Sound governance is integral to Sage achieving its ambition

Compliance with the UK Corporate Governance Code 2014 ("the Code")
Throughout the financial year ended 30 September 2016 and to the date of this report, Sage has complied with the provisions of the Code. The Code is publicly available at the website of the UK Financial Reporting Council at www.frc.org.uk. This corporate governance section of the Annual Report & Accounts describes how we have applied the principles of the Code.

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

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

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

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

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

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

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

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

Donald Brydon, CBE
Chairman

Knowledge and experience

Donald Brydon (71)

Chairman

N R

Appointed to the Board:

6 July 2012

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

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

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

Other current appointments:
London Stock Exchange Group Plc – Chairman

Medical Research Council – Chairman

Stephen Kelly (54)

Chief Executive Officer – Executive Director

Appointed to the Board:

5 November 2014

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

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

Steve Hare (55)

Chief Financial Officer – Executive Director

Appointed to the Board:

3 January 2014

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

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

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

Ruth Markland (63)

Senior Independent Non-executive Director

A N R

Appointed to the Board:

13 September 2006

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

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

Other current appointments:
Deloitte LLP – Independent Non-executive board member

Arcadis NV – member of the Supervisory Board

Changes to the Board:

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

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

Key to committees

(A) Audit and Risk Committee

(N) Nomination Committee

(R) Remuneration Committee

Inna Kuznetsova (48)

Independent Non-executive Director

(A) (N) (R)

Appointed to the Board:

6 March 2014

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

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

Other current appointments:
INTTRA – President and COO

Jonathan Howell (54)

Independent Non-executive Director

(A) (N) (R)

Appointed to the Board:

15 May 2013

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

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

Other current appointments:
Close Brothers Group plc – Group Finance Director

Drummond Hall (67)

Independent Non-executive Director

(A) (N) (R)

Appointed to the Board:

1 January 2014

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

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

Other current appointments:
WH Smith plc – Senior Independent Non-executive Director

First Group plc – Senior Independent Non-executive Director

Neil Berkett (61)

Independent Non-executive Director

(A) (N) (R)

Appointed to the Board:

5 July 2013

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

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

Other current appointments:
Guardian Media Group – Chairman

NSPCC – member of the Board of Trustees

Stephen Kelly, Vicki Bradin, Sandra Campopiano and Steve Hare

Executive Committee

Stephen Kelly (54)
Chief Executive Officer, Board of Directors

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

Vicki Bradin (38)
General Counsel and Company Secretary

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

Sandra Campopiano (58)
Chief People Officer

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

Steve Hare (55)
Chief Financial Officer, Board of Directors

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

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

Klaus-Michael Vogelberg (51)
Chief Technology Officer

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

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

Blair Crump (54)
President

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

Santiago Solanas (48)
Chief Marketing Officer

Experience: Santiago was appointed Chief Marketing Officer in September 2014. He joined Sage in 2007 to lead the Start-up and Small Business Division in Spain and was appointed Chief Executive Officer of Sage Spain in 2010. During this time he renewed the leadership team, increasing the efficiency of the business and returning it to growth, as well as leading the Accountants Segment in Europe. He recently led the roll-out of Sage's brand campaign across Europe. Prior to Sage, Santiago spent 20 years working in the IT and software industry, across the globe, in sales, marketing and management roles at IBM, Microsoft and Oracle, where he was responsible for the coordination and leadership of the technology business in the Small & Medium Business market in Europe as Senior Director of the Small & Medium Business Program Office EMEA. Santiago has also spent four years in two technology start-ups backed by Telefonica and Santander. Santiago is an active supporter of Small & Medium Business. He is a mentor for women in business and start-ups, and speaks at a number of Small & Medium Business forums in Spain. He holds an MSc. in Telecommunications Engineering from the Polytechnic University of Madrid (UPM) and also attended the Harvard Business School Advanced Management Program.

Gary Daniels (62)
Chief Product Delivery Officer

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

Our governance framework

The role of the Board and its committees

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

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

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

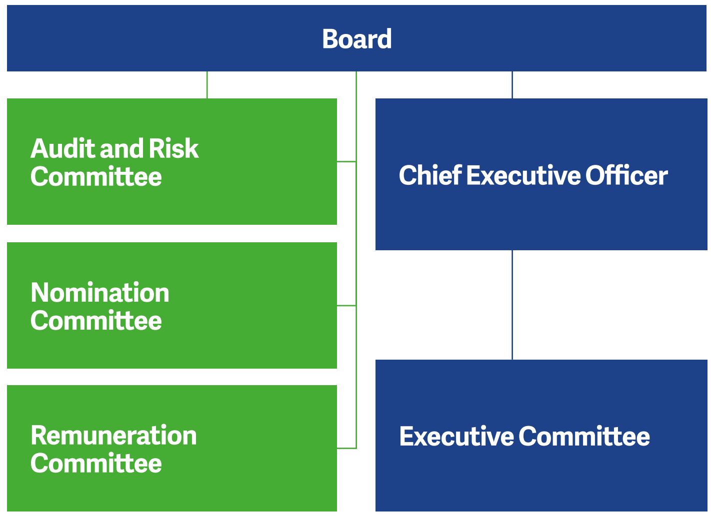
The Board also delegates other matters to Board committees and management as appropriate.

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

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

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

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



Board and Committee meetings and attendance

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

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

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

Board roles

Donald Brydon, Chairman[1]

Responsible for leading the Board, its effectiveness and governance

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

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

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

Stephen Kelly, Chief Executive Officer[1]

Responsible for the formulation of strategy and running of the Group

My responsibilities as Chief Executive Officer include:

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

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

Ruth Markland, Senior Independent Director

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

My role as Senior Independent Director is:

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

I am also available to consult with shareholders.

Vicki Bradin Company Secretary[2]

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

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

1. The roles of the Chairman and the Chief Executive Officer are quite distinct from one another and are clearly defined in written terms of reference for each role. These terms of reference are available on our website.
2. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

Focus of the Board for the year

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

In particular time has been spent considering:

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

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

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

Perform and transform: Board in action

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

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

Board composition and independence

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

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

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

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

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

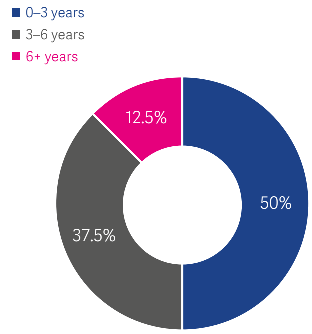
The Board also considered the Chairman's role and determined that Mr Brydon has appropriate time and resource to devote to his role as Chairman of Sage. All directors are subject to election or re-election by shareholders at each Annual General Meeting.

Conflicts of interest

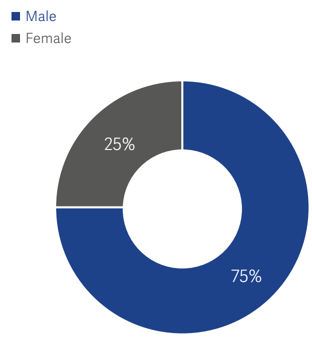
The Board operates a policy to identify and, where appropriate, manage conflicts or potential conflicts of interest. At each Board meeting, the Board considers a register of interests and potential conflicts of directors and gives, when appropriate, any necessary approvals.

Our board diversity*

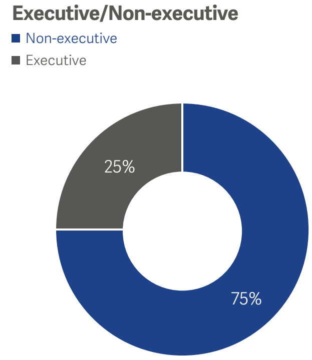
Tenure



Gender



Executive/Non-executive



* As at 30 September 2016

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

Board effectiveness

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

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

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

Performance evaluation

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

Board evaluation 2015/16

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

Conclusions from this year's review

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

Actions for 2016/2017

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

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

Culture and values

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Internal Audit

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

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

Relations with shareholders

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

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

Information included in the Directors' report

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

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

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

By order of the Board

Vicki Bradin
Company Secretary
29 November 2016

Audit and Risk Committee

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

Jonathan Howell
Chairman of the Audit and Risk Committee

Audit and Risk Committee Membership:

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

Dear shareholder,

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

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

Composition

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

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

Activities during the year

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

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

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

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

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

Financial Reporting, including significant reporting and accounting matters

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

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

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

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

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

Significant accounting and reporting matters

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

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

Risk Management and Internal Controls

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

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

In-Depth Reviews

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

Incident Management, Fraud and Whistleblowing

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

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

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

Internal and External Audit

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

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

Internal Audit

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

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

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

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

External auditor – Ernst & Young (EY)

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

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

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

– Experience and expertise of the auditor in their direct communication with, and support to, the Committee;

– Content, quality of insights and added value of their reports;

– Fulfilment of the agreed external audit plan;

– Robustness and perceptiveness of the external auditor in their handling of key accounting and audit judgements;

– The interaction between management and the auditor, including ensuring that management dedicates sufficient time to the audit process;

– Provision of non-audit services as set out below; and

– Review and consideration of the results of management's evaluation of the effectiveness of the external auditor.

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

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

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

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

Non-audit services

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

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

– Tax services;

– Payroll services;

– Bookkeeping and preparing accounting records and financial statements;

– Valuation services;

– Legal services;

– Internal audit services;

– Services linked to the financing, capital structure and allocation, and investment strategy; and

– Services that involve playing any part in the management or decision-making of Sage.

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

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

Nomination Committee

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

Donald Brydon
Chairman of the Nomination Committee

Nomination Committee membership:

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

Committee purpose and responsibilities

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

Committee meetings

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

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

Diversity

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

Further details on diversity are provided at page 74.

Management succession and talent pipeline

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

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

Board changes

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

Donald Brydon
Chairman of the Nomination Committee
29 November 2016

Remuneration Committee

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

Drummond Hall
Chairman of the Remuneration Committee

Remuneration Committee membership:

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

Dear fellow shareholder,

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

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

Objectives and responsibilities

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

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

Committee meetings

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

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

Key remuneration outcomes for FY16

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

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

Remuneration at a glance

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

Remuneration principles

Attract and Retain	Motivate and Reward	Alignment with the wider Group	Alignment with Shareholders

The key elements of our remuneration policy are summarised below.

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

Note:

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

Delivering our remuneration principles in 2017

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

Our remuneration principles	Delivering our remuneration principles in 2017
Attract and retain We offer competitive rates of pay and benefits to attract and retain the best people in a competitive international market which includes private-equity backed organisations as well as listed companies.	No changes are proposed in 2017 to our maximum level of performance-related pay under either the annual bonus plan or the PSP The CEO will receive a salary increase of 2.5% and the CFO will receive a salary increase of 2.5% effective 1 January 2017, consistent with the median pay award for employees based in the UK.
Motivate and reward Remuneration at Sage is designed to create a strong performance-oriented environment for the taking of appropriate risks and rewards achievement of our Company strategy and business objectives.	*2017 annual bonus* In 2016, the annual bonus measure for executive directors was Group recurring revenue growth (80% of overall bonus potential) and strategic measures (20% of overall bonus potential). As outlined in the strategic report on page 47, organic revenue growth is the key strategic measure of performance during the coming year and the Committee has therefore determined that in 2017 the key bonus measure shall be Group organic revenue growth (80% of overall bonus). Strategic measures linked to executives' VSGM[1] goals, which are derived from the process explained in the strategic report on page 27, make up the remaining 20% of bonus. Payout under the organic revenue growth measure will be dependent upon the satisfaction of underpin conditions based on recurring revenue growth, and underlying operating profit margin. *2017 PSP awards* There are no changes to performance measures for PSP awards: – Half of the 2017 PSP award will be subject to a performance measure based on relative TSR performance. This measure will help to ensure management's continued focus on overall Group growth and delivery of shareholder value – Half of the 2017 PSP award will be subject to a performance measure based on recurring revenue growth. This continues the close alignment with our medium-term strategic priorities, to grow our subscription-based services and acquire new customers – For any of the recurring revenue growth element of the 2017 PSP award to vest, two "underpin" performance conditions based on EPS growth and organic revenue growth will also need to be achieved

Note:

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

Our remuneration principles	Delivering our remuneration principles in 2017
Alignment with the wider Group Pay and employment conditions elsewhere in the Group are considered when determining executive base salary and bonus reviews.	The remuneration policy for executives reflects the overriding remuneration philosophy and principles of the wider Group, including but not limited to the principles on which salaries are reviewed and the structure of performance-related incentive plans. Details of pay arrangements for executive directors are set out in the annual remuneration report on pages 89 to 100.
Alignment with shareholders The interests of our senior management team are aligned with those of shareholders by having a significant proportion of remuneration performance-based and delivered through shares, together with a significant shareholding requirement.	Our existing pay structure for executive directors and other senior management is heavily weighted towards share-based performance-related pay which is designed to align executive and shareholder interests. The following practices will continue in 2017: *Malus / clawback* All incentives awarded to executive directors and Executive Committee members are subject to malus and clawback provisions. Details of the implementation of those provisions are set out in the Directors' annual remuneration report and policy. *Compulsory bonus deferral* All executive directors are compulsorily required to defer one-third of their bonus into Sage shares. The deferral period is currently two years, increasing to three years with effect from 2018. *Enhanced shareholding requirement* Effective from the 2016 AGM, the shareholding requirement for directors is 200% of base salary and directors are expected to achieve the guideline within a maximum period of five years from when they first become subject to the guideline.

Single figure for total remuneration summary:

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

Note:

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

Remuneration disclosure

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

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

The report is in two sections:

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

J. W. Drummond Hall

Drummond Hall
Chairman of the Remuneration Committee

Remuneration policy

Purpose of this section:
– Provides detail of the key elements of our remuneration policy

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

Remuneration policy table

The table below sets out our remuneration policy.

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

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

Remuneration policy table continued

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

Notes:

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

Directors' annual remuneration report

Purpose of this section:

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

Single figure for total remuneration (audited information)

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

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

Notes:

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

Additional disclosures for single figure for total remuneration table

Annual bonus 2016

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

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

Note:

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

Executive directors' personal strategic objectives

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

CEO measures (20% of bonus payable)	CFO measures (20% of bonus payable)
Grow global product revenues Sage One paying subscriptions grown by 81% over 2016 X3 new licence revenue grown by 17% over 2016	**Deliver operational efficiencies** Organic revenue growth and operating margin commitments achieved whilst making £51m of run-rate savings through a major reorganisation of the business
Increase Global Net Promoter Score Global Net Promoter Score grown by 61% over 2016	**Strengthen risk and governance frameworks** – 'Excellence in governance' programme embedded across the business (as noted on page 40) with a new global policy suite and mandatory training, improving the Company's risk management and compliance culture – Continued to develop and embed the process for the identification and assessment of the Company's principal risks. This process also encompassed the resetting and ongoing review of key risk measurement metrics. In conjunction with the Global and Regional risk committees, established programmes to manage and mitigate the principal risks

Disclosure of 2015 bonus targets

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

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

Notes:

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

PSP awards

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

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

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

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

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

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

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

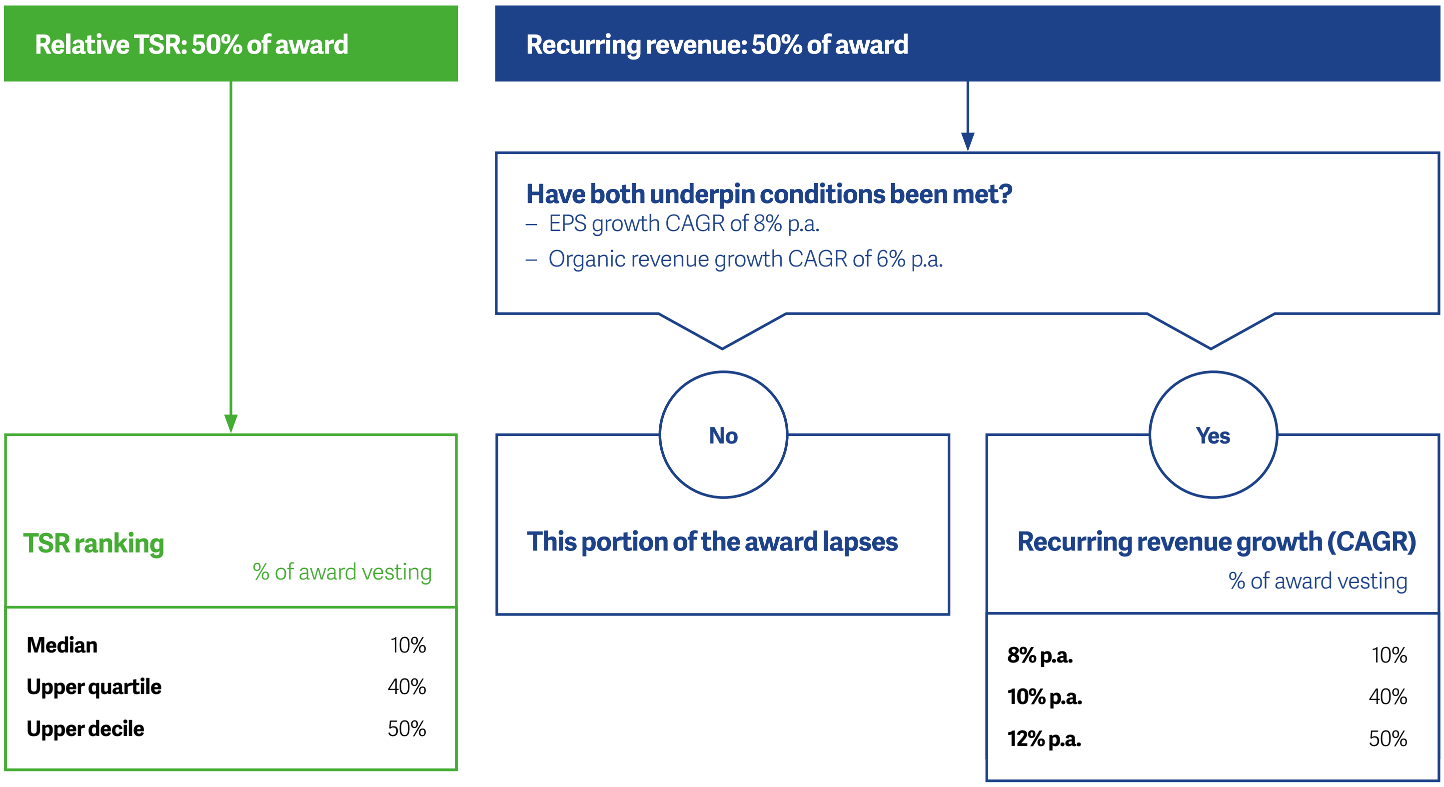
The Committee also determined that the margin underpin condition had been met, allowing the portion of the award relating to organic revenue measure to vest.

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

Stephen Kelly was not a participant in the 2014 PSP.

PSP awards granted in FY16

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



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

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

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

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

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

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

Change in remuneration of Chief Executive Officer compared to Group employees

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

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

Notes:

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

Historical executive pay and Company performance

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

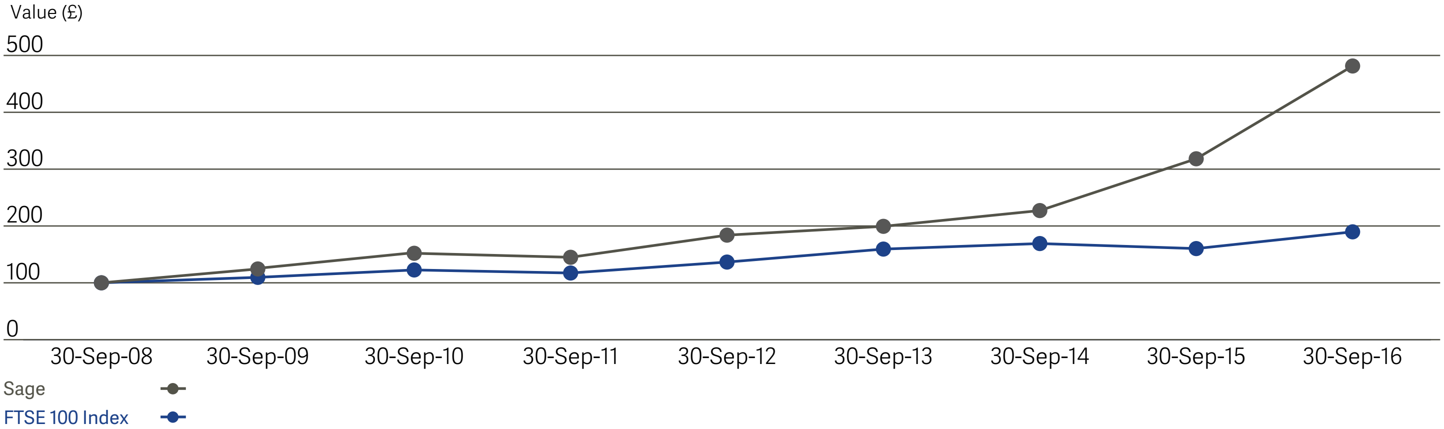
	CEO	2009	2010	2011	2012	2013	2014	2015	**2016**
CEO single figure of remuneration (in £'000)	Stephen Kelly[1]	–	–	–	–	–	–	1,521	**1,711**
	Guy Berruyer[2]	–	–	2,935	1,196	1,670	1,616	108	**–**
	Paul Walker[3]	1,797	2,196	–	–	–	–	–	**–**
Annual bonus payout (as % maximum opportunity)	Stephen Kelly	–	–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

Notes:

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

Historical Group performance against FTSE 100

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



Note:

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

Payments to past directors

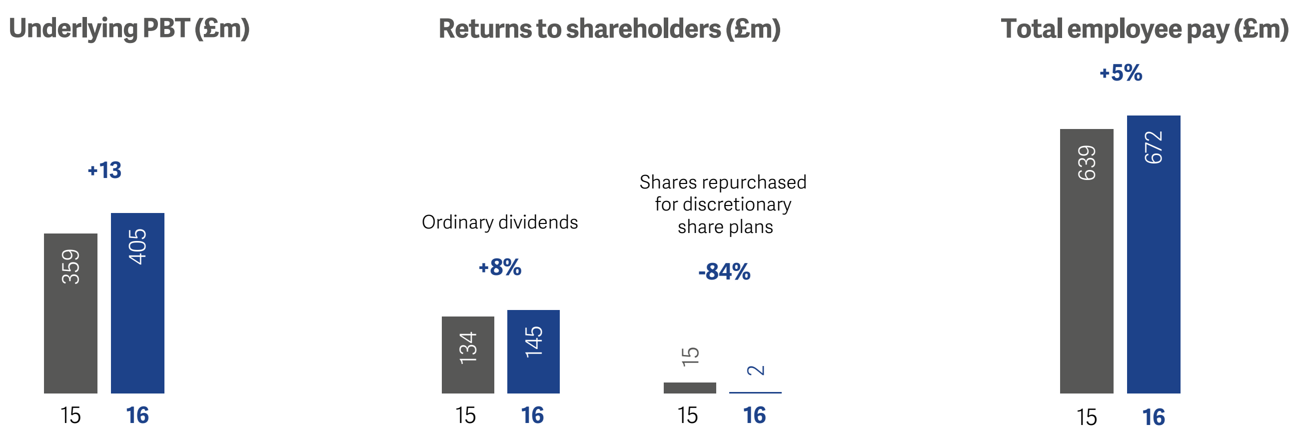
In the year ending 30 September 2016, no payments were made to past directors, either in respect of loss of office or otherwise.

Relative importance of spend on pay

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

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

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



Statement of implementation of remuneration policy in the following financial year

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

Base salary

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

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

Pension and benefits

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

Annual bonus

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

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

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

As a percentage of maximum bonus opportunity

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

Note:

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

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

Performance Share Plan (PSP)

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

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

Relative TSR performance condition (50% of award)

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

TSR performance comprises share price growth and dividends paid.

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

Recurring revenue growth performance condition (50% of award)

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

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

Notes:

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

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

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

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

Non-executive director remuneration

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

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

Directors' shareholdings and share interests (audited information)

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

Interests in shares

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

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

Notes:

– There have been no changes in the directors' holdings in the share capital of the Company, as set out in the table above, between 30 September 2016 and the date of this report.

– Details of the executive directors' interests in outstanding share awards under the ESOS, PSP, deferred shares and all-employee plans are set out below.

All-employee share options (audited information)

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

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

Notes:

– No options were varied during the year. No performance conditions apply to options granted under this Plan. For the 2015 SRSOP grant, the exercise price was set at 456p, a 20% discount to the average share price of 570p on 18, 19 and 20 May 2015. For the 2014 SRSOP, the exercise price was set at 317p, a 20% discount to the average share price on 15, 16 and 19 May 2014 of 396.25p.

– The market price of a share of the Company at 30 September 2016 was 732.25p (mid-market average) and the lowest and highest market price during the year was 506.25p and 746.0p respectively.

Performance Share Plan (audited information)

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

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

Notes:

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

Deferred shares (audited information)

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

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

Notes:

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

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

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

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

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External appointments

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

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

Unexpired term of contract table

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

Consideration by the directors of matters relating to directors' remuneration

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

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

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

Activities of the Remuneration Committee ("the Committee")

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

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

External advisers

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

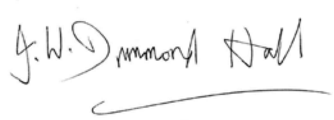
The Committee is satisfied that the advice they have received has been objective and independent.

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

Statement of shareholding voting

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

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



Drummond Hall
Chairman of the Remuneration Committee
29 November 2016

Directors' report

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

Strategic report

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

Subject matter	Page
Future developments	31 – Chief Executive's review
Greenhouse gas emissions	62-63 – Environment section

Corporate governance statement

The Disclosure Guidance and Transparency Rules ("DTR") require certain information to be included in a corporate governance statement in the Directors' report. This information can be found in the Corporate governance report on pages 70 to 80, which is incorporated into this Directors' report by reference and, in the case of the information referred to in DTR 7.2.6, in this Directors' report.

Disclosure of information under Listing Rule 9.8.4

Information on allotments of shares for cash pursuant to the Group employee share schemes can be found on page 153 within the notes to the Group financial statements.

Results and dividends

The results for the year are set out from page 113. Full details of the proposed final dividend payment for the year ended 30 September 2016 are set out on page 159. The Board is proposing a final dividend of 9.35p per share following the payment of an interim dividend of 4.80p per share on 3 June 2016. The proposed total dividend for the year is therefore 14.15p per share.

Going concern

After making enquiries, the directors have a reasonable expectation that Sage has adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. In reaching this conclusion, the directors have had due regard to the following:

– The cash generated from operations, available cash resources and committed bank facilities and their maturities, which taken together, provide confidence that Sage will be able to meet its obligations as they fall due. Further information on the available cash resources and committed bank facilities is provided in Note 14 to the financial statements

– The financial position of Sage, its cash flows, financial risk management policies and available debt facilities, which are described in the financial statements, and Sage's business activities, together with the factors likely to impact its future growth and operating performance, which are set out in the Strategic Report on pages 1 to 63.

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, the directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for the next three years. A period of three years has been chosen for the purpose of this viability statement, for the reasons explained on page 41.

The directors' robust assessment has been made with reference to the Group's current position and prospects, the business transformation strategy, the Board's risk appetite and the Group's principal risks and how these are managed, as detailed in pages 36 to 45 of the Strategic Report.

The strategy and associated principal risks, which the directors review at least annually, are a foundation for the Group's strategic plan and scenario testing. The plan makes certain assumptions about the uptake of subscription services, the ability to refinance debt as it falls due and the acceptable performance of the core revenue streams and market segments.

The plan is stress tested using sensitivity analysis which reflects plausible but severe combinations of the principal risks of the business, primarily through reducing revenues and cash flows.

Research and development

During the year, we incurred a cost of £144m (2015: £141m) in respect of research and development. Please see page 126 for further details.

Political donations

No political donations were made in the year.

Directors and their interests

A list of directors, their interests in the ordinary share capital of the Company, their interests in its long-term performance share plan and details of their options over the ordinary share capital of the Company are given in the Directors' remuneration report on page 97. No director had a material interest in any significant contract, other than a service contract or contract for services, with the Company or any of its operating companies at any time during the year.

The names of all persons who, at any time during the year, were directors of the Company can be found on pages 66 to 67.

As at the date of this report, indemnities (which are qualifying third-party indemnity provisions under the Companies Act 2006) are in place under which the Company has agreed to indemnify the directors of the Company to the extent permitted by law and by the Company's articles of association, in respect of all liabilities incurred in connection with the performance of their duties as a director of the Company or its subsidiaries. Copies of these indemnities are available for review at the Company's registered office.

Employment policy

The Group continues to give full and fair consideration to applications for employment made by disabled persons, having regard to their respective aptitudes and abilities. The policy includes, where practicable, the continued employment of those who may become disabled during their employment and the provision of training and career development and promotion, where appropriate.

The Group has continued its policy of employee involvement by making information available to employees on matters of concern to them. Colleagues regularly receive updates on the financial and economic factors affecting the Group. Many colleagues are stakeholders in the Company through participation in share option schemes and a long-term performance share plan. Further details of colleague engagement are given on pages 54 to 57.

Substantial shareholdings

At 30 September 2016, the Company had been notified, in accordance with the DTRs, of the following interests in its ordinary share capital:

Name	Ordinary shares	% of capital	Nature of holding
Aviva Investors	62,996,904	5.83%	Direct and indirect
BlackRock Inc	58,605,472	5.42%	Indirect
Standard Life	56,480,398	5.23%	Direct and indirect

In the period from 30 September 2016 to the date of this report, we received a further notification from Standard Life, Inc. indicating that the holdings of Standard Life stood at 4.63% of capital.

Information provided to the Company under the DTRs is publicly available via the regulatory information service and on the Company website.

Share capital

The Company's share capital is as set out on page 153. The Company has a single class of share capital which is divided into ordinary shares of $1^4/77$p each.

Rights and obligations attaching to shares

Voting

In a general meeting of the Company, subject to the provisions of the articles of association and to any special rights or restrictions as to voting attached to any class of shares in the Company (of which there are none):

– On a show of hands, a qualifying person (being an individual who is a member of the Company, a person authorised to act as the representative of a corporation or a person appointed as a proxy of a member) shall have one vote, except that a proxy has one vote for and one vote against a resolution if the proxy has been appointed by more than one member and has been given conflicting voting instructions by those members, or has been given discretion as to how to vote

– On a poll, every member who is present in person or by proxy shall have one vote for every share of which he or she is the holder

No member shall be entitled to vote at any general meeting or class meeting in respect of any shares held by him or her if any call or other sum then payable by him or her in respect of that share remains unpaid. Currently, all issued shares are fully paid.

Deadlines for voting rights

Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the Annual General Meeting to be held on 28 February 2017 will be set out in the Notice of Annual General Meeting.

Dividends and distributions

Subject to the provisions of the Companies Act 2006, the Company may, by ordinary resolution, declare a dividend to be paid to the members, but no dividend shall exceed the amount recommended by the Board.

The Board may pay interim dividends, and also any fixed rate dividend, whenever the financial position of the Company, in the opinion of the Board, justifies its payment. All dividends shall be apportioned and paid pro-rata according to the amounts paid up on the shares.

Liquidation

If the Company is in liquidation, the liquidator may, with the authority of a special resolution of the Company and any other authority required by the statutes (as defined in the articles of association):

– Divide among the members in specie the whole or any part of the assets of the Company; or

– Vest the whole or any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit.

Transfer of shares

Subject to the articles of association, any member may transfer all or any of his or her certificated shares by an instrument of transfer in any usual form or in any other form which the Board may approve. The Board may, in its absolute discretion, decline to register any instrument of transfer of a certificated share which is not a fully paid share (although not so as to prevent dealings in shares taking place on an open and proper basis) or on which the Company has a lien.

The Board may also decline to register a transfer of a certificated share unless the instrument of transfer is: (i) left at the office, or at such other place as the Board may decide, for registration; and (ii) accompanied by the certificate for the shares to be transferred and such other evidence (if any) as the Board may reasonably require to prove the title of the intending transferor or his or her right to transfer the shares.

The Board may permit any class of shares in the Company to be held in uncertificated form and, subject to the articles of association, title to uncertificated shares to be transferred by means of a relevant system and may revoke any such permission. Registration of a transfer of an uncertificated share may be refused where permitted by the statutes (as defined in the articles of association).

Repurchase of shares

The Company obtained shareholder authority at the last Annual General Meeting (1 March 2016) to buy back up to 107,913,441 ordinary shares. The minimum price which must be paid for each ordinary share is its nominal value and the maximum price set out in the resolution is the higher of 105% of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately before the purchase is made and the amount stipulated by article 5(1) of the Buy-back and Stabilisation Regulation 2003 (in each case exclusive of expenses). Share repurchases are used from time to time as a method to control the Group's leverage and decisions are made against strict price, volume and returns criteria that are agreed by the Board and regularly reviewed.

In the year under review, the Company made no share repurchases. The Employee Benefit Trust purchased a total of 385,000 ordinary shares of $1^{4}/77$p at a price of 619.9p per share.

In the year under review no treasury shares were cancelled. Total share awards of 3,006,938 were made out of shares held by the Employee Benefit Trust.

Amendment of the Company's articles of association

Any amendments to the Company's articles of association may be made in accordance with the provisions of the Companies Act 2006 by way of special resolution.

Appointment and replacement of directors

Directors shall be no less than two and no more than 15 in number. Directors may be appointed by the Company by ordinary resolution or by the Board. A director appointed by the Board holds office only until the next Annual General Meeting and is then eligible for election by the shareholders. The Board may from time to time appoint one or more directors to hold employment or executive office for such period (subject to the Companies Act 2006) and on such terms as they may determine and may revoke or terminate any such appointment.

Under the articles of association, at every Annual General Meeting of the Company, every director shall retire from office (but shall be eligible for election or re-election by the shareholders). The Company may by special resolution (or by ordinary resolution of which special notice has been given) remove, and the Board may, by unanimous decision remove, any director before the expiration of his or her term of office. The office of director shall be vacated if: (i) he or she resigns; (ii) he or she has become physically or mentally incapable of acting as a director and may remain so for more than three months and the Board resolves that his or her office is vacated; (iii) he or she is absent without permission of the Board from meetings of the Board for six consecutive months and the Board resolves that his or her office is vacated; (iv) he or she becomes bankrupt or makes an arrangement or composition with his or her creditors generally; (v) he or she is prohibited by law from being a director; or (vi) he or she is removed from office pursuant to the articles of association.

Powers of the directors

The business of the Company will be managed by the Board which may exercise all the powers of the Company, subject to the provisions of the Company's articles of association, the Companies Act 2006 and any ordinary resolution of the Company.

Shares held in the Employee Benefit Trust

The trustee of The Sage Group plc Employee Benefit Trust ("EBT") has agreed not to vote any shares held in the EBT at any general meeting. If any offer is made to shareholders to acquire their shares the trustee will not be obliged to accept or reject the offer in respect of any shares which are at that time subject to subsisting awards, but will have regard to the interests of the award holders and will have power to consult them to obtain their views on the offer. Subject to the above the trustee may take action with respect to the offer it thinks fair.

Significant agreements

The following significant agreements contain provisions entitling the counterparties to exercise termination or other rights in the event of a change of control of the Company:

- Under a note purchase agreement dated 11 March 2010 relating to US$50 million senior notes, Series C, due 11 March 2017 between the Company and the note holders, on a change of control, the Company will not take any action that consummates or finalises a change of control unless at least 15 business days prior to such action it shall have given to each holder of notes written notice containing and constituting an offer to prepay all notes on a date specified in such offer which shall be a business day occurring subsequent to the effective date of the change of control which is not less than 30 days or more than 60 days after the date of the notice of prepayments. Where a holder of notes accepts the offer to prepay, the prepayment shall be 100% of the principal amount of the notes together with accrued and unpaid interest thereon and shall be made on the proposed prepayment date. No prepayment under a change of control shall include any premium of any kind.
- Under a note purchase agreement dated 20 May 2013 relating to US$50 million senior notes, Series D, due 20 May 2018, US$150 million senior notes, Series E, due 20 May 2020, US$150 million senior notes, Series F, due 20 May 2023 and US$50 million senior notes, Series G, due 20 May 2025 between Sage Treasury Company Ltd and the note holders and guaranteed by the Company, on a change of control of the Company, the Company will not take any action that consummates or finalises a change of control unless at least 15 business days prior to such action it shall have given to each holder of notes written notice containing and constituting an offer to prepay all notes on a date specified in such offer which shall be a business day occurring subsequent to the effective date of the change of control which is not less than 30 days or more than 60 days after the date of the notice of prepayments. Where a holder of notes accepts the offer to prepay, the prepayment shall be 100% of the principal amount of the notes together with accrued and unpaid interest thereon and shall be made on the proposed prepayment date. No prepayment under a change of control shall include any premium of any kind.
- Under a dual tranche US$551 million and €218 million five-year multi-currency revolving credit facility agreement dated 26 June 2014 between, amongst others, Sage Treasury Company Limited and Lloyds Bank plc (as facility agent) and guaranteed by the Company, on a change of control, if any individual lender so requires and after having consulted with Sage Treasury Company Limited in good faith for not less than 30 days following the change of control, the facility agent shall, by not less than 10 business days' notice to Sage Treasury Company Limited, cancel the commitment of that lender and declare the participation of that lender in all outstanding loans, together with accrued interest and all other amounts accrued under the finance documents, immediately due and payable, whereupon the commitment of that lender will be cancelled and all such outstanding amounts will become immediately due and payable.

– Under a note purchase agreement dated 26 January 2015 relating to €55 million senior notes, Series H, due 26 January 2022, €30 million senior notes, Series I, due 26 January 2023 and US$200 million senior notes, Series J, due 26 January 2025 between Sage Treasury Company Limited and the note holders and guaranteed by the Company, on a change of control of the Company, the Company will not take any action that consummates or finalises a change of control unless at least 15 business days prior to such action it shall have given to each holder of notes written notice containing and constituting an offer to prepay all notes on the date specified in such offer which shall be a business day occurring subsequent to the effective date of the change of control which is not less than 30 days or more than 60 days after the date of notice of prepayments. Where a holder of notes accepts the offer to prepay, the prepayment shall be 100% of the principal amount of the notes together with accrued and unpaid interest thereon and any applicable net loss and, in each case, including the deduction of any applicable net gain and shall still be made on the proposed payment date. No prepayment under a change of control shall include any premium of any kind.

Under the terms of all four agreements above, a "change of control" occurs if any person or group of persons acting in concert gains control of the Company.

– The platform reseller agreement dated 31 January 2015 relating to the Company's strategic arrangements with Salesforce.com EMEA Limited contains a change of control right enabling Salesforce to terminate the agreement in the event there is a change of control in favour of a direct competitor of Salesforce.com EMEA Limited. The agreement contains post termination requirements upon Salesforce to support a transition for up to a specified period.
– In respect of the platform reseller agreement with Salesforce.com EMEA Limited, "change of control" occurs where a corporate transaction results in the owners of the subject entity owning less than 50% of the voting interests in that entity as a result of the corporate transaction.

Financial risk management
The Group's exposure to and management of capital, liquidity, credit, interest rate and foreign currency risk are summarised below.

Capital risk
The Group's objectives when managing capital (defined as net debt plus equity) are to safeguard our ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders, while optimising returns to shareholders through an appropriate balance of debt and equity funding. The Group manages its capital structure and makes adjustments to it with respect to changes in economic conditions and our strategic objectives. The Group has set a long-term minimum leverage target of 1x net debt to EBITDA and will work to maintain this going forward.

Liquidity risk
The Group manages its exposure to liquidity risk by reviewing cash resources required to meet business objectives through both short and long-term cash flow forecasts. The Company has committed facilities which are available to be drawn for general corporate purposes including working capital. The Treasury function has responsibility for optimising the level of cash across the business.

Credit risk
The Group's credit risk primarily arises from trade and other receivables. The Group has a very low operational credit risk due to the transactions being principally of a high volume, low value and short maturity. The Group has no significant concentration of operational credit risk, with the exposure spread over a large number of counterparties and customers.

The credit risk on liquid funds is considered to be low, as the Board-approved Group treasury policy limits the value that can be invested with each approved counterparty to minimise the risk of loss. All counterparties must meet minimum credit rating requirements.

Interest rate risk
The Group is exposed to interest rate risk on floating rate deposits and borrowings. The US private placement loan notes comprise 100% of borrowings and are at fixed interest rates, the bank revolving credit facility, which was undrawn at the year end is subject to floating interest rates. At 30 September 2016, the Group had £265m (2015: £263m) of cash and cash equivalents.

The Group regularly reviews forecast debt, cash and cash equivalents and interest rates to monitor this risk. Interest rates on debt and deposits are fixed when management decides this is appropriate.

At 30 September 2016, the Group's principal borrowings comprised US private placement loan notes of £575m (2015: £525m), which have an average fixed interest rate of 3.40%, (2015: £3.48%).

Foreign currency risk
Although a substantial proportion of the Group's revenue and profit is earned outside the UK, operating companies generally only trade in their own currency. The Group is therefore not subject to any significant foreign exchange transactional exposure within these subsidiaries.

The Group's principal exposure to foreign currency lies in the translation of overseas profits into sterling; this exposure is not hedged.

The Group's external US Dollar and Euro denominated borrowings are designated as a hedge of the net investment in its subsidiaries in the US and Eurozone. The foreign exchange movements on translation of the borrowings into Sterling have therefore been recognised in the translation reserve. Certain of the Group's intercompany balances have been identified as part of the Group's net investment in foreign operations. Foreign exchange effects on these balances that remain on consolidation are also reflected in the translation reserve. The Group's other currency exposures comprise those currency gains and losses recognised in the income statement, reflecting other monetary assets and liabilities of the Group that are not denominated in the functional currency of the entity involved. At 30 September 2016 and 30 September 2015, these exposures were immaterial to the Group.

Disclaimer

The purpose of this Annual Report & Accounts is to provide information to the members of the Company. The Annual Report & Accounts has been prepared for, and only for, the members of the Company, as a body, and no other persons. The Company, its directors and employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed.

The Annual Report & Accounts contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report & Accounts and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report & Accounts should be construed as a profit forecast.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report & Accounts, including the Directors' remuneration report and the Group and parent Company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group and the Company for that period.

In preparing these financial statements the directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether IFRS as adopted by the EU, and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent Company financial statements respectively
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group's financial statements, Article 4 of the International Accounting Standards Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' statement

The directors as at the date of this report, whose names and functions are listed in the Board of Directors on pages 66 to 67, confirm that:

- To the best of their knowledge, the Group's financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group
- To the best of their knowledge, the Directors' report and the Strategic report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces

Each director as at the date of this report further confirms that:

- So far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware
- The director has taken all the steps that he or she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

In addition, the directors as at the date of this report consider that the Annual Report & Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's and the Group's position and performance, business model and strategy.

By Order of the Board

Vicki Bradin
Company Secretary
29 November 2016

Glossary

Measure /Description	Why we use it
Underlying	
Prior period underlying measures are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations. Underlying operating profit excludes: Recurring items: – Amortisation of acquired intangible assets – Acquisition-related items – Fair value adjustments on non-debt-related financial instruments – Foreign currency movements on intercompany balances Non-recurring items that management judge are one-off or non-operational Underlying profit before tax excludes: – All the items above – Imputed interest – Fair value adjustments on debt-related financial instruments. Underlying profit after tax and earnings per share excludes: – All the items above net of tax.	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. By including part-period contributions from acquisitions, disposals and products held for sale in the current and/or prior periods, the impact of M&A decisions on earnings per share growth can be evaluated.
Organic	
In addition to the adjustments made for underlying measures, organic measures exclude the contribution from acquisitions, disposals and products held for sale of standalone businesses, in the current and prior period. Acquisitions and disposals which occurred close to the start of the opening comparative period where the contribution impact would be immaterial are not adjusted.	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.
Processing revenue	
Processing revenue is revenue earned from customers for the processing of payments or where Sage colleagues process our customers' payroll.	
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 on-going payments. Recurring revenue includes both software subscription revenue and maintenance and service revenue.	
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.	

A&RC
Audit and Risk Committee

AAMEA
Africa Australia Middle East Asia

AGM
Annual General Meeting

API
Application Program Interface

ASB
Annualised Subscriber Base

C4L
Customer For Life

CAGR
Compound Annual Growth Rate

CBC
Customer Business Centre

CDP
Carbon Disclosure Project

CFO
Chief Financial Officer

CGU
Cash Generating Unit

CMD
Capital Markets Day

CR
Corporate Responsibility

CRM
Customer Relationship Management

DEFRA
Department for Environment, Food & Rural Affairs

DTR
Disclosure Rules and Transparency Rules

EBITDA
Earnings Before Interest Taxes Depreciation and Amortisation

EBT
Employee Benefit Trust

EPS
Earnings Per Share

ERP
Enterprise Resource Planning

ESOS
Executive Share Operating Scheme

EU
European Union

FCF
Free Cash Flow

FY15
Financial year ending 30 September 2015

FY16
Financial year ending 30 September 2016

G&A
General and Administrative

GAC
Global Accounting Core

GHG
Green House Gas

HR
Human Resources

HCM
Human Capital Management

IFRS
International Financial Reporting Standards

ISV
Independent Software Vendor

KPI
Key Performance Indicator

LSE
London Stock Exchange

LTIP
Long Term Incentive Plan

NPS
Net Promoter Score

PBT
Profit Before Tax

PSP
Performance Share Plan

R&D
Research and Development

S&M
Sales and Marketing

SaaS
Software as a Service

SSRS
Software & Software Related Services

TSR
Total Shareholder Return

VSGM
Vision, Strategy, Goals, Measures

WRVS
Women's Royal Voluntary Service

Shareholder information

Financial calendar

Annual General Meeting	28 February 2017
Dividend payments	
Final payable – year ended 30 September 2016	3 March 2017
Interim payable – period ending 31 March 2017	2 June 2017
Results announcements	
Interim results – period ending 31 March 2017	3 May 2017
Final results – year ending 30 September 2017	15 November 2017

Shareholder information online

The Sage Group plc's registrars are able to notify shareholders by e-mail of the availability of an electronic version of shareholder information. Whenever new shareholder information becomes available, such as The Sage Group plc's interim and full year results, Equiniti will notify you by e-mail and you will be able to access, read and print documents at your own convenience.

To take advantage of this service for future communications, please go to www.shareview.co.uk, where full details of the shareholder portfolio service are provided. When registering for this service, you will need to have your 11 character shareholder reference number to hand, which is shown on your dividend tax voucher, share certificate or form of proxy.

Should you change your mind at a later date, you may amend your request to receive electronic communication by entering your shareview portfolio online and amending your preferred method of communication from "e-mail" to "post". If you wish to continue receiving shareholder information in the current format, there is no need to take any action.

Advisers

Corporate brokers and financial advisers
Citigroup Global Markets, 33 Canada Square, Canary Wharf, London, E14 5LB

Solicitors
Allen & Overy LLP, 1 Bishops Square, London, E1 6AD

Principal Bankers
Lloyds Bank plc, 25 Gresham Street, London, EC2V 7HN

Independent auditors
Ernst & Young, 1 More London Place, London, SE1 2AF

Registrars
Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA
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Fax: 0371 384 2100 (from outside the UK: +44 (0)1903 698403)

Lines are open 8.30am to 5.30pm UK time, Monday to Friday.

Information for investors

Information for investors is provided on the internet as part of the Group's website which can be found at: www.sage.com/investors.

Investor enquiries

Enquiries can be directed via our website or by contacting our Investor Relations department:

Tel: +44 (0)191 294 3457

The Sage Group plc

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Registered in England
Company number 2231246

Stay up to date
www.sage.com

Our corporate website has more information about our business, products, investors, media, sustainability, and careers at Sage Group.

FSC
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This report is printed utilising vegetable based inks on Heaven 42 which is sourced from well managed forests independently certified according to the rules of the Forest Stewardship Council (FSC®). This report was printed by an FSC® and a carbon neutral printing company and Heaven 42 is manufactured at a mill that is certified to the ISO14001 and EMAS environmental standards

Designed and produced by Black Sun Plc

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www.sage.com

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Registered in England

Company number 2231246