

## Financial targets achieved with momentum for sustainable growth

### Headlines

- Achieved organic revenue growth of 6% (FY14: 5%);
- Increased organic recurring revenue by 9% (FY14: 7%), with software subscription the primary driver;
- Software subscription contracts grown to over 690,000 (FY14: 450,000) and achieved 28% growth in the annualised value of the software subscriber base to £344m (FY14: £268m);
- Increased the number of paying subscriptions for Sage One by over 100% to 173,000 (FY14: 86,000), and in the UK & Ireland, surpassed 100,000 paying subscriptions in November 2015.

### Business review

- Completed wide-ranging review of the business, including products, organisational structure, operating model and policies, in order to prepare for the next phase of long-term sustainable growth;
- Simplified product categories to Growth and Heritage, with 87% of Research and Development investment focussed on the Growth category;
- Initiated organisational transformation to realise at least £50m of annualised run-rate cost savings by the end of FY16 to be reinvested for growth;
- Refined revenue category definitions and amended the application of the revenue recognition policy to certain products enabling stakeholders to clearly and transparently track performance. None of the changes impact cash generation and the financial summary below is included for comparability to previous announcements. A full reconciliation is set out on page 3.

FINANCIAL SUMMARY <sup>1</sup>	Previous basis			Revised basis		
	FY15	FY14	Change	FY15	FY14	Change
<b>Organic revenue</b>	£1,357m	£1,272m	+6.7%	£1,400m	£1,321m	+6.0%
- Recurring revenue	£1,010m	£930m	+8.5%	£953m	£874m	+9.0%
- Processing revenue	N/A	N/A		£161m	£158m	+1.7%
- SSRS revenue	£348m	£341m	+1.9%	£287m	£289m	-0.7%
<b>Organic operating profit</b>	£383m	£349m	+9.6%	£380m	£350m	+8.3%
<b>Organic operating profit margin</b>	28.2%	27.5%	+70bps	27.1%	26.5%	+60bps
<b>OTHER FINANCIAL METRICS</b>		<b>FY15</b>		<b>FY14</b>		<b>Change</b>
<b>Underlying basic EPS</b>		25.00p		22.19p		+12.6%
<b>Underlying cash conversion</b>		106%		101%		+5%
<b>Ordinary dividend per share</b>		13.10p		12.12p		+8.1%
<b>STATUTORY SUMMARY<sup>2</sup></b>		<b>FY15</b>		<b>FY14</b>		<b>Change</b>
<b>Revenue</b>		£1,436m		£1,354m		+6.1%
<b>Operating profit</b>		£297m		£300m		-0.8%
<b>Basic EPS</b>		18.11p		17.26p		+4.9%
<b>Free cash flow</b>		£296m		£229m		+29.2%

## Further progress with global products

- Sage One now available in 14 countries following launches in Australia, Brazil and Malaysia;
- Launched Sage Live, our global cloud solution for Small & Medium Businesses, via newly established Customer Business Centres (CBCs);
- Delivered 11% organic revenue growth for Sage X3, with growth of 22% outside of France and launched X3 Cloud.

## Earnings improved

- Increased the organic operating margin to 27.1% (FY14: 26.5%), despite incurring initial costs of transformation;
- Underlying cash conversion of 106%, achieved through continued disciplined capital management, generating free cash flow of £296m (FY14: £229m) and supporting the 8% increase of the full year dividend to 13.10p.

Stephen Kelly, Chief Executive Officer said: “We are pleased to have met the financial targets set three years ago. We have already begun the transformation outlined at the Capital Markets Day in June 2015 and highlight today clear signs of early progress.

“Transformation is rarely linear and it is clear we have much to do as we manage the operational risks. Our balanced and sequenced approach, the experience of the management team, and the strong underlying characteristics of the business give me confidence in the delivery of long term, sustainable, high quality growth.”

## About Sage

Sage is the market leader for integrated accounting, payroll and payment systems, supporting the ambition of the world’s entrepreneurs. Sage began as a small business in the UK 30 years ago and over 13000 colleagues now support millions of entrepreneurs across 23 countries as they power the global economy. We reinvent and simplify business accounting through brilliant technology, working with a thriving community of entrepreneurs, business owners, tradespeople, accountants, partners and developers. And as a FTSE 100 business, we are active in supporting our local communities and invest in making a real difference through the philanthropy of the Sage Foundation.

*Sage – the market leader for integrated accounting, payroll and payment systems, supporting the ambition of the world’s entrepreneurs.*

**For more information, visit [www.sage.com](http://www.sage.com)**

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*An analyst presentation will be held at 8.45am today at the London Stock Exchange plc, 10 Paternoster Square, London, EC4M 7LS. A live webcast of the presentation will be hosted on [www.sage.com/investors](http://www.sage.com/investors), dial-in number +44 (0) 20 3427 1902, pin code: 1322345#. A replay of the call will also be available for two weeks after the event: Tel: +44 (0) 20 3427 0598, pin code: 1322345#*

<sup>1</sup>Unless otherwise stated, all financial measures for both current and prior year have been stated after the revenue reporting changes described on page 3 and growth rates in the Chief Executive Officer’s review and Chief Financial Officer’s review are stated on an organic basis. For information on the definition of revenue categories, Non-GAAP measures and changes during the year, please see page 3 and Appendix II on page 17.

<sup>2</sup>Statutory operating profit includes a £62m impairment charge relating to goodwill on acquired operations in Brazil.

**Rounding**

As a result of rounding throughout this document, it is possible that tables may not cast and change percentages may not calculate precisely.

**Impact of changes to revenue reporting:**

As we enter the next phase of growth, the definitions of revenue categories have been refined and we have amended the application of the revenue recognition policy to certain products enabling stakeholders to clearly and transparently track performance. None of the changes impact cash generation.

RECONCILIATION OF ORGANIC REVENUE AND OPERATING PROFIT	SSRS	Recurring	Processing	Total Revenue	Operating costs	Operating profit	Margin %
<b>Previous basis</b>	348	1,010	-	<b>1,357</b>	(974)	<b>383</b>	28.2%
<b>Revenue reporting changes:</b>							
1) SSRS/Recurring reclassification	(58)	55	-	<b>(3)</b>	-	<b>(3)</b>	(0.2%)
2) Referral commissions treatment		46	-	<b>46</b>	(46)	-	(0.9%)
3) Separate presentation of Processing	(3)	(158)	161	-	-	-	
<b>Revised basis</b>	287	953	161	<b>1,400</b>	(1,020)	<b>380</b>	27.1%

- 1) We have assessed the categorisation of revenue between Software and Software Related Services (SSRS) (recognised immediately) and Recurring (recognised over initial contract duration). Upfront revenue associated with time limited products is now being pro-rated over the initial contract life. The impact is to reclassify some revenue from SSRS to Recurring. The difference between revenue deferred in FY14 and FY15 results in a £3m decrease in the revenue and operating profit for FY15.
- 2) We also considered the accounting for arrangements with business partners that refer customers to the Group, such as Independent Sales Organisations (ISOs) in the North America Payments business. We have concluded that payments made to these business partners are better reflected as costs and not as deductions to revenue. The impact is an equal increase in revenue and costs, therefore having no effect on the operating profit figure, but decreases the operating profit percentage.
- 3) In order to enhance disclosure, a separate category has been introduced for Processing revenue, which is volume based and relates to payments and some payroll processing services. The impact is to disclose this revenue separately from SSRS and Recurring revenue, with no change to total revenue or the operating margin.

## Chief Executive Officer's review

### Performance

In line with our financial targets we achieved 6% organic revenue growth for the full year. Consistent with the strategy, we have continued to drive growth through recurring revenue, particularly software subscription revenue which grew by 29% for the year to £315m. We are attracting customers with the compelling benefits of subscription relationships.

Growth in the adoption of software subscription was buoyed by both Sage One globally and Sage 50 in North America and Europe. Total recurring revenue of £953m represents 68% of Group organic revenue.

The SSRS organic revenue decline of 1% to £287m reflects the continued substitution effect from the transition to a predominantly recurring revenue model. Growth was 2% to £161m in processing revenue and is reported separately for the first time.

Our disciplined approach to managing costs has increased the organic margin to 27.1% (FY14: 26.5%), achieved despite incurring the costs of initial investments to support the next phase of sustainable growth.

### Progress with global products

We have increased Sage One paying subscriptions by over 100% to 173,000, supported by a strong performance in the UK where subscriptions increased to 92,000. Sage One is emerging as the accounting product of choice for UK start-up businesses in terms of new monthly subscribers. Sage One was launched in Brazil, Malaysia and Australia during the year and global rollout will continue in FY16. We are investing in our digital presence to enhance awareness of Sage One as we target the opportunity of Small & Medium Businesses which are not currently using a software solution to run their business.

Our development of Sage Live, a product which we took from idea to launch in just 26 weeks, continues at pace with early adopter customers.

We are winning in the market with Sage X3 and have improved global revenue by 11% (FY14: 7%), demonstrating focus on growing our market share. Outside our most mature market for X3, highlights were revenue growth of 19% in North America, 33% in International and 19% in Europe excluding France. Accelerating double digit revenue growth remains the ambition for X3 and we are concentrating on both mature and emerging markets to achieve that level of overall growth. Continued investment in X3 was evidenced with the launch of Sage X3 cloud, accessed via web-browser and which also provides customers with rich functionality.

### Strategy

One of my first priorities as CEO was to undertake a thorough review of the business. As part of our review, we gathered extensive market and external data and engaged with customers, partners, accountants and colleagues to develop a long-term plan for sustainable and improved quality growth. We presented the findings and outlook to all 13,000 colleagues in April 2015. The FY16 annual planning cycle was integrated with the refreshed strategy and activity was directed to growing the value of installed customer base; new customer acquisition; technology innovation and taking a market leading position as Champion for Entrepreneurs and Small & Medium Businesses. We are now evolving the business model and moving from federated and disparate product & country operations to 'One Sage' as a means to leverage our scale where it is meaningful to so do.

Technology disruption has accelerated. The market opportunity is growing through cloud-platform, mobile-first applications, browser access to information and big data analytics. Within this context, we are prioritising new customer acquisition to capture increased market share. Sage is seeking to 'leap-frog' first generation cloud competitors through integrated latest generation cloud-platform products and through scalable digital distribution channels. Digital presence is a vital enabler so we are also improving our digital marketing, including by reducing the number of website domains we operate from over 50 in support of a compelling and consistent experience.

### **Progress of execution**

At our Capital Markets day in June, we presented the five pillars of our strategy. We are already implementing each of them and embedding the supporting behaviours and structures that make the strategy sustainable.

#### *Customers for Life:*

- We have increased the contract renewal rate to 84% (FY14: 83%) by focussing on deeper subscription relationships with new and existing customers.
- We are investing in migration tools to Growth products to enable seamless pathways for customers that are growing and require the next level of product to best suit their needs.
- Customers have welcomed our commitment to halt 'end of life' and 'forced migrations' which have typified most technology companies' history.
- One of Sage's unique selling points is a focus on providing accounting, payroll, HR and payments systems to businesses from start-up as they grow to thousands of employees, providing customer choice from on-premise deployed products, to native cloud software as a service (SaaS) and hybrids of the two.

#### *Winning in the Market:*

- A relentless focus on gaining new customers is being established throughout Sage.
- We have created Customer Business Centres (CBCs) in Atlanta and Dublin which bring together all teams involved in digital marketing, lead qualification, sales, service and renewals. The CBCs foster collaboration and provide a platform for accelerated growth.
- We are attracting new customers particularly with global products and this is evidenced with Sage One subscription additions which ran at around 10,000 per month in the second half.
- To drive growth in global products, we have cut complexity for our partner ecosystem by creating a single Global Partner Programme (GPP) for all new partners that want to sell our global products, over time replacing the different programmes in each country. The GPP will harmonise and simplify the way we work with partners and better support them to drive sales to new customers.
- We celebrated the success of partners and customers at Sage Summit, our flagship event and one of the largest gatherings of Entrepreneurs in the world. In 2015, Summit was bigger than ever before with over 24,000 participants on-line and in person.

#### *Revolutionise Business:*

- During the year, 87% of our research and development spend was concentrated on growth products, which now number less than 100 and from which we are deriving all of our revenue growth.
- Our development cycles are also reducing as we focus on providing additional value to customers more regularly, evidenced by approximately 250 product launches or feature

releases for our growth products throughout FY15. Sage Impact, our global product for accountants was created in just 51 days.

- In testament to our increasing pace of development, we received recognition for our product innovation from a raft of industry commentators, including EXPERTON in Germany for the Cloud Leader award, Muy Pymes in Spain for the Best Cloud Solution, and K2 in the US for the Best Mobile Strategy, Best use of Social Media, Best New Cloud Products and the PRIME overall award.
- To support our golden triangle product proposition, we are saving time for our customers and helping them to get paid faster by optimising the integration of payments products in the UK with our accounting and payroll solutions. Sage Payments enables customers to take full control of the movement of money from their business, complementing the existing service to receive payments. It was launched during the year and is a revolutionary new solution to initiate payments to customers and suppliers directly from Sage accounting and payroll software.

*Capacity for growth:*

- We are implementing our target global operating model by embedding common procedures and information systems, driving consistency and supporting growth. A functional model has been introduced whereby our colleagues in Finance, HR, IT, Legal, Marketing and Communications report to global functional heads.
- As an example of greater consistency, we reduced the number of sales compensation plans from 129 to four. Countries have been empowered to take primary responsibility for customers and market facing sales, support and services.
- The functional model will yield efficiency as well as improving the quality of delivery. General and Administrative expenses (“G&A”) represents 19% of organic revenue and we are committed to reducing this level by improving efficiency. Our scalable finance function will be run using Sage X3, which is being introduced throughout the business as part of the overall program.
- Increased accountability with appropriate delegated authority and common objectives have been introduced throughout all newly established global functions.
- The Sage management team has been strengthened both geographically and functionally. Of the top 100 leaders, 38 have been changed during FY15 with 24 recruited from outside and 14 promoted internally.

*One Sage:*

- Historically, Sage products and operating businesses were federated and disparate. Barriers between teams are being removed across the business.
- The strategic review established the foundations for sustainable, improved quality growth based on the five strategic pillars (upon which we will report regularly on KPIs). It also provides the framework for an integrated FY16 business plan and is the basis on which objectives for the top 100 leaders are cascaded and embedded throughout the Group.
- These objectives have been re-enforced through a series of consistent kick-off meetings which were delivered in October 2015 in all major locations. When we surveyed our people after these meetings, 83% of them were proud of the achievements in FY15. We also introduced consistent performance management to drive a culture of high performance.
- The development of Sage Live is a practical example of the One Sage way of working, where over 600 partners and customers provided input to the multi-functional Sage project team.
- We launched Chatter, our social collaboration tool this year, successfully rolling it out to all colleagues within 60 days and registering over 100,000 posts and comments since April.

At the half year we identified three specific areas of the business that we would target for improved performance:

Our products suited to larger businesses in Europe (Enterprise Europe):

- In common with our other products and to better leverage the local experience of the teams closest to our customers, the business has been reorganised. Responsibility for sales has been moved from a separate regional organisation to the Managing Director in each country. Organic revenue declined for the full year 1% to £115m, slowing from a decline of 3% at the half year. The decline is due to our heritage Enterprise products, with organic revenue for Sage X3 growing by 5% for the year as we continue to focus on growing our X3 pipeline.

Our products suited to medium sized businesses in North America (SMB North America):

- Full year organic revenue grew by 4% to £147m, increasing from growth of 3% at the half year. The improvement has been supported by increasing renewal rates on growth products.
- In addition, modernised versions of our most popular solutions, Sage 100 and Sage 300, have been developed and launched at Sage Summit to enable customers to experience the rich functionality of these products with the cloud.
- We also relaunched the incentive programme for existing resellers and implementation partners in North America to focus on partners and new customer acquisition in FY16.

Our payments products in North America (Payments North America):

- The revenue performance for the full year was stable at £116m whilst we took targeted actions to improve performance in FY16.
- The partner channel has been developed with the addition of around 30 resellers in the second half.
- An internal sales team has been established, dedicated to cross-selling the payments solution to our accounts and payroll base.
- We increased the monthly run rate of new accounts additions by over 30% through the last quarter to 1,000 providing momentum entering FY16.

### **Investment and resource allocation**

Our strategy demands that we transform our business and flawlessly execute to realise our long term growth plans. We have therefore moved from a fragmented, decentralised organisation to a co-ordinated functional model. In order to avoid duplicated effort and so enable the business to scale effectively, we regularly review the investments across the business to ensure agile, co-ordinated investment for growth. We are implementing changes to realise at least £50m of run-rate annualised savings by the end of FY16 and so re-invest in growth. We anticipate incurring an exceptional cost in order to realise the savings with an expected payback period of around two years.

### **Outlook**

We entered FY16 with momentum and expect to deliver organic revenue growth of at least 6% whilst continuing the acceleration of sustainable and recurring revenue. With the revised revenue definitions applied for FY15, we are targeting an organic operating margin for FY16 of at least 27% and expect to reinvest throughout 2016 with an investment bias towards the first half of FY16.

The Sage model of quality revenue and earnings growth, strong cash flows and progressive dividend, remains at the heart of our strategy.

## Chief Financial Officer's review

### Group performance

The Group delivered organic revenue growth of 6% (FY14: 5%) and increased the organic operating profit margin to 27.1% (FY14: 26.5%).

Momentum in recurring revenue remains the primary driver of organic revenue, growing by 9% (FY14: 7%) for the full year. Within this category, software subscription revenue grew strongly by 29% (FY14: 25%).

Organic figures neutralise the impact of foreign currency fluctuations and exclude the contribution from current and prior period acquisitions. A reconciliation of organic operating profit to statutory operating profit is shown on page 13.

Statutory performance has been impacted by movements in key exchange rates during the year, particularly in Europe, the US and Brazil. Statutory figures also include the contribution of acquisitions and disposals. The current year statutory operating profit includes a £62m goodwill impairment relating to our Brazilian operations. The impact is non-cash and notwithstanding the challenging economic environment, we remain confident about our growth prospects in Brazil, generating 8% organic revenue growth during FY15.

### Revenue

	STATUTORY			ORGANIC		
	FY15	FY14	Change	FY15	FY14	Change
Europe	£753m	£748m	+0.7%	£745m	£708m	+5.3%
North America	£477m	£409m	+16.6%	£450m	£433m	+3.9%
International	£206m	£197m	+4.4%	£206m	£181m	+13.6%
<b>Group</b>	<b>£1,436m</b>	<b>£1,354m</b>	<b>+6.1%</b>	<b>£1,400m</b>	<b>£1,321m</b>	<b>+6.0%</b>

### Operating profit

	STATUTORY			ORGANIC		
	FY15	FY14	Change	FY15	FY14	Change
<b>Group</b>	£297m	£300m	-0.8%	£380m	£350m	+8.3%
<b>Margin</b>	20.7%	22.1%	-140bps	27.1%	26.5%	+60bps

The operating margin has been achieved despite incurring the initial, unplanned costs associated with transforming towards the global operating model and implementing investments to support the execution of our strategy.

Total organic spending on Research and Development ("R&D") was £139 million, which represents 10% of total organic revenue (FY14: 10%). The proportion of R&D expenditure on Growth products was 87% and demonstrates focussed resource allocation. All R&D expenditure incurred this year was expensed in line with our policy. The percentage of revenue spent on general and administrative expenses ("G&A") was 19% on an organic basis. As we transition to our target global operating model, the G&A % is an important measure to monitor our progress in redirecting our investment towards activities which contribute most to growth, particularly sales and marketing.



In order to aid comparison with some competitors, particularly those based in the US, it should be noted that organic operating profit is stated after incurring share based payments of £9m and depreciation and amortisation of £29m. An equivalent non-GAAP EBITDA would therefore be £418m, representing an organic EBITDA margin of 30%.

## Revenue mix

### Segmental reporting

As part of Sage 2020 and preparing for the next phase of growth, an assessment of our regional structure has been undertaken resulting in the AAMEA region being expanded to include Latin America, specifically Brazil. The new region will be known as 'International' and will sit alongside Europe and North America as one of our three regions.

	RECURRING REVENUE			PROCESSING REVENUE			SSRS REVENUE		
ORGANIC	FY15	FY14	Change	FY15	FY14	Change	FY15	FY14	Change
Europe	£560m	£519m	+7.8%	£32m	£30m	+9.0%	£153m	£159m	-3.6%
North America	£260m	£238m	+9.0%	£120m	£122m	-1.0%	£69m	£73m	-4.9%
International	£133m	£117m	+13.7%	£8m	£7m	+18.1%	£64m	£57m	+12.7%
<b>Group</b>	£953m	£874m	+9.0%	£161m	£158m	+1.7%	£287m	£289m	-0.7%
<b>% of total organic revenue</b>	<b>68%</b>	<b>66%</b>		<b>11%</b>	<b>12%</b>		<b>20%</b>	<b>22%</b>	

### Recurring revenue

The Group has delivered an improvement in organic recurring revenue growth to 9% (FY14: 7%), of which software subscription growth accounted for 90% of the year-on-year increase.

Organic recurring revenue represents 68% of the Group's total organic revenue (FY14: 66%) with the contract renewal rate at 84% (FY14: 83%). Both existing and new subscription initiatives are maintaining a long-running strategic movement towards higher quality revenue, building on the recurring revenues derived from our maintenance and support contract base. Subscription contracts also typically attract higher renewal rates than stand-alone maintenance and support contracts.

### Processing revenue

Processing revenue, reported separately for the first time for enhanced transparency, has grown organically by 2% (FY14: 2%). Strong growth came from payments in Europe with a flat performance recorded in North America.

### SSRS revenue

Organic SSRS revenue declined modestly during the year at -1% (FY14: Flat), due to the substitution effect of the gradual transition towards subscription relationships, offset partially by growth in Malaysia. Within SSRS, revenue from perpetual licenses is less than 12% of Group revenue and demonstrates the continued emphasis on subscription and recurring revenue relationships.

## Regional performance - Europe

<b>ORGANIC REVENUE GROWTH</b>	<b>FY15</b>	<b>FY14</b>
UKI	+7%	+6%
France	+5%	+4%
Spain	+3%	+1%
Germany	+4%	+3%
Rest of Europe	-1%	+4%
<b>Europe</b>	<b>+5%</b>	<b>+4%</b>

Revenue in Europe grew organically by 5%, with organic recurring revenue growth of 8% (FY14: 7%). The acceleration in revenue growth was achieved despite the underperformance of the Enterprise Europe segment which contracted by 1% for the period.

The organisational change implemented disbanding Enterprise Europe brings together the management of all product solutions within each country and enables broader and more effective lead generation as well as clearer focus on migration.

Organic software subscription revenue growth of 29% (FY14: 26%) was a highlight and helped to drive software subscription revenue to 27% of total organic revenue in Europe.

Organic processing revenue growth of 9% (FY14: 2%), primarily derived from the UKI, is a promising result and our ambition is to accelerate this revenue stream further by concentrating on the opportunity to cross-sell payments services to our accounts and payroll bases.

Organic SSRS revenue decline of 4% (FY14: decline of 3%) reflects a sustained substitution effect resulting from subscription growth particularly in the UKI and France.

### *UKI – key subscription initiatives continue to drive growth*

UKI revenue grew organically by 6% (FY14: 6%) to £279m, supported by organic subscription revenue growth of 31% to £78m. This performance continues to be driven by key initiatives within the Sage 50 family of products. We helped customers to efficiently comply with additional pension legislation introduced last year, with an automated pension module, provided on subscription for Sage 50 Payroll. The legislation is being applied to businesses in stages and of our customers which were required to comply during FY15, 58% have taken the auto-enrolment module. Sage 50 Accounts also performed strongly, supported by enhancements to our subscription value proposition with the launch of Sage Drive, a cloud enabling feature for on-premise deployed products. Sage Drive enables users to share data with their accountants or colleagues via the cloud, accessed on desktop or mobile devices. The number of Sage Drive installations has increased over fivefold to around 20,000 during the year. These initiatives have supported growth in subscription revenue across Sage 50 products in the UKI to £26m (FY14: £12m).

Sage One paying subscriptions have been increased to 92,000 from 47,000 in September 2014 demonstrating momentum. Sage One is central to our strategy of addressing the white space opportunity of Small & Medium Businesses which are not using any means of accounting software currently.

Processing revenue, primarily related to payments, grew organically by 9% to £32m. Cross-sell of payments into the accounting installed base remains a key focus for FY16.

*France – momentum building with subscription initiatives*

In France, organic revenue grew by 5% (FY14: 4%) to £222m, with growth excluding the Enterprise market of 7% to £165m. Strong subscription momentum was maintained, with software subscription revenue growing by 22% to £106m in the year.

It was another successful year for the i7 upgrade which was applied to the Sage Paie payroll solution in September 2014, having previously been applied to Sage 100 Accounts. The i7 upgrade, only available on subscription, delivers increased functionality compared to previous product versions and also addresses additional legislation concerning the submission of real-time information to the local tax authorities. The uptake within our existing Sage Paie base reached 78% by the end of the year, supporting growth in subscription revenue to £63m (FY14: £52m) across Sage Paie and Sage 100. Whilst the migration opportunity is diminishing going forward for Sage Paie, penetration of the i7 initiative within our Sage 100 base stands at 55% as at year end with scope for further progress in FY16.

Smaller businesses have continued to embrace the Sage Ciel Flex subscription offering, which offers enhanced functionality and features. The majority of subscribers have opted for the highest tier, which includes mobile data sharing via the cloud, supporting growth in subscription revenue to £10m across the Ciel range. Flex is an example of revolutionising business, encouraging subscription by delivering additional value. Of the customers which subscribed this year, 58% were reactivated from off-plan status.

Both i7 and Ciel Flex highlight the attraction of subscription to Small & Medium Businesses and offset the weakness experienced in Enterprise which was flat for the year.

*Spain – rate of revenue growth increasing*

Organic revenue in Spain grew 3% to £85m (FY14: 1%). The revenue growth rate throughout the year has improved as we have focussed marketing efforts on growth products. Sage Murano, our flagship product for medium sized businesses in Spain grew organic revenues by 8%. Over two thirds of the growth was generated by Murano Online, the connected version of the product, which is accessed via web-browser.

*Germany – improved software recurring revenue growth*

In Germany, organic revenue of £79m represents organic growth of 4% (FY14: 3%). Through our programme of core product modernisation, Sage Drive was introduced to Sage 50 in Germany, adopted by both new and existing customers. Increased focus on the business partner channel has helped to drive 9% revenue growth for Office Line, our flagship local product for medium sized businesses.

**Regional performance – North America**

<b>ORGANIC REVENUE GROWTH</b>	<b>FY15</b>	<b>FY14</b>
<b>North America</b>	<b>+4%</b>	<b>+4%</b>

North America delivered organic revenue growth of 4% supported by organic recurring revenue growth of 9% (FY14: 6%). Organic SSRS revenue contracted by 5% (FY14: 1% growth) with processing revenue contracting by 1% (FY14: 1% growth).

*Growth maintained but lagging the global growth rate*

Organic revenue excluding processing, grew by 6% to £329m. The growth has been maintained by a strong performance from Sage 50 and X3, offset by a weaker performance in our products suited to medium sized businesses. The release of Sage Drive in Canada and a marketing focus on subscription across North America has seen software subscription revenue for Sage 50 in North America grow by over five-fold, and

is a good example of subscription success achieved by enhancing the value proposition. Sage Drive will also be launched in the US during FY16 as part of our core product modernisation programme. Organic revenue growth of 19% for X3 was encouraging as we target growth in our market share with global products.

The performance of our products suited to medium business (SMB products) remained a drag on growth for the year, but has improved modestly in the second half due to a focus on improving renewal rates. Actions have been taken to improve performance in FY16, including product development and a reinvigorated partner programme.

Processing revenue, predominantly relating to payments, contracted by 1% to £120m compared to growth of 1% in the prior year. During the second half of the year, the internal sales team has been grown to focus on executing the cross-sell opportunity of payment solutions to the accounts and payroll customer base. The Independent Sales Organisation (“ISO”) channel was also developed with the addition of around 30 partners during the second half of the year. These changes are expected to have a positive impact on FY16.

### Regional performance - International

ORGANIC REVENUE GROWTH	FY15	FY14
Africa	+16%	+15%
Brazil	+8%	+9%
Australia	+5%	+6%
Middle East and Asia	+33%	+12%
<b>International</b>	<b>+14%</b>	<b>+11%</b>

Organic revenue grew strongly in the International region at 14% (FY14: 11%), with organic recurring revenue growth of 14% (FY14: 11%) and organic SSRS revenue growth of 13% (FY14: 11%). An exceptional performance in Malaysia was supplemented by sustained strong performance in South Africa.

#### *Africa – double-digit growth performance maintained*

Organic revenue of £92m for Africa represents sustained organic growth of 16% (FY14 15%), supported by double-digit organic growth in Processing and Recurring revenue. The Enterprise market in Africa continues to perform well, with all key products delivering double digit growth. The contribution of revenue from sales outside of South Africa supported the result, representing 15% of total Africa revenue and growing 22% organically (FY14: 22%).

#### *Brazil – strong growth despite tough economic conditions*

Organic revenue in Brazil grew by 8% (FY14: 9%) to £47m. Double digit revenue growth was maintained in accounting and payroll software, but sales of technical learning materials were subdued. The Brazilian economy is challenging and our focus remains on winning new customers, supported by our global products. Sage One was launched in the second half and showed promising early momentum to date.

#### *Australia, Middle East and Asia*

In Australia, organic revenue growth of 5% (FY14: 6%) to £40m was delivered with Micropay and Handisoft the key products. Consistent with the strategy, the focus is on intensifying new customer acquisition with the launch of Sage One in the last quarter.

Organic revenue in the Middle East and Asia grew by 33% (FY14: 12%) to £26m, with Malaysia the key contributor. A goods and services tax was introduced in Malaysia during the first half of the year, with a government sponsored compliance scheme available to aid companies in fulfilling their obligations, which generated around £4m of non-repeating revenue.

## Financial review

ORGANIC TO STATUTORY RECONCILIATIONS	FY15			FY14		
	Revenue	Operating profit	Margin	Revenue	Operating profit	Margin
<b>Organic</b>	£1,400m	£380m	27.1%	£1,321m	£350m	26.5%
Organic adjustments <sup>1</sup>	£36m	£0m		£1m	£0m	
Underlying	£1,436m	£380m	26.5%	£1,322m	£350m	26.5%
Impact of foreign exchange <sup>2</sup>	-	-		£32m	£11m	
<b>Underlying (as reported)</b>	£1,436m	£380m	26.5%	£1,354m	£361m	26.5%
Recurring items <sup>3</sup>	-	(£21m)		-	(£16m)	
Non-recurring items <sup>4</sup>	-	(£62m)		-	(£45m)	
<b>Statutory</b>	<b>£1,436m</b>	<b>£297m</b>	<b>20.7%</b>	<b>£1,354m</b>	<b>£300m</b>	<b>22.1%</b>

<sup>1</sup>Organic adjustments comprise contributions from acquisitions, disposals and products held for sale.

<sup>2</sup>Impact of retranslating FY14 results at FY15 average rates.

<sup>3</sup>Recurring items comprise amortisation of acquired intangible assets, acquisition-related items and fair value adjustments

<sup>4</sup>Non-recurring items comprise items that management judge to be one-off or non-operational

### Revenue

Statutory revenue grew by 6% to £1,436m. The growth reflects organic growth in the business and the contribution from two acquisitions, offset by adverse foreign exchange movements experienced in FY15. The average exchange rates used to translate the consolidated income statement for the year are set out on page 15.

### Operating profit

Organic operating profit margin excludes the contribution from acquisitions made in Germany and the US in Q4 2014 and Q1 2015 respectively. A reconciliation of the reported FY15 underlying margin of 26.5% to the FY15 organic margin of 27.1% is shown above.

Organic operating profit increased by 8% to £380m (FY14: £350m), and the organic operating profit margin increased to 27.1% (FY14: 26.5%). Statutory operating profit was broadly flat due to an impairment charge. The operating profit margin has benefited from an improvement in operating leverage as a result of revenue growth and a disciplined approach to managing the cost base.

### Earnings per share

Underlying basic earnings per share increased by 12.6% to 25.00p (FY14: 22.19p) due to a lower effective tax rate and a reduction in the average number of shares in issue to 1,073.0m (FY14: 1,089.0m), resulting from share repurchases.

Statutory basic earnings per share increased to 18.11p (FY14: 17.26p), which reflects the factors set out above.

### Net finance cost

Net finance cost at 30 September 2015 was £21.4m (FY14: £20.9m). The increase over prior year is due to increased average debt balances driven by the Paychoice acquisition, partly offset by the refinancing of \$200m (4.39%) of maturing USPP debt in the year at lower rates of 3.73% for 10 years.

### Taxation

The statutory income tax expense was £82m (FY14: £90m). The effective tax rate on statutory profit before tax was 30% (FY14: 32%). The effective tax rate on underlying profit before tax was 25% (FY14: 27%). The reduction is driven by a general reduction in tax rates including the UK tax rate, as well as a number of one off items arising as a result of corporate simplifications and prior year items.

### Cash flow and net debt

CASH FLOW	FY15	FY14
<b>Underlying operating profit</b>	<b>£380m</b>	<b>£351m</b>
Exchange rate translation movements	-	£10m
<b>Underlying operating profit (as reported)</b>	<b>£380m</b>	<b>£361m</b>
Non-recurring items	-	(£2m)
Depreciation/amortisation/profit on disposal	£29m	£29m
Share-based payments	£9m	£8m
Working capital and balance sheet movements	£5m	(£3m)
Exchange rate translation movements	(£5m)	(£11m)
<b>Statutory cash flow from operating activities</b>	<b>£419m</b>	<b>£382m</b>
Net interest	(£18m)	(£19m)
Tax paid	(£85m)	(£107m)
Net capital expenditure	(£20m)	(£27m)
<b>Free cash flow</b>	<b>£296m</b>	<b>£229m</b>

<b>Statutory cash flow from operating activities</b>	£419m	£382m
Non-recurring cash items	-	£2m
Net capital expenditure	(£20m)	(£27m)
Eliminate exchange rate translation movements	£5m	£10m
<b>Underlying cash flow from operating activities</b>	<b>£403m</b>	<b>£366m</b>
<b>Underlying cash conversion<sup>1</sup></b>	<b>106%</b>	<b>101%</b>

<sup>1</sup>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. In the prior year, underlying cash flow from operating activities was calculated before net capital expenditure and included movements on foreign exchange, which would have shown underlying cash conversion of 110% in FY15 (FY14: 106%). Refer to Appendix II on page 17 for information on Non-GAAP measures.

The Group remains highly cash generative with underlying cash flows from operating activities of £403m, which represents strong underlying cash conversion of 106% (FY14: 101%).

A total of £149m (FY14: £217m) was returned to shareholders through ordinary dividends paid of £134m (FY14: £126m) and share repurchases of £15m (FY14: £91m). Net debt stood at £425m at 30 September 2015 (30 September 2014: £437m), which is equivalent to 1 times rolling 12-month EBITDA.

## 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 £525.2m (US\$551m and €218m tranches). At 30 September 2015, £81.6m (FY14: £111m) of the RCF was drawn. RCF drawings were used to fund the US Paychoice acquisition in October 2015.

Total USPP loan notes at 30 September 2015 were £525.4m (US\$700m and EUR€85m) (2014: £432m, US\$700m). Approximately £135m (US\$200m) of USPP borrowings were repaid in March 2015. This maturity was refinanced in the USPP market in January 2015, via the issuance of loan notes of US\$200m (£132m) at 3.73% fixed until 2025, €55m (£40m) at 1.89% fixed until 2022 and €30m (£22m) at 2.07% fixed until 2023.

## Acquisitions

On 16 October 2014, the Group acquired 100% of the share capital of PayChoice, a provider of payroll and HR services in the US, for total consideration of US\$157.8m (£98m).

## 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 GBP1)	FY15	FY14	Change
Euro (€)	1.35	1.23	+9%
US Dollar (\$)	1.54	1.66	-8%
South African Rand (ZAR)	18.55	17.65	+5%
Australian Dollar (A\$)	1.97	1.81	+8%
Brazilian Real (R\$)	4.64	3.81	+18%

## Capital structure and dividend

With consistent and strong cash flows, the Group retains considerable financial flexibility going forward. The Board's main strategic priority remains an acceleration of growth, both organically and through targeted acquisitions. This growth underpins the Board's sustainable, progressive dividend policy, with surplus capital 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 13.10p per share (FY14: 12.12p per share). The ordinary dividend for the year is covered 1.9 times by underlying earnings per share.

## Archer Capital

In November 2011, the Group reported a claim for damages made by the former shareholders of MYOB (including funds managed by Archer Capital ("the Applicants")) following the termination of discussions between the Group and the Applicants relating to the potential purchase of MYOB. The claim was heard by the Court in late 2013 and judgment was received in respect of the claim in August 2015. The Applicants' claims were dismissed on all counts and steps are being taken to recover costs incurred by the Group in defending the proceedings.

## Appendix I – Key Performance Indicators (“KPIs”) and other measures

		FY15	FY14
<b>STRATEGIC KPIs</b>	<b>KPI DESCRIPTION</b>		
<b>Customers for life:</b> Contract renewal rate	As we focus on providing exceptional customer experiences, we track the response of our customers by measuring the number of contracts successfully renewed for the last twelve months as a percentage of those that were due for renewal.	84%	83%
<b>Winning in the market:</b> Adoption of Sage One	The number of paying subscriptions for our portfolio of Sage One products.	173,000	86,000
<b>Winning in the market:</b> Adoption of Sage X3	The percentage increase in underlying revenue derived from Sage X3.	11%	7%
<b>Revolutionise business:</b> Annualised software subscription base (“ASB”)	Our latest technologies are delivered to customers via software subscription relationships which drives growth in the ASB, calculated as the amount of organic software subscription revenue recorded in the last month of the period multiplied by 12.	£344m	£268m
<b>Capacity for growth:</b> G&A%	Investing for growth is enabled by releasing efficiencies in General and Administrative (“G&A”) expenses. We track progress by expressing G&A as a percentage of revenue (both on an organic basis).	19%	19%
<b>One Sage</b>	We use multiple measures to track progress in areas such as employee engagement, social responsibility and brand strength. One Sage supports our entire strategy and enables all other strategic pillars, therefore does not have association with any single measure in the KPI suite.		
<b>FINANCIAL DRIVERS</b>	<b>KPI DESCRIPTION</b>	<b>FY15</b>	<b>FY14</b>
Organic revenue growth	Organic revenue neutralises the impact of foreign exchange in prior period figures and excludes the contribution of current and prior period acquisitions, disposals and products held for sale.	6.0%	4.9%
Organic operating profit margin	Organic operating profit excludes: <ul style="list-style-type: none"> <li>– Recurring items including amortisation of acquired intangible assets, acquisition-related items and fair value adjustments;</li> <li>– Non-recurring items that management judge to be one-off or non-operational; and</li> <li>– The contribution of current and prior period acquisitions, disposals and products held for sale.</li> </ul> The impact of foreign exchange is neutralised in prior period figures.	27.1%	26.5%
Underlying basic EPS growth	Underlying basic EPS is defined as underlying profit after tax divided by the weighted average number of ordinary shares in issue during the period, excluding those held as treasury shares. Underlying profit after tax is defined as profit attributable to owners of the parent excluding: <ul style="list-style-type: none"> <li>– Recurring items including amortisation of acquired intangible assets, acquisition-related items, fair value adjustments and imputed interest; and</li> <li>– Non-recurring items that management judge to be one-off or non-operational.</li> </ul> All of these adjustments are net of tax. The impact of foreign exchange is neutralised in prior period figures.	12.6%	8.2%
Underlying cash conversion	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. In the prior year, underlying cash flow from operating activities was calculated before net capital expenditure and included movements on foreign exchange, which would have shown underlying cash conversion of 110% in FY15 (FY14: 106%).	106%	101%
Net debt leverage	The net value of cash less borrowings expressed as a multiple of rolling 12-month EBITDA. EBITDA is defined as earnings before interest, tax, depreciation, amortisation of acquired intangible assets, acquisition-related items, fair value adjustments and non-recurring items that management judge to be one-off or non-operational.	1.0:1	1.1:1
Interest cover	Statutory operating profit for the last twelve months excluding non-recurring items that management judge to be one-off or non-operational, expressed as a multiple of finance costs excluding imputed interest for the same period.	17x	17x
Dividend cover	Underlying earnings per share (as reported) divided by the full year dividend per share.	1.9x	1.9x



## Appendix II – Non-GAAP measures

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> <ul style="list-style-type: none"> <li>- Recurring items: <ul style="list-style-type: none"> <li>· Amortisation of acquired intangible assets;</li> <li>· Acquisition-related items;</li> <li>· Fair value adjustments on non-debt-related financial instruments; and</li> </ul> </li> <li>- Non-recurring items that management judge are one-off or non-operational</li> </ul> <p>Underlying profit before tax excludes:</p> <ul style="list-style-type: none"> <li>- All the items above; and</li> <li>- Imputed interest; and</li> <li>- Fair value adjustments on debt-related financial instruments.</li> </ul> <p>Underlying profit after tax and earnings per share excludes:</p> <ul style="list-style-type: none"> <li>- All the items above net of tax.</li> </ul>	<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&amp;A decisions on earnings per share growth can be evaluated.</p>
Organic	In addition to the adjustments made for underlying measures, organic measures exclude the contribution from acquisitions, disposals and products held for sale in the current and prior period.	Organic measures allow management and investors to understand the like-for-like performance of the business.
Underlying cash conversion	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.	Underlying cash conversion informs management and investors about the cash operating cycle of the business and how efficiently operating profit is converted into cash.
Underlying (as reported)	Where prior period underlying measures are included without retranslation at current period exchange rates, they are labelled as underlying (as reported).	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.

Revenue Type	DESCRIPTION
Recurring revenue	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.
Software subscription revenue	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').
Software and software related services ("SSRS")	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.
Processing revenue	Processing revenue is revenue earned from customers for the processing of payments or where Sage colleagues process our customers' payroll.

# Consolidated income statement

## For the year ended 30 September 2015

	Note	Underlying 2015 £m	Adjustments 2015 £m	Statutory 2015 £m	Underlying as reported 2014 (restated) £m	Adjustments 2014 £m	Statutory 2014 (restated) £m
Revenue	1	1,435.5	–	1,435.5	1,353.5	–	1,353.5
Cost of sales		(86.7)	–	(86.7)	(74.5)	–	(74.5)
Gross profit		1,348.8	–	1,348.8	1,279.0	–	1,279.0
Selling and administrative expenses		(968.9)	(82.7)	(1,051.6)	(918.0)	(61.4)	(979.4)
Operating profit	1	379.9	(82.7)	297.2	361.0	(61.4)	299.6
Finance income		2.2	–	2.2	2.1	–	2.1
Finance costs		(23.6)	–	(23.6)	(22.2)	(0.8)	(23.0)
Finance costs – net		(21.4)	–	(21.4)	(20.1)	(0.8)	(20.9)
Profit before income tax		358.5	(82.7)	275.8	340.9	(62.2)	278.7
Income tax expense	3	(90.3)	8.8	(81.5)	(90.5)	0.7	(89.8)
Profit for the period		268.2	(73.9)	194.3	250.4	(61.5)	188.9
Profit attributable to:							
Owners of the parent		268.2	(73.9)	194.3	249.5	(61.5)	188.0
Non-controlling interest		–	–	–	0.9	–	0.9
		268.2	(73.9)	194.3	250.4	(61.5)	188.9
<b>Earnings per share attributable to the owners of the parent (pence)</b>							
Basic	5	25.00p		18.11p	22.91p		17.26p
Diluted	5	24.85p		18.00p	22.87p		17.24p

## Consolidated statement of comprehensive income

### For the year ended 30 September 2015

	2015 £m	2014 (restated) £m
Profit for the period	<b>194.3</b>	188.9
Other comprehensive income/(expenses) for the period:		
Items that will not be reclassified to profit or loss:		
Actuarial loss on post-employment benefit obligations	<b>(4.8)</b>	(0.4)
Deferred tax credit on actuarial loss on post-employment benefit obligations	<b>0.6</b>	0.4
	<b>(4.2)</b>	–
Items that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	<b>(23.2)</b>	(38.1)
	<b>(23.2)</b>	(38.1)
Other comprehensive expense for the period, net of tax	<b>(27.4)</b>	(38.1)
Total comprehensive income for the period	<b>166.9</b>	150.8
Total comprehensive income for the period attributable to:		
– Owners of the parent	<b>166.9</b>	149.9
– Non-controlling interest	–	0.9
	<b>166.9</b>	150.8

The notes on pages 23 to 42 form an integral part of this condensed consolidated report.

# Consolidated balance sheet

## As at 30 September 2015

	Note	2015 £m	2014 (restated) £m	As at 1 October 2013 (restated) £m
<b>Non-current assets</b>				
Goodwill	6	1,446.0	1,433.0	1,515.2
Other intangible assets	6	105.5	98.1	113.5
Property, plant and equipment	6	122.7	126.7	128.8
Deferred income tax assets		34.2	29.4	26.2
		<b>1,708.4</b>	1,687.2	1,783.7
<b>Current assets</b>				
Inventories		2.0	2.0	2.2
Trade and other receivables		320.9	321.5	311.2
Cash and cash equivalents (excluding bank overdrafts)	9	263.4	144.6	100.8
		<b>586.3</b>	468.1	414.2
		<b>2,294.7</b>	2,155.3	2,197.9
<b>Current liabilities</b>				
Trade and other payables		(311.2)	(279.5)	(276.2)
Current income tax liabilities		(31.4)	(23.7)	(35.7)
Borrowings		(33.6)	(125.4)	(21.0)
Provisions		(9.9)	(13.0)	(13.3)
Other financial liabilities		–	(60.1)	(30.0)
Deferred income		(436.5)	(426.2)	(433.0)
		<b>(822.6)</b>	(927.9)	(809.2)
<b>Non-current liabilities</b>				
Borrowings		(571.4)	(415.8)	(440.6)
Other financial liabilities		–	–	(54.2)
Post-employment benefits		(18.7)	(13.6)	(12.9)
Deferred income tax liabilities		(7.3)	(19.1)	(23.1)
Provisions		(10.4)	(8.3)	(6.3)
Deferred income		(2.2)	(2.7)	–
		<b>(610.0)</b>	(459.5)	(537.1)
		<b>(1,432.6)</b>	(1,387.4)	(1,346.3)
<b>Net assets</b>		<b>862.1</b>	767.9	851.6
<b>Equity attributable to owners of the parent</b>				
Ordinary shares	8	11.8	11.7	11.7
Share premium	8	541.2	535.9	532.2
Other reserves		66.9	90.1	60.2
Retained earnings		242.2	130.2	248.5
<b>Total equity attributable to owners of the parent</b>		<b>862.1</b>	767.9	852.6
Non-controlling interest		–	–	(1.0)
<b>Total equity attributable to owners of the parent</b>		<b>862.1</b>	767.9	851.6

## Consolidated statement of cash flows

### For the year ended 30 September 2015

	Notes	2015 £m	2014 £m
<b>Cash flows from operating activities</b>			
Cash generated from continuing operations	9	<b>418.6</b>	382.4
Interest paid		<b>(19.2)</b>	(20.2)
Income tax paid		<b>(84.6)</b>	(107.2)
<b>Net cash generated from operating activities</b>		<b>314.8</b>	255.0
<b>Cash flows from investing activities</b>			
Acquisitions of subsidiaries, net of cash acquired	10	<b>(47.3)</b>	(14.1)
Purchases of intangible assets	6	<b>(6.0)</b>	(8.3)
Purchases of property, plant and equipment	6	<b>(16.4)</b>	(19.7)
Proceeds from sale of property, plant and equipment		<b>2.1</b>	1.1
Interest received		<b>2.2</b>	2.1
<b>Net cash generated from investing activities</b>		<b>(65.4)</b>	(38.9)
<b>Cash flows from financing activities</b>			
Proceeds from issuance of ordinary shares		<b>5.4</b>	3.7
Purchase of treasury shares		<b>(17.7)</b>	(91.0)
Purchase of non-controlling interest		<b>–</b>	(50.4)
Finance lease principal payments		<b>(1.4)</b>	(1.9)
Proceeds from borrowings		<b>481.2</b>	171.0
Repayments of borrowings		<b>(474.5)</b>	(71.8)
Movements in cash held on behalf of customers		<b>12.5</b>	15.5
Borrowing costs		<b>(1.3)</b>	(1.4)
Dividends paid to owners of the parent	4	<b>(133.5)</b>	(126.2)
<b>Net cash used in financing activities</b>		<b>(129.3)</b>	(152.5)
<b>Net increase in cash, cash equivalents and bank overdrafts (before exchange rate movement)</b>			
	9	<b>120.1</b>	63.6
Effects of exchange rate movement	9	<b>(0.4)</b>	(2.8)
<b>Net increase in cash, cash equivalents and bank overdrafts</b>		<b>119.7</b>	60.8
Cash, cash equivalents and bank overdrafts at 1 October	9	<b>143.7</b>	82.9
<b>Cash, cash equivalents and bank overdrafts at period end</b>	9	<b>263.4</b>	143.7

## Consolidated statement of changes in equity

### For the year ended 30 September 2015

	Attributable to owners of the parent				
	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 October 2014 (restated)	11.7	535.9	90.1	130.2	767.9
Profit for the period	-	-	-	194.3	194.3
Other comprehensive (expense)/income:					
Exchange differences on translating foreign operations	-	-	(23.2)	-	(23.2)
Actuarial loss on post-employment benefit obligations	-	-	-	(4.8)	(4.8)
Deferred tax credit on actuarial gain on post-employment obligations	-	-	-	0.6	0.6
<b>Total comprehensive income for the period ended 30 September 2015</b>	<b>-</b>	<b>-</b>	<b>(23.2)</b>	<b>190.1</b>	<b>166.9</b>
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	-	-	-	10.1	10.1
Purchase of treasury shares	-	-	-	(14.6)	(14.6)
Expenses related to the 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)
<b>Total transactions with owners for the period ended 30 September 2015</b>	<b>0.1</b>	<b>5.3</b>	<b>-</b>	<b>(78.1)</b>	<b>(72.7)</b>
At 30 September 2015	11.8	541.2	66.9	242.2	862.1

	Attributable to owners of the parent					Non-controlling interest £m	Total equity £m
	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m		
At 1 October 2013	11.7	532.2	60.4	267.0	871.3	(1.0)	870.3
Restatement (note 1)	-	-	(0.2)	(18.5)	(18.7)	-	(18.7)
At 1 October 2013 (restated)	11.7	532.2	60.2	248.5	852.6	(1.0)	851.6
Profit for the period	-	-	-	188.0	188.0	0.9	188.9
Other comprehensive (expense)/income:							
Exchange differences on translating foreign operations	-	-	(38.1)	-	(38.1)	-	(38.1)
Actuarial loss on post-employment benefit obligations	-	-	-	(0.4)	(0.4)	-	(0.4)
Deferred tax charge on actuarial loss on post-employment obligations	-	-	-	0.4	0.4	-	0.4
<b>Total comprehensive (expense)/income for the year ended 30 September 2014</b>	<b>-</b>	<b>-</b>	<b>(38.1)</b>	<b>188.0</b>	<b>149.9</b>	<b>0.9</b>	<b>150.8</b>
Transactions with owners:							
Employee share option scheme:							
Proceeds from shares issued	-	3.7	-	-	3.7	-	3.7
Value of employee services	-	-	-	7.8	7.8	-	7.8
Equity movement of deferred tax on options	-	-	-	(89.5)	(89.5)	-	(89.5)
Purchase of treasury shares	-	-	-	(0.2)	(0.2)	-	(0.2)
Close period share buyback programme	-	-	-	(30.1)	(30.1)	-	(30.1)
Cancellation of treasury shares	-	-	68.0	(68.1)	(0.1)	0.1	-
Dividends paid to owners of the parent	-	-	-	(126.2)	(126.2)	-	(126.2)
<b>Total transactions with owners for the year ended 30 September 2014</b>	<b>-</b>	<b>3.7</b>	<b>68.0</b>	<b>(306.3)</b>	<b>(234.6)</b>	<b>0.1</b>	<b>(234.5)</b>
At 30 September 2014 (restated)	11.7	535.9	90.1	130.2	767.9	-	767.9

# Notes to the financial information

## For the year ended 30 September 2015

### Group accounting policies

#### General information

The Sage Group plc (“the Company”) and its subsidiaries (together “the Group”) is a leading global supplier of business management software to Small & Medium Businesses.

The financial information set out above does not constitute the Company’s Statutory Accounts for the year ended 30 September 2015 or 2014, but is derived from those accounts. Statutory Accounts for the year ended 30 September 2014 have been delivered to the Registrar of Companies and those for 2015 will be delivered in December 2015. The auditors have reported on both sets of accounts; their reports were unqualified and did not contain statements under section 498 (2), (3) or (4) of the Companies Act 2006.

Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards (“IFRSs”) as adopted by the European Union (“EU”), this announcement does not in itself contain sufficient information to comply with IFRSs. The financial information has been prepared on the basis of the accounting policies and critical accounting estimates and judgements as set out in the Annual Report & Accounts for 2014, other than those changes in the accounting policies set out below.

The Company is a limited liability company incorporated and domiciled in the UK. The address of its registered office is North Park, Newcastle upon Tyne, NE13 9AA. The Company is listed on the London Stock Exchange.

#### Annual Report & Accounts for the year ended 30 September 2015

Today The Sage Group plc will publish its Annual Report & Accounts for the year ended 30 September 2015. The full document can be viewed on the Company’s website: [www.sage.com/investors](http://www.sage.com/investors)

#### 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. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to benefit from its activities which is usually from date of acquisition.

#### Changes in accounting policies

As the Group enters the next phase of growth and implements its new strategy, the definitions of revenue categories have been simplified to enable stakeholders to clearly and transparently track performance. This has led to a change in the application of the revenue recognition policy to certain products.

The most significant change is to separately disclose the revenue from our payments and payroll processing businesses, which is driven by the volume of transactions. In addition, a small amount of revenue from software and software related services (“SSRS”) and associated discounts, has been reclassified to recurring revenue, relating to products which are time-limited and require an on-going active maintenance contract to function as designed. This has had an impact on the phasing of revenue. Consequently, the current year and comparative revenue split shown in the segmental note have been revised, along with the associated impact on deferred revenue, and the description of revenue streams in the revenue recognition accounting policy has been updated.

The impact of reclassifying and rephasing of those products moved from SSRS to recurring revenue was to reduce revenue by £3.1m in current year and increase revenue in 2014 by £1.2m. The balance sheet impact of this change has been to increase deferred revenue in 2015 by £25.4m (2014: £23.5m, 2013: £26.2m) representing the SSRS revenue being deferred with an associated deferred tax asset of £8.2m (2014: £7.5m, 2013: £7.5m). The foreign exchange retranslation impact of this deferral in 2015 of £1.3m (2014: £1.3m) is taken to other reserves.

During the period, management has also considered the accounting for its arrangements with Business Partners who refer customers to the Group, such as Independent Sales Organisations (“ISOs”) in the US Payments business and concluded that payments made to these business partners are better reflected as costs and not as deductions to revenue. This has had the impact of increasing revenue and costs by £46.3m (2014: £45.5m).

In addition to this change in the application of the revenue recognition policy, two other changes were made to the presentation of items on the balance sheet. Firstly, the presentation of provisions has been revised to show them as a separate line item on the face of the balance sheet having previously been included within trade and other payables. The impact of this change within current liabilities in the current year is £9.9m (2014: £13.0m, 2013: £13.3m) and between current and non-current liabilities is £10.4m (2014: £8.3m, 2013: £6.3m). Secondly, the presentation of deferred consideration has been changed to include the balance within trade and other payables having previously been a separate line item on the face of the balance sheet. The impact of this change in the current year is £1.4m (2014: £3.5m, 2013: £8.2m).

The impact of the change in the application of the revenue recognition policy in the 2014 annual accounts has been disclosed below, along with the impact of the change in presentation of provisions and deferred consideration.

	As previously reported £m	Restatement adjustment £m	As restated £m
For the year ended 30 September 2014			
Revenue	1,306.8	46.7	1,353.5
Cost of sales	(74.5)	–	(74.5)
Gross profit	1,232.3	46.7	1,279.0
Selling and administrative expenses	(933.9)	(45.5)	(979.4)
Operating profit	298.4	1.2	299.6
Finance cost (net)	(20.9)	–	(20.9)
Profit before income tax	277.5	1.2	278.7
Income tax expense	(89.8)	–	(89.8)
Profit for the period	187.7	1.2	188.9
Profit attributable to:			
Owners of the parent	186.8	1.2	188.0
Non-controlling interest	0.9	–	0.9
	187.7	1.2	188.9



	30 September 2014			1 October 2013		
	As previously reported £m	Restatement adjustment £m	As restated £m	As previously reported £m	Restatement adjustment £m	As restated £m
Deferred tax assets	21.9	7.5	29.4	18.7	7.5	26.2
<b>Total non-current assets</b>	<b>1,679.7</b>	<b>7.5</b>	<b>1,687.2</b>	<b>1,776.2</b>	<b>7.5</b>	<b>1,783.7</b>
<b>Total current assets</b>	<b>468.1</b>	<b>–</b>	<b>468.1</b>	<b>414.2</b>	<b>–</b>	<b>414.2</b>
<b>Total assets</b>	<b>2,147.8</b>	<b>7.5</b>	<b>2,155.3</b>	<b>2,190.4</b>	<b>7.5</b>	<b>2,197.9</b>
Trade and other payables	(297.3)	17.8	(279.5)	(287.6)	11.4	(276.2)
Provisions	–	(13.0)	(13.0)	–	(13.3)	(13.3)
Deferred consideration	(3.5)	3.5	–	(8.2)	8.2	–
Deferred income	(402.7)	(23.5)	(426.2)	(406.8)	(26.2)	(433.0)
<b>Total current liabilities</b>	<b>(912.7)</b>	<b>(15.2)</b>	<b>(927.9)</b>	<b>(789.3)</b>	<b>(19.9)</b>	<b>(809.2)</b>
Provisions	–	(8.3)	(8.3)	–	(6.3)	(6.3)
<b>Total non-current liabilities</b>	<b>(451.2)</b>	<b>(8.3)</b>	<b>(459.5)</b>	<b>(530.8)</b>	<b>(6.3)</b>	<b>(537.1)</b>
<b>Total liabilities</b>	<b>(1,363.9)</b>	<b>(23.5)</b>	<b>(1,387.4)</b>	<b>(1,320.1)</b>	<b>(26.2)</b>	<b>(1,346.3)</b>
<b>Net assets</b>	<b>783.9</b>	<b>(16.0)</b>	<b>767.9</b>	<b>870.3</b>	<b>(18.7)</b>	<b>851.6</b>
<b>Equity attributable to owners of the parent</b>						
Ordinary shares	11.7	–	11.7	11.7	–	11.7
Share premium	535.9	–	535.9	532.2	–	532.2
Other reserves	88.8	1.3	90.1	60.4	(0.2)	60.2
Retained earnings	147.5	(17.3)	130.2	267.0	(18.5)	248.5
	783.9	(16.0)	767.9	871.3	(18.7)	852.6
Non-controlling interest	–	–	–	(1.0)	–	(1.0)
<b>Total equity</b>	<b>783.9</b>	<b>(16.0)</b>	<b>767.9</b>	<b>870.3</b>	<b>(18.7)</b>	<b>851.6</b>

### Adoption of new and revised IFRSs

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.

### 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 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 judgements 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 2020 initiative 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, long term operating margin 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 the Annual Report & Accounts.

#### 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 £32.8m as at 30 September 2015 (2014: £26.3m).

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 by 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.

### Website

This condensed consolidated annual financial report for the year ended 30 September 2015 can also be found on our website: [www.sage.com/investors/investor-downloads](http://www.sage.com/investors/investor-downloads)

## 1 Segment information

This note shows how Group revenue and Group operating profit are split across the three reportable segments in which we operate, being Europe, North America and International (South America, Africa, Australia, Middle East and Asia).

In May 2015, following the departure of the CEO of Sage Americas there was a change in the reporting segments with the Brazilian business being moved out of the Americas segment. For reporting purposes Brazil has been combined with AAMEA to form the new International segment and the Americas segment was renamed to North America. The 2014 comparatives have been updated to align with the new segmental reporting.

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 ("QBRs") chaired by the CEO and CFO. 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 Sage Pay)
- 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.

The revenue analysis in the table below 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 by segment

	Year ended 30 September 2015			Change		
	Statutory and underlying £m	Organic adjustments £m	Organic £m	Statutory %	Underlying %	Organic %
<b>Recurring revenue by segment</b>						
Europe	565.3	(5.5)	559.8	3.1%	8.8%	7.8%
North America	264.7	(5.0)	259.7	16.8%	11.2%	9.1%
International	133.1	–	133.1	3.3%	13.8%	13.8%
Recurring revenue	963.1	(10.5)	952.6	6.6%	10.1%	9.0%
<b>Software and software related services (“SSRS”) revenue by segment</b>						
Europe	155.3	(2.2)	153.1	(8.4%)	(2.2%)	(3.6%)
North America	71.1	(1.7)	69.4	2.7%	(2.6%)	(4.9%)
International	64.3	–	64.3	5.9%	12.8%	12.8%
SSRS revenue	290.7	(3.9)	286.8	(2.9%)	0.7%	(0.7%)
<b>Processing revenue by segment</b>						
Europe	32.4	–	32.4	8.0%	9.1%	9.1%
North America	141.2	(20.8)	120.4	24.8%	16.0%	(1.1%)
International	8.1	–	8.1	12.5%	19.1%	19.1%
Processing revenue	181.7	(20.8)	160.9	20.9%	14.9%	1.7%
<b>Total revenue by segment</b>						
Europe	753.0	(7.7)	745.3	0.7%	6.4%	5.3%
North America	477.0	(27.5)	449.5	16.6%	10.2%	3.9%
International	205.5	–	205.5	4.4%	13.7%	13.7%
Total revenue	1,435.5	(35.2)	1,400.3	6.1%	8.6%	6.0%

## Revenue by segment (continued)

Year ended 30 September 2014 (restated)					
	Statutory and Underlying as Reported £m	Impact of foreign exchange £m	Underlying £m	Organic adjustments £m	Organic £m
<b>Recurring revenue by segment</b>					
Europe	548.2	(28.8)	519.4	(0.3)	519.1
North America	226.7	11.4	238.1	–	238.1
International	128.9	(11.9)	117.0	–	117.0
Recurring revenue	903.8	(29.3)	874.5	(0.3)	874.2
<b>Software and software related services (“SSRS”) revenue by segment</b>					
Europe	169.5	(10.7)	158.8	–	158.8
North America	69.2	3.8	73.0	–	73.0
International	60.7	(3.7)	57.0	–	57.0
SSRS revenue	299.4	(10.6)	288.8	–	288.8
<b>Processing revenue by segment</b>					
Europe	30.0	(0.3)	29.7	–	29.7
North America	113.1	8.6	121.7	–	121.7
International	7.2	(0.4)	6.8	–	6.8
Processing revenue	150.3	7.9	158.2	–	158.2
<b>Total revenue by segment</b>					
Europe	747.7	(39.8)	707.9	(0.3)	707.6
North America	409.0	23.8	432.8	–	432.8
International	196.8	(16.0)	180.8	–	180.8
Total revenue	1,353.5	(32.0)	1,321.5	(0.3)	1,321.2

## Operating profit by segment

Year ended 30 September 2015						Change		
	Underlying Statutory adjustments £m	Underlying adjustments £m	Organic adjustments £m	Organic £m	Statutory %	Underlying %	Organic %	
<b>Operating profit by segment</b>								
Europe	216.6	6.4	223.0	(0.8)	222.2	5.0%	9.7%	9.4%
North America	94.9	7.5	102.4	0.4	102.8	7.4%	5.0%	5.4%
International	(14.3)	68.8	54.5	–	54.5	(386.0%)	9.7%	9.7%
Total operating profit	297.2	82.7	379.9	(0.4)	379.5	(0.8%)	8.4%	8.3%

Year ended 30 September 2014 (restated)

	Underlying Statutory adjustments £m	Underlying adjustments £m	Underlying as reported £m	Impact of foreign exchange £m	Underlying and organic £m
<b>Operating profit by segment</b>					
Europe	206.2	8.4	214.6	(11.4)	203.2
Americas	88.4	4.3	92.7	4.8	97.5
International	5.0	48.7	53.7	(4.0)	49.7
Total operating profit	299.6	61.4	361.0	(10.6)	350.4

## Reconciliation of underlying operating profit to statutory operating profit

	Year ended 30 September 2015 £m	Year ended 30 September 2014 £m
Underlying operating profit	379.9	350.4
Impact of movement in foreign currency exchange rates	–	10.6
Underlying operating profit (as previously reported)	379.9	361.0
Amortisation of acquired intangible assets	(18.2)	(14.5)
Other acquisition-related items	–	(0.8)
Goodwill impairment and fair value adjustments	(64.5)	(44.7)
Exceptional items	–	(1.4)
Statutory operating profit	297.2	299.6

## 2 Adjustments between underlying profit and statutory profit

	Year ended 30 September 2015 Recurring £m	Year ended 30 September 2015 Non- recurring £m	Year ended 30 September 2015 Total £m	Year ended 30 September 2014 Recurring £m	Year ended 30 September 2014 Non- recurring £m	Year ended 30 September 2014 Total £m
<b>Acquisition related items</b>						
Amortisation of acquired intangibles	18.2	–	18.2	14.5	–	14.5
Fair value adjustments	2.2	–	2.2	0.4	–	0.4
Litigation costs	–	–	–	–	1.4	1.4
Other acquisition related items	–	–	–	0.8	–	0.8
<b>Other items</b>						
Goodwill impairment	–	62.3	62.3	–	44.3	44.3
<b>Total adjustments made to operating profit</b>	<b>20.4</b>	<b>62.3</b>	<b>82.7</b>	15.7	45.7	61.4
Acquisition related items: Imputed interest on put and call arrangements	–	–	–	0.8	–	0.8
<b>Total adjustments made to profit before income tax</b>	<b>20.4</b>	<b>62.3</b>	<b>82.7</b>	16.5	45.7	62.2

### 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.

The current year fair value adjustment (£2.2m) relates to an accounting loss on the fair valuation of the call option in relation to the possible acquisition of Mastermaq. The prior year fair value adjustment (£0.4m) related to the accounting loss on the settlement of the put and call arrangement to acquire 25% of the share capital of Folhamatic, within the Brazilian sub-group, from the non-controlling interest holder. This transaction occurred in August 2014.

The 2014 adjustments relating to other acquisition-related items were made up of the cost of carrying out business combinations in the year (£2.4m). This was partly offset by the net release of earn-out liabilities on previous acquisitions (£1.6m).

The prior year imputed interest adjustment on the put and call arrangement relates to the accounting adjustment made during the year to discount this liability to its present value. This entry was made up until the liability was settled in August 2014.

### Non-recurring items

As a result of the annual goodwill impairment review, an impairment of the goodwill held in the Brazilian business was recognised in 2015 and 2014. This impairment is driven by economic conditions in Brazil and a re-assessment of the future performance of the Brazilian business performed by management.

The adjustment relating to litigation costs relates to the defence of the Archer Capital case, which was strongly rejected by management. In 2015 the claim brought by Archer Capital was dismissed on all grounds. No further costs were incurred in 2015. All other litigation costs which may be incurred through the normal course of business are charged through operational expenses.

### 3 Income tax expense

The underlying effective income tax rate for the year ended 30 September 2015 is 30% (2014: 32%), whilst the effective tax rate on underlying profit before tax was 25% (2014: 27%). The difference between the statutory effective tax rate and the underlying effective tax rate relates to an impairment which is not deductible for tax purposes.

The underlying effective tax rate is higher than the UK's statutory rate of tax due to the geographic profile of the Group. In addition, there is an obligation to account for local business taxes in the corporate tax charge. These additional tax charges are offset by research and development tax credits which are a government incentive in a number of operating territories.

### 4 Dividends

	Year ended 30 September 2015 £m	Year ended 30 September 2014 £m
Final dividend paid for the year ended 30 September 2014 of 8.00p per share	85.7	–
Final dividend paid for the year ended 30 September 2013 of 7.44p per share	–	81.2
Interim dividend paid for the year ended 30 September 2015 of 4.45p per share	47.8	–
Interim dividend paid for the year ended 30 September 2014 of 4.12p per share	–	45.0
	133.5	126.2

In addition, the Directors are proposing a final dividend in respect of the year ended 30 September 2015 of 8.65p per share which will absorb an estimated £96.7m of shareholders' funds. It will be paid on 4 March 2016 to shareholders who are on the register of members on 12 February 2016. These financial statements do not reflect this dividend payable.

### 5 Earnings per share

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 dilutive potential 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.

	Underlying 2015	Underlying as Reported (restated) 2014	Statutory 2015	Statutory (restated) 2014
<b>Earnings attributable to owners of the parent (£m)</b>				
Profit for the period	268.2	249.5	194.3	188.0
<b>Number of shares (millions)</b>				
Weighted average number of shares	1,073.0	1,089.0	1,073.0	1,089.0
Dilutive effects of shares	6.5	1.7	6.5	1.7
	1,079.5	1,090.7	1,079.5	1,090.7
<b>Earnings per share attributable to owners of the parent (pence)</b>				
Basic earnings per share	25.00	22.91	18.11	17.26
Diluted earnings per share	24.85	22.87	18.00	17.24

The prior year weighted average share base has been restated to include shares held by the Employee Benefit Trust as treasury shares.

	Year ended 30 September 2015 £m	Year ended 30 September 2014 £m
<b>Reconciliation of earnings</b>		
Underlying earnings attributable to owners of the parent	268.2	249.5
Impact of movement in foreign currency exchange rates	–	(7.8)
Underlying earnings attributable to owners of the parent (as previously reported)	268.2	241.7
Amortisation of acquired intangible assets	18.2	14.5
Other acquisition-related items	–	0.8
Goodwill impairment and fair value adjustments	64.5	44.7
Litigation costs	–	1.4
Imputed interest on put and call arrangement to acquire non-controlling interest and deferred consideration	–	0.8
Taxation on adjustments	(8.8)	(0.7)
Net adjustments	73.9	61.5
	194.3	188.0

## 6 Non-current assets

	Goodwill £m	Other intangible assets £m	Property, plant and equipment £m	Total £m
Opening net book amount at 1 October 2014	1,433.0	98.1	126.7	1,657.8
Additions	–	6.0	16.4	22.4
Acquisition of subsidiaries	61.9	34.2	1.0	97.1
Disposals	–	(0.2)	(2.1)	(2.3)
Depreciation, amortisation and other movements	–	(29.1)	(18.2)	(47.3)
Impairment	(62.3)	–	–	(62.3)
Exchange movement	13.4	(3.5)	(1.1)	8.8
Closing net book amount at 30 September 2015	1,446.0	105.5	122.7	1,674.2



	Goodwill £m	Other intangible assets £m	Property, plant and equipment £m	Total £m
Opening net book amount at 1 October 2013	1,515.2	113.5	128.8	1,757.5
Acquisitions of subsidiaries	7.6	6.6	0.2	14.4
Additions	–	8.3	19.7	28.0
Disposals	–	(0.2)	(1.9)	(2.1)
Disposal of subsidiaries	–	–	–	–
Depreciation, amortisation and other movements	–	(24.5)	(18.0)	(42.5)
Impairment	(44.3)	–	–	(44.3)
Exchange movement	(45.5)	(5.6)	(2.1)	(53.2)
Closing net book amount at 30 September 2014	1,433.0	98.1	126.7	1,657.8

Goodwill is not subject to amortisation, but is tested for impairment annually at the year-end or whenever there is any indication of impairment. The Group performed its annual test for impairment in the third quarter of 2015. The recoverable amount exceeded the carrying value for all CGUs with the exception of Brazil. An impairment of £62.3m was recognised, driven by economic uncertainty in Brazil which is expected to continue in the future.

Detail of the current period acquisition has been provided in note 10.

## 7 Financial instruments

For financial assets and liabilities other than borrowings, the carrying amount of the financial instrument approximates the fair value of the instruments. At 30 September 2015, USPP borrowings with a carrying value of £571.4m had a fair value of £572.8m due to bearing interest at fixed rates which are currently higher than equivalent current market fixed rates.

Prior year financial liabilities held at fair value related to a put and call arrangement to acquire the remaining non-controlling interest's 25% share in Folhamatic in Brazil. This arrangement was settled during 2014 for consideration of £50.4m, increasing the Group's ownership of the Brazilian sub-Group to 100%.

The following table shows the movements in the valuation of the put and call liability during the comparative period.

	Year ended 30 September 2014 £m
Fair value at 1 October	54.2
Consideration paid	(50.4)
Imputed interest recognised in the Consolidated income statement within finance costs	0.8
Loss on fair value adjustments	0.4
Exchange movement	(5.0)
Closing carrying value 30 September	–

## 8 Ordinary shares and share premium

	Number of shares	Ordinary Shares £m	Share premium £m	Total £m
At 1 October 2014	1,115,892,047	11.7	535.9	547.6
Shares issued/proceeds	2,406,701	0.1	5.3	5.4
At 30 September 2015	1,118,298,748	11.8	541.2	553.0

  

	Number of shares	Ordinary shares £m	Share premium £m	Total £m
At 1 October 2013	1,114,135,420	11.7	532.2	543.9
Shares issued/proceeds	1,756,627	–	3.7	3.7
At 30 September 2014	1,115,892,047	11.7	535.9	547.6

During the year, under the Executive Share Option Scheme, 1,501,758 <sup>14/77</sup>p ordinary shares were issued for aggregate proceeds of £3.5m. Under the Savings-related Share Option Scheme, 928,923 <sup>14/77</sup>p ordinary shares were issued for aggregate proceeds of £1.9m.

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. Treasury shares are subsequently cancelled on a periodic basis. During the year, the Group purchased 3,457,020 (2014: 24,206,805) shares at a cost of £12.4m (2014: £89.5m) and a cash outflow of £17.7m (2014: £91.0m).

In 2014 the Group operated a close period buyback programme for £60.1m, relating to the purchase of the Company's own shares. No such programme is in place for 2015.

## 9 Cash flow and net debt

	Year ended 30 September 2015 £m	Year ended 30 September 2014 £m
<b>Reconciliation of profit for the year to cash generated from continuing operations</b>		
Profit for the year	194.3	188.9
Adjustments for:		
Income tax	81.5	89.8
Finance income	(2.2)	(2.1)
Finance expenses	23.6	23.0
Amortisation of intangible assets	29.1	24.5
Depreciation of property, plant and equipment	18.2	18.0
Loss on disposal of property, plant and equipment	–	0.8
R&D tax credits	(2.3)	–
Equity-settled share-based transactions	9.1	8.0
Fair value adjustments and goodwill impairment	64.5	44.7
Exchange movement	(4.7)	(11.0)
Changes in working capital (excluding effects of acquisitions and disposals of subsidiaries):		
- (Increase)/Decrease in inventories	(0.2)	0.1
- Decrease in trade and other receivables	(8.4)	(20.5)
- (Decrease)/Increase in trade and other payables	(6.8)	8.8
- Increase in deferred income	22.9	9.4
<b>Cash generated from continuing operations</b>	<b>418.6</b>	<b>382.4</b>

Reconciliation of net cash flow to movement in net debt (inclusive of finance leases)	2015 £m	2014 £m
Increase in cash in the year (pre-exchange movements)	90.5	63.6
Cash outflow from movement in loans, finance leases and cash held on behalf of customers	(17.8)	(112.8)
Change in net debt resulting from cash flows	72.7	(49.2)
Acquisitions	(21.3)	–
Non-cash movements	–	(0.9)
Exchange movement	(39.6)	(2.8)
Movement in net debt in the year	11.8	(52.9)
Net debt at 1 October	(437.2)	(384.3)
Net debt at 30 September	(425.4)	(437.2)

Analysis of change in net debt (inclusive of finance leases)	At 1 October 2014 £m	Cash flow £m	Acquisitions £m	Non-cash movements £m	Exchange movement £m	At 30 September 2015 £m
Cash and cash equivalents	144.6	89.6	29.6	–	(0.4)	263.4
Bank overdrafts	(0.9)	0.9	–	–	–	–
Cash, cash equivalents and bank overdrafts	143.7	90.5	29.6	–	(0.4)	263.4
Finance leases due within one year	(1.1)	0.5	–	–	–	(0.6)
Loans due within one year	(123.4)	157.1	(22.2)	(33.6)	(10.9)	(33.0)
Loans due after more than one year	(415.4)	(162.9)	–	33.6	(26.3)	(571.0)
Finance leases due after more than one year	(0.4)	–	–	–	–	(0.4)
Cash held on behalf of customers	(40.6)	(12.5)	(28.7)	–	(2.0)	(83.8)
Total	(437.2)	72.7	(21.3)	–	(39.6)	(425.4)

Included in cash above is £83.8m (2014: £40.6m) relating to cash collected from customers. This arises as a consequence of providing payment 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.

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 expires in June 2019 with facility levels of £525.2m (£509.8m) which consists both of US\$551.0m (£364.1m, 2014: £339.9m) and €218.0m (£161.1m, 2014: £169.9m) tranches.

At 30 September 2015, £81.6m (2014: £110.5m) of the multi-currency revolving debt facility was drawn. These drawings were primarily used to fund the Paychoice acquisition. Repayments were funded from increased USPP borrowings and free cash flows.

Total US private placement ("USPP") loan notes at 30 September 2015 were £525.2m (2014: £431.8m) consisting of US\$700m and EUR€85m (2014: US\$700m). Approximately £125m (US\$200m) of USPP borrowings were repaid in March 2015. This debt was refinanced in the USPP market in January 2015, placing US\$200m (£132.2m) at 3.73% fixed until 2025, €55m (£40.6m) at 1.89% fixed until 2022 and €30m (£22.2m) at 2.07% fixed until 2023.

## 10 Acquisitions and disposals

### Acquisitions made during the period

On 16 October 2014 the Group acquired 100% of the share capital of PAI Group, Inc. (“PayChoice”), a provider of payroll and HR services for small and medium sized businesses in North America, for a cash consideration of £75.2m. On the date of acquisition, the external debt of PayChoice was settled for £22.2m. The acquisition strengthens Sage’s position in the large and growing US payroll market.

The allocation of the consideration has been subject to a purchase price allocation exercise during the period. The excess of consideration over the net assets acquired has been allocated accordingly across asset and liability categories.

PayChoice’s product portfolio provides easy to use online payroll solutions to small and medium sized businesses (SMBs), and strengthens the Sage value proposition to customers with a more robust and comprehensive offering. The combined portfolio provides attractive growth opportunities, particularly through new customer acquisition and cross-sell to the combined customer base.

The net assets acquired and goodwill are as follows (presented at the exchange rate as at the acquisition date):

Fair values of acquisition	£m
Intangible assets	34.2
Property, plant and equipment	1.0
Trade and other receivables	1.6
Cash and cash equivalents	29.6
Trade and other payables	(32.6)
Current borrowings	(2.6)
Non-current borrowings	(19.6)
Deferred tax assets	4.6
Provisions	(0.6)
<b>Total net identifiable assets acquired</b>	<b>15.6</b>
Goodwill	59.6
<b>Total purchase consideration</b>	<b>75.2</b>

The goodwill on acquisition relates to the growth opportunities through both customer acquisition and cross-sell to the combined customer base. Included within cash and cash equivalents is £28.7m of cash held on behalf of customers with a corresponding liability within trade and other payables.

The outflow of cash and cash equivalents on acquisitions is calculated as follows:	£m
Cash consideration	75.2
Cash and cash equivalents acquired	(29.6)
Borrowings acquired	22.2
<b>Net cash outflow in respect of PayChoice</b>	<b>67.8</b>
Deferred consideration, paid on prior period acquisitions	1.7
<b>Net cash outflow in respect of acquisitions</b>	<b>69.5</b>

## 11 Related party transactions

The Group’s related parties are its subsidiary undertakings and 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.

	2015	2014
<b>Key management compensation</b>	<b>£m</b>	<b>£m</b>
Salaries and short-term employee benefits	10.0	5.9
Post-employment benefits	0.4	0.5
Share-based payments	2.4	1.4
	<b>12.8</b>	<b>7.8</b>

The key management figures given above include Directors. Key management personnel are deemed to be members of the Executive Committee and are defined in the Group's Annual Report & Accounts 2015.

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 £4.3m (2014: £3.2m) relating to these transactions was charged through selling and administrative expenses. There were no outstanding amounts payable for the year ended 30 September 2015 (30 September 2014: £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 £1.0m (2014: £1.1m) relating to these transactions was charged through selling and administrative expenses. There were no outstanding amounts payable for the year ended 30 September 2015 (30 September 2014: £nil).

These arrangements are subject to independent review using external advisers to ensure all transactions are at arm's length.

## 12 Group risk factors

Risks can materialise and impact on both the achievement of business strategy and the successful running of our business. A key element in achieving our 2020 strategy and maintaining services to our customers is the management of risks. Our risk management strategy is therefore to support the successful running of the business by identifying and managing risks to an acceptable level and delivering assurances on this. Currently there are ten principal risks which we monitor and report against at a global level and which are arranged according to their alignment; seven are formally aligned to successful delivery of the strategy (risks 1-7 below), and three are primarily operational in nature and support the successful operation of the business (risks 8-10 below). A number of measures are in place to manage and mitigate these risks, while other activities are in the process of being developed or deployed, and are marked below as in progress.

Risk	Risk background	Management and mitigation
<p><b>#1. Business Model Transition</b></p> <p>Sage does not successfully manage the transition of its business to a global operating model.</p> <p><i>Primary strategic alignment:</i></p> <p><i>Capacity for Growth</i></p>	<p>Sage has historically operated as a federated set of Operating Companies across multiple geographies, each with significant local autonomy.</p> <p>In order to avoid duplication of effort, drive greater consistency and efficiency in processes, and provide clearer governance, Sage is moving to a new global operating model.</p>	<ul style="list-style-type: none"> <li>- Functional reporting for all support functions established to a global level to allow consistency of direction, and removal of any global / local conflicts</li> <li>- An approved global Business Model Transition Strategy, supported by an overarching plan which details the goal, overall time plan, and scheduled adoption by countries</li> <li>- Clear governance around strategy and overarching plan through Executive</li> </ul>

	<p>This risk is an evolution from 2014. During 2015, organisational and structural changes have been successfully made, alongside planning for the wider transition, including governance. Transition implementation will run through 2016.</p>	<p>Committee and programme steering committee</p> <ul style="list-style-type: none"> <li>- Identification of a programme authority lead to manage the transition</li> </ul> <p>In progress:</p> <ul style="list-style-type: none"> <li>- Alignment of transition frameworks for each country / region / function which are integrated to the overarching plan, and approved by the programme steering committee</li> <li>- Monitoring of implementation through programme management office</li> </ul>
<p><b>#2. Licensing Model Transition</b></p> <p>Sage does not successfully move to a target subscription licencing model, and adapt its customer approach to reflect the change to this model.</p> <p><i>Primary strategic alignment:</i></p> <p><i>Customers for Life</i></p>	<p>Sage wishes to continue to shift its licensing model towards subscription, where customers pay a monthly charge to use a licence, and in doing so are entitled to upgrade to the most recent release.</p> <p>Subscription licensing is perceived as beneficial within the software industry for a variety of reasons, including increased customer contact and predictability of cash flow. Any transition process must, however, be controlled in order to manage potential impacts, including short term revenue figures.</p> <p>This risk is an evolution from 2014. Through 2015, a dual approach has been followed to ensure achievement of revenue figures, while moving towards subscription. In parallel to these activities, the first of a number of Customer Business Centres (CBCs) have been opened for global products, which co-locate teams (digital marketing, sales, service operations) enabling them to operate collaboratively and serve customers quickly and efficiently.</p>	<ul style="list-style-type: none"> <li>- New products are being offered on a subscription only basis</li> <li>- An approved licensing model transition strategy is in place, with defined targets and timescales</li> <li>- A series of approved targets have been defined, which span multiple years and support successful delivery of our strategy</li> <li>- Ongoing monitoring and review of the approved targets is taking place at country, regional and global levels in order to proactively manage the licence transition, and revenue figures</li> </ul> <p>In progress:</p> <ul style="list-style-type: none"> <li>- Creation of further Customer Business Centres, with staged adoption of global products, to better manage ongoing customer relationships and the sales cycle</li> </ul>
<p><b>#3. Market Intelligence</b></p> <p>Sage does not understand or anticipate changes in the external environment (including areas such as customer needs, emerging market trends, competitor strategies and regulatory / legal requirements)</p> <p><i>Primary strategic alignment:</i></p> <p><i>Customers for Life</i> <i>Winning in the Market</i></p>	<p>Sage has focused resources and management attention on successfully delivering revenue and margin growth while at the same time maintaining a broad product range. This has been underpinned by local market intelligence.</p> <p>In order to develop a consolidated understanding of its market and customer needs, Sage is developing a global market intelligence capability.</p>	<ul style="list-style-type: none"> <li>- A Marketing Operations group has been established across the organisation, which has overall responsibility for Market Intelligence</li> <li>- Annual completion of a global market intelligence survey, to identify market opportunities</li> <li>- Annual completion of a brand health survey to understand customer perception of the Sage brand and its products</li> </ul> <p>In progress:</p>

	<p>The risk was identified in 2015. The initial focus has been to develop appropriate structures which will enable competitive positioning and product development, and 2016 will see development of further operational practices to support this. With a growing emphasis on global products within Sage, this activity will become increasingly relevant in the successful development of Sage's customer solutions.</p>	<ul style="list-style-type: none"> <li>- Prioritisation of resources and effort on products with a lifecycle status of 'Growth'</li> <li>- Ongoing development of standard templates for use by market intelligence managers to allow information capture to be enhanced across countries, and reported on a periodic basis</li> <li>- Definition of a feedback loop to allow continual refinement of standard templates, ensuring they remain effective, and capture relevant information</li> </ul>
<p><b>#4. Competitive Positioning and Product Development</b></p> <p>Sage is unable to clearly identify its approach to the market, and support it with strategies that drive competitive advantage, including product development</p> <p><i>Primary strategic alignment:</i></p> <p><i>Winning in the Market Capacity for Growth</i></p>	<p>The competitive environment in which Sage operates has seen significant developments in recent years with the emergence of new players and a shift to delivering functionality via the cloud. These new players include venture capital funded organisations whose primary goal is to attain market share irrespective of profit, and a number of US listed companies with similar goals. Cloud products and digital sales and marketing strategies (Zero touch sales) are reducing barriers to entry.</p> <p>Sage must be able to translate market intelligence into appropriate strategies that target attractive market segments with relevant products.</p> <p>Whilst Sage transitions towards global products, a number of which have been launched, in the short- to mid-term there remains the need to manage and evolve the local growth products in tandem with its longer-term aspirations.</p> <p>This risk was identified in 2015.</p>	<ul style="list-style-type: none"> <li>- A Global Marketing team has been established to oversee competitive positioning and product development</li> <li>- Product lifecycle classifications have been created, and all products have been assigned a classification of 'Heritage' or 'Growth', to define whether research and development resources may be expended on them</li> <li>- Governance has been established around the creation of global products, to ensure effective prioritisation of resources</li> <li>- Accountability for the maintenance of documented strengths and weaknesses has been defined, and for global products this resides with the Global Marketing Operations team</li> </ul> <p>In progress:</p> <ul style="list-style-type: none"> <li>- All 'Growth' products must have their strengths and weaknesses against competition documented, and the priority areas for development identified</li> <li>- Defined authorisation channels to control all research and development expenditure, and to ensure these resources are most effectively targeted</li> </ul>
<p><b>#5. Sage Brand</b></p> <p>Sage does not deliver clear and consistent branding to the market</p> <p><i>Primary strategic alignment:</i></p> <p><i>One Sage</i></p>	<p>Work continues towards building the global Sage brand following several years of acquisitions around the world. The Sage brand is currently well recognised and trusted by customers in many of its core markets, however, on a global scale inconsistency exists in brand awareness across certain territories.</p> <p>A clear and consistent brand assists customers in identification of the values Sage stands for, and provides uniformity of</p>	<ul style="list-style-type: none"> <li>- All countries must comply with Sage's Brand Governance and Brand Guidelines, which have been designed to execute the Sage Masterbrand Strategy. Timeframes for compliance of all products are defined, and any exceptions must be approved through the Global Brand team</li> <li>- Ongoing review of customer experience is performed (Net Promoter Scores), and output reviewed across countries and products to identify variances</li> <li>- Where no specific brand guidance has been provided by the Global Brand team, a defined approval route is in place through the team, and approval</li> </ul>

	<p>message to the market. The importance of such messaging is increasing with the adoption of global products.</p> <p>Activity has continued during 2015 to both strengthen the brand and drive greater consistency in messaging.</p> <p>This risk is an evolution from 2014.</p>	<p>must be obtained in advance of publication</p> <p>In progress:</p> <ul style="list-style-type: none"> <li>- All branded assets must be uploaded to the Brand Library, and any exceptions from brand guidelines reported to the Chief Marketing Officer and Audit and Risk Committee</li> </ul>
<p><b>#6. Strategic Partnerships</b></p> <p>Sage fails to identify, build and maintain strategic relationships</p> <p><i>Primary strategic alignment:</i></p> <p><i>Revolutionise Business</i></p>	<p>In the federated model, Sage countries operated in a semi-autonomous manner, with limited global direction, or co-ordination, and relied on internal resource to go to market.</p> <p>However, the market and Sage's competitors have become ever more agile, and specific resources harder to attract.</p> <p>As such, there are an increasing number of instances where developing strategic partnerships may be of benefit to Sage. Those instances where the use of strategic partners is permitted, and the governance around such engagement, needs to be controlled as well as the ongoing management of any eco-system.</p> <p>This risk is an evolution from 2014.</p>	<ul style="list-style-type: none"> <li>- A Partner Management team has been established to oversee the selection and management of Strategic Partners</li> <li>- Definitions are in place to ensure clarity over what constitutes a Strategic Partner</li> <li>- All contracts must comply with the Material Contracts policy, and be approved through legal inclusion of defined legal provisions is required. Any variance from such provisions must be recorded as part of the formal contract approval process</li> <li>- All Strategic Partners are assigned an individual within the Partner Management team who is responsible for actively managing the relationship</li> </ul> <p>In progress:</p> <ul style="list-style-type: none"> <li>- In line with the business model transition and revised working practices, a Strategic Partner Management policy is planned during 2016 to enhance the consistency of selection and on-boarding of all our Strategic Partners</li> </ul>
<p><b>#7. 3<sup>rd</sup> Party Reliance</b></p> <p>Sage fails to adequately understand and effectively manage the 3rd party environment that supports its business</p> <p><i>Primary strategic alignment:</i></p> <p><i>Revolutionise Business</i></p>	<p>Sage offers a set of products and services to customers, for which it will be held accountable should problems occur. Many key parts of Sage's service offerings to its customers are now delivered using third parties, and while activities may be outsourced, the risks associated with their use cannot be. To allow risks to be managed within Sage's appetite, this third party estate must be understood and effectively managed.</p> <p>This risk was identified in 2015. As part of the move to 'One Sage' and the new global operating model, organisational and structural changes have been made during 2015, designed to enhance Sage's global approach to third party management</p>	<ul style="list-style-type: none"> <li>- A global procurement function has been established to ensure key controls are applied in the selection and on-boarding of third parties</li> <li>- The business is responsible for defining its needs and requirements</li> <li>- The global procurement function supports the business with the selection of third parties and negotiation of contracts</li> <li>- Legal resources are used in contract negotiation</li> <li>- Management review and control is applied through the Delegation of Authority process, and appropriate approval is required before any expenditure can be authorised</li> </ul> <p>In progress:</p> <ul style="list-style-type: none"> <li>- As part of the transition to the global operating model, and an Excellence in Governance initiative to support this transition, a Third Party Lifecycle Governance Framework will be established during 2016</li> </ul>



<p><b>#8. Supporting Control Environment</b></p> <p>Sage's underlying control environment (business processes and technology infrastructure) do not support the efficient operation of the business and do not support the control framework</p>	<p>Sage has historically grown through a process of acquisition. Each acquisition has arrived with its own control environment (systems and processes, including technology infrastructure).</p> <p>Sage is moving to a new global operating model, and to allow this the control environment (systems, processes, technology infrastructure and applications) must support the efficient operation of the business – through the timely provision of accurate and appropriate information.</p> <p>This risk is an evolution from 2014.</p>	<ul style="list-style-type: none"> <li>- Business requirements are defined across the business</li> <li>- New best in class systems have been installed, including Salesforce CRM and Sage's X3 General Ledger</li> <li>- Salesforce CRM has been installed for use within the new Customer Business Centres as the primary CRM system to underpin their operation and expansion. All new customers for Customer Business Centres supported products are being entered directly into these systems</li> </ul> <p>In progress:</p> <ul style="list-style-type: none"> <li>- X3 General Ledger has been installed both in Customer Business Centres and separately for wider General Ledger activities. In scope systems have been identified, and a planned migration by Finance Operations will occur</li> <li>- Any deviation from the migration plan must be approved through the Finance Implementation Steering Committee</li> <li>- As part of business model transition activities and the establishment of revised ways of working, an Excellence in Governance initiative is being undertaken to ensure consistency and enhance effectiveness</li> <li>- Expansion in scope of Customer Business Centre supported products is planned as part of a gradual move to global products</li> </ul>
<p><b>#9. Information Management and Protection (including cyber)</b></p> <p>Sage fails to adequately understand, manage and protect data</p>	<p>During the period of acquisition many established processes, whilst appropriate to smaller businesses, did not develop in line with Sage's growth.</p> <p>This risk is an evolution from 2014.</p> <p>During 2015, organisational and structural changes have been made to manage the risk and to transition to the new ways of working.</p>	<ul style="list-style-type: none"> <li>- Creation of a global 'OneIT' function reporting to the global Chief Information Officer, to support the operation of 'One Sage' through common supporting IT infrastructure, practices and systems</li> <li>- A network of Chief Information Security Officers oversees compliance with the IT Controls Framework, which defines the key controls which are required</li> <li>- Maintenance of formal certification schemes, such as PCI, across specific parts of the business, with internal and external validation of compliance</li> <li>- Ongoing assurance activities are performed across the estate by Internal Audit against the IT Controls Framework. Results are tracked and reported to the Audit and Risk Committee</li> </ul> <p>In progress:</p> <ul style="list-style-type: none"> <li>- Global incident management procedures including rating of incidents and escalation, as required</li> <li>- Excellence in Governance initiative being undertaken across revised ways of working and policies to enhance effectiveness</li> </ul>

<p><b>#10. Regulatory and Legal Framework</b></p> <p>Sage fails to understand and effectively operate within the legal and regulatory framework applying to its services</p>	<p>Sage operates in an increasingly complex external environment, while at the same time continuing to evolve its service offerings to the market. Many of Sage's activities and services are subject to legal and regulatory influences, which continue to develop in parallel.</p> <p>It is therefore essential to monitor the evolving legal and regulatory environment, understand in a timely manner how this applies to the business, and take appropriate steps to ensure compliance.</p> <p>This risk is an evolution from 2014.</p>	<ul style="list-style-type: none"> <li>- All legal resources across Sage report directly to the global Legal Director</li> <li>- The legal function uses internal and external resources to monitor planned and realised changes in legislation</li> <li>- All product contracts are reviewed and approved through the global legal function</li> <li>- A suite of policies are in place to support key legislation, including Data Protection and anti-Bribery</li> <li>- A Code of Ethics policy is in place across the business which provides clarity over how colleagues are expected to behave.</li> <li>- On-line training is provided to support it, and to record levels of understanding</li> <li>- A Whistleblowing facility is in operation, to allow colleagues to raise issues without fear of recrimination, and to provide early oversight of issues</li> </ul> <p>In progress:</p> <ul style="list-style-type: none"> <li>- Development and communication of the 'Sage Way' of working, and on-going drive towards a 100% compliance culture</li> </ul>
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## Statement of Directors' Responsibilities

### Responsibility statement of the Directors on the Annual Report & Accounts

The Annual Report & Accounts for the year ended 30 September 2015 includes the following responsibility statement.

Each of the Directors confirms that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' report includes 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.

On behalf of the Board

**S Hare**  
Chief Financial Officer  
2 December 2015