PSP awards were subject to a combination of organic revenue growth, EPS growth and relative TSR performance measures
- Malus and clawback provisions will apply to all variable pay awarded to executive directors following the introduction of the revised policy
- Change of control and loss of office policies have been updated for consistency with the new PSP rules that were approved by shareholders at the 2015 AGM.

Remuneration policy table

The table below sets out the remuneration policy that the Company intends to apply, subject to shareholder approval, from 1st of March 2016 (the date of the AGM).

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
<p>Base salary 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.</p> <p>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 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.</p> <p>No element other than base salary is pensionable.</p>	<p>None.</p>
<p>Benefits 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 - As the costs of providing benefits will depend on a director's individual circumstances, the Remuneration Committee has not set a monetary maximum. 	<p>None.</p>

Directors' remuneration report continued

Directors' remuneration policy report continued

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 creation.</p>	<p>Measures and targets are set annually and payout levels are determined by the Remuneration Committee after the year-end based on performance against those targets.</p> <p>The Remuneration Committee may, in exceptional circumstances, amend the bonus payout should this not, in the view of the 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 2016 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>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)

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
<p>All-employee share plans 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>Subject to shareholder approval at the 2016 AGM, an overseas-based executive director would be 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 would be determined in line with any local legislation.</p>	None.
<p>Chairman and non-executive director fees 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>	None.

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, will be incorporated into both the PSP and deferred bonus plan the Company intends to adopt in 2016. 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. Details of the proposed implementation of those provisions in the forthcoming year are set out in the Directors' annual remuneration report.
- 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' remuneration report continued

Directors' remuneration policy report continued

Illustration of our remuneration policy for 2016

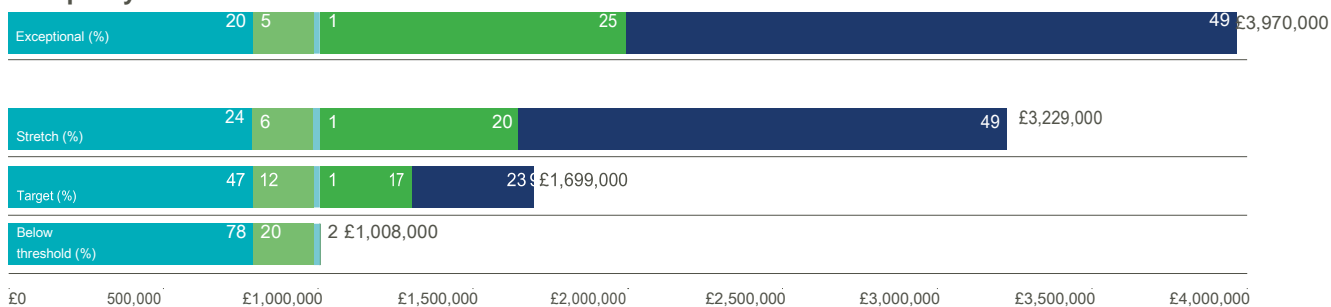
The charts below set out an illustration of the remuneration policy and include base salary, pension, benefits and incentives. The charts provide an illustration of the proportion of total remuneration made up of each component of pay and the total potential value available to the directors under the policy. The charts do not take into account share price appreciation or dividends.

In these illustrative charts, salaries are those applying from 1 January 2016, pension provision is assumed to be 25% of salary and benefits have been estimated using the figure included in the 2015 single figure of remuneration.

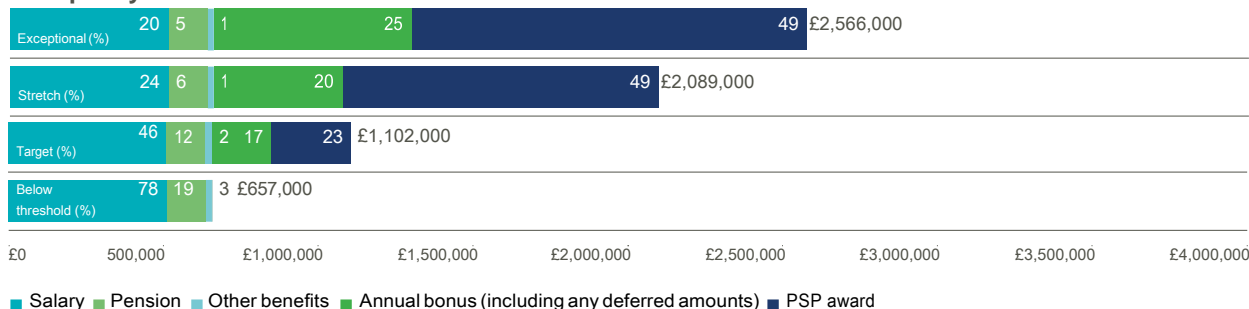
For illustrating the potential value from incentives, four scenarios have been illustrated for each executive director:

Below threshold performance	– No bonus payout – No vesting of PSP awards
Target performance	– 37.5% of salary payout in annual bonus (30% of maximum opportunity) – Shares equivalent to 50% of salary vesting under the PSP (20% of total shares available)
Stretch performance	– 81.25% of salary payout in annual bonus (65% of maximum opportunity) – Shares equivalent to 200% of salary vesting under the PSP (80% of total shares available)
Exceptional performance	– 125% of salary payout in annual bonus (100% of maximum opportunity) – Shares equivalent to 250% of salary vesting under the PSP (100% of total shares awarded)

CEO policy



CFO policy



Development of our remuneration policy

Consistency with remuneration for the wider Group

The remuneration policy for our executive directors is designed in line with the remuneration philosophy and principles that underpin remuneration for the wider Group. The remuneration arrangements for employees below the main Board reflect the seniority of the role and local market practice and therefore the components and levels of remuneration for different employees will differ from the policy for executives as set out above.

Consideration of pay and conditions for the wider Group

The Remuneration Committee generally considers pay and employment conditions elsewhere in the Group when considering pay for the main Board directors and the Executive Committee. When considering base salary increases, the Committee reviews overall levels of base

pay increases offered to other employees and other executives of the major geographies in which we operate. The Committee also reviews information with regard to bonus payments and share awards made to management of the Group.

Communication with our shareholders

The Remuneration Committee is committed to an on-going dialogue with shareholders and seeks the views of significant shareholders when any major changes are being made to remuneration arrangements. The Committee takes into account the views of significant shareholders and shareholder representative bodies such as ISS and the Investment Association when formulating and implementing the policy. A consultation process was undertaken with our largest shareholders ahead of the introduction of the new PSP at the 2015 AGM and also ahead of the introduction of this revised policy.

Recruitment remuneration arrangements

In the event of hiring a new executive director, the Remuneration Committee will seek to align the remuneration package with our remuneration policy, which may include the elements outlined in the policy table above. However, the Remuneration Committee retains the discretion to make appropriate remuneration decisions outside the standard policy to meet the individual circumstances of the recruitment. This may, for example, include the following circumstances:

- An interim appointment is made to fill an executive director role on a short-term basis
- Exceptional circumstances require that the Chairman or a non-executive director takes on an executive function on a short-term basis
- An executive director is recruited at a time in the year when it would be inappropriate to provide a bonus or PSP award for that year as there would not be sufficient time to assess performance. The quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis
- An executive is recruited from a business or location that offered some benefits that the Committee might consider appropriate to buy out but that do not fall into the definition of “variable remuneration forfeited” that can be included in the buyout element under the wording of the regulations
- The executive received benefits at his previous employer which the Committee considers it appropriate to offer

The Committee may alter the performance measures, performance period and vesting period of the annual bonus or long-term incentive, subject to the rules of the plan, if the Committee determines that the circumstances of the recruitment merit such alteration. The rationale will be clearly explained.

In determining appropriate remuneration arrangements on hiring a new executive director, the Committee will take into account relevant factors; this may include the calibre of the individual, local market practice, the existing remuneration arrangements for other executives and the business circumstances. The Committee seeks to ensure that arrangements are in the best interests of both Sage and its shareholders and seek not to pay more than is appropriate.

The maximum level of variable pay which may be awarded to new executive directors in respect of their recruitment, excluding buy-out arrangements, is 500% of base salary in the first year of employment. Variable pay in subsequent years will be in line with the policy table above.

The Remuneration Committee may make awards on hiring an external candidate to buy out remuneration arrangements forfeited on leaving a previous employer. In doing so the Committee will take account of relevant factors including any performance conditions attached to these awards, the form in which they were granted (e.g. cash or shares) and the timeframe of awards. The Committee will generally seek to structure buyout awards on a comparable basis to awards forfeited.

In order to facilitate the variable pay opportunity and buyout awards mentioned above, the Committee may rely on the exemption in LR 9.4.2. of the Listing Rules which allows for the grant of awards to facilitate, in exceptional circumstances, the recruitment of a director. The Committee may also rely on the rules of the PSP, which permit the grant of two PSP awards in the first year of employment, with the individual limit from the plan rules applying separately to each PSP award.

Where an executive director is an internal promotion, the normal policy is that any legacy arrangements would be honoured in line with the original terms and conditions. Similarly, if an executive director is appointed following Sage's acquisition of or merger with another company, legacy terms and conditions would be honoured.

In the event of the appointment of a new non-executive director, remuneration arrangements will normally be in line with the structure set out in the policy table for non-executive directors.

Change of control

The rules of the PSP provide that, in the event of a change of control, unvested awards would vest to the extent determined by the Remuneration Committee taking into account the extent to which it determines the performance conditions have been satisfied (based on all factors it considers relevant) at the date of such event. The extent to which the Remuneration Committee allows awards to vest would also, unless it determines otherwise, take into account the period of time that has elapsed between the grant of the award and the date of the change of control as a proportion of three years (or such other period the Remuneration Committee considers to be appropriate). However, the Committee may vary the level of vesting of awards if it believes that exceptional circumstances warrant this. Awards that are subject to a holding period at the time of the change of control will be released at that time.

Awards granted under the deferred bonus plan will vest in full upon a change of control. Awards held under all-employee plans would be expected to vest on a change of control and those which have to meet specific requirements to benefit from permitted tax benefits would vest in accordance with those requirements.

Alternatively, the directors may exchange their awards over Company shares for equivalent awards in shares of the acquiring company if the terms of the offer allow this.

If the Company is wound up or in the event of a demerger, delisting, special dividend or other event which in the Remuneration Committee's opinion, would materially affect the current or future value of the Company's shares, the Remuneration Committee may allow deferred share and PSP awards to vest and be released early on the same basis as for a change of control.

Directors' remuneration report continued

Directors' remuneration policy report continued

Executive director service contracts

All current executive directors have service contracts, which may be terminated by the Company for breach by the executive or by giving 12 months' notice by the Company or the individual.

Service contracts for new directors will generally be limited to 12 months' notice. However, the Committee may agree a longer period, of up to 24 months initially, reducing by one month for every month served until it falls to 12 months.

Terms and conditions for non-executive directors

The appointment of the non-executive directors is for a fixed term of three years, during which period the appointment may be terminated by the Board on six months' notice. The Chairman's term of appointment is five years. There are no provisions on payment for early termination in letters of appointment.

The letters of appointment of non-executive directors and service contracts of executive directors are available for inspection at the Company's registered office during normal business hours and will be available at the Annual General Meeting.

Payments to departing directors

There are no pre-determined special provisions for directors with regard to compensation in the event of loss of office; compensation is based on what would be earned by way of salary, pension entitlement and other contractual benefits over the notice period. In the event that a contract is to be terminated, and a payment in lieu of notice made, payments to the executive director may be staged over the notice period, at the same interval as salary would have been paid. During that period the executive director must take all reasonable steps to obtain alternative employment and payments to the executive director by the Company will be reduced to reflect payments received in respect of that alternative employment.

There is no automatic entitlement to annual bonus. Executive directors may receive a bonus in respect of the financial year of cessation, based on performance against pre-determined targets. Where an executive director leaves by reason of death, disability or ill-health they would receive a pro-rata bonus for the year of cessation.

The treatment of leavers under our long-term incentive plans is determined by the rules of the relevant plans.

Deferred bonus plan

If an executive director ceases to hold office or employment within the group during the vesting period of a deferred share award as a result of his death, injury, ill health, disability, redundancy or retirement, because his employing company or business is sold out of the Group or in any other circumstances the Remuneration Committee determines, his award will vest on the normal vesting date unless the Remuneration Committee determines the award should vest following his cessation of office or employment. Awards will normally be accelerated in the event of a participant's death. If the individual ceases to hold office or employment with a member of the Group in any other circumstances, any unvested deferred share awards he holds will lapse.

PSP

If the director leaves as a result of his death, ill health, injury or disability, redundancy or retirement, because his employing company or business is sold out of the Group or in any other circumstances the Remuneration Committee determines, any unvested awards will vest (and be released from any holding period) at the same time as if the individual had not left the Group, unless the Committee determines the award should vest (and be released) following his cessation of office or employment.

The extent to which awards vest in these circumstances will be determined by the Remuneration Committee taking into account the extent to which it determines the performance conditions have been satisfied at the end of the original performance period or following the director's cessation of office or employment (as appropriate) and, unless the Remuneration Committee determines otherwise, the period of time that has elapsed between the grant of the award and the date of the cessation of office or employment as a proportion of three years (or such other period the Remuneration Committee considers to be appropriate). The Committee may allow awards granted before 3 March 2016 to vest on any other basis if it believes there are exceptional circumstances which warrant that.

For example, it can be in the interest of the Company for the Board to organise succession and manage an executive's departure. When determining the treatment of outstanding awards in those cases, the Committee will take into account the executive's level of performance and contribution to the transition.

Unvested PSP awards will lapse in any other circumstances (e.g. if the executive director leaves as a result of his termination for cause).

Where an executive director leaves whilst holding PSP awards that are subject to a holding period, those awards will normally be released at the end of the relevant holding period, unless the Committee determines the award should be released following his cessation of employment. If, however, an executive director is summarily dismissed, any outstanding PSP awards he holds will lapse.

