

A man with curly brown hair and a beard, wearing a black t-shirt and black shorts, is working on a bicycle in a workshop. He is wearing blue and white gloves and is focused on the front of the bike. The workshop is dimly lit, with a warm glow from the background. Various tools and equipment are visible in the background, including a workbench, a rack, and a bicycle repair stand. The man has a tattoo on his left arm. The background shows a wooden wall with various tools hanging on it, including a level and some cables. A bicycle repair stand is visible on the right side of the image, with a bicycle mounted on it. The overall atmosphere is one of a professional and dedicated workspace.

sage

Sage Business Cloud: Acceleration starts here

Annual Report and Accounts 2017

We've invested for the future...

Sage is the global market leader for technology that helps businesses of all sizes manage everything from money to people – whether they're a start-up, scale-up or enterprise. Our mission is to free Business Builders from the burden of administration, so they can spend more time doing what they love; because when Business Builders do well, we all do.

Financial highlights

Organic revenue growth

6.6%



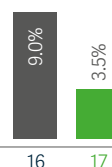
Organic operating margin

28.0%



Underlying basic EPS growth

3.5%



Statutory revenue growth

19.1%



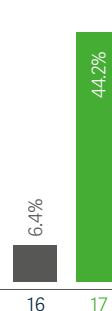
Underlying cash conversion

95%



Statutory basic EPS growth

44.2%



About our non-GAAP measures and why we use them

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

Underlying measures allow management and investors to compare performance without the potentially distorting effects of foreign exchange movements, one-off items or non-operational items.

Organic measures allow management and investors to understand the like-for-like performance of the business.

Full definitions of underlying and organic can be found within note 2 of the financial statements.

Reconciliations of statutory revenue, operating profit and basic earnings per share to their underlying and organic equivalents are in the Financial and operating review starting on page 34.

Acceleration starts here.

Our Capital Markets Day in 2015 signified the start of a transformation process which focused on developing the organisational alignment, leadership, brand and innovation required to accelerate our strategy. The successful execution of this transformation has provided us with the platform for accelerating, sustainable growth.

And it all starts with Sage Business Cloud.

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We've invested for the future...

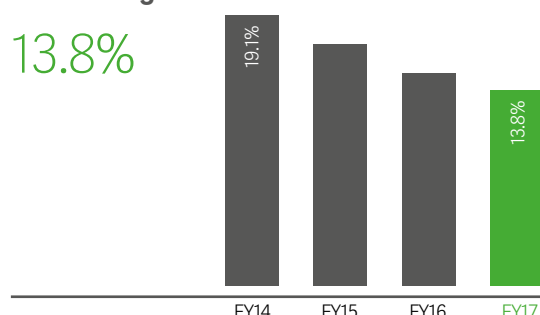
Transforming our business

Developing our model...

We've improved the margin profile through extensive cost savings...

General & Administration ("G&A") expense as a % of organic revenue

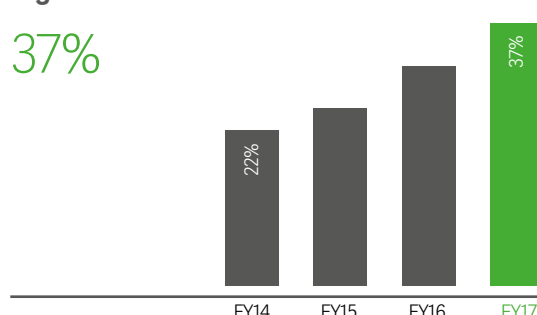
13.8%



...moved to a subscription-based business model...

Software subscription revenue as a % of organic revenue

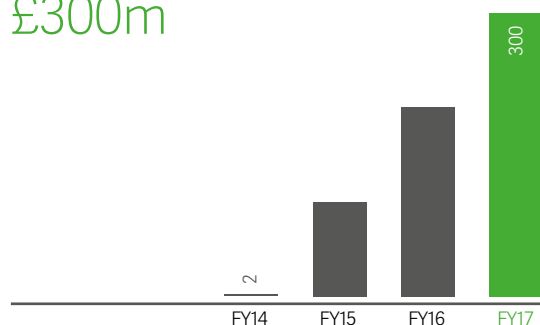
37%



...acquired new customers at scale...

Cloud Annual Recurring Revenue (£m)*

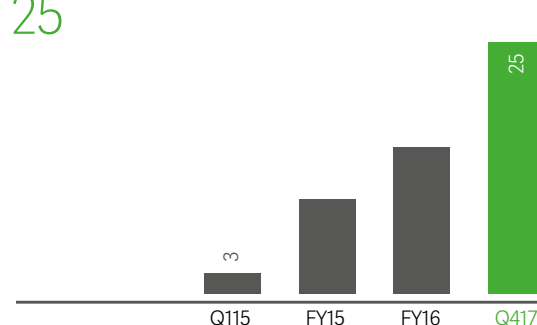
£300m



...and maintained focus on our existing customer base.

Net Promoter Score**

25



* Annual recurring revenue ("ARR") is the value of all components of recurring revenue, annualised for the ensuing year. Cloud ARR includes the contributions of Sage People and Sage Intacct in addition to Sage One, Sage Live, the cloud version of Sage X3 and the cloud-enabled versions of the Sage 50 and Sage 200 families.

** NPS is measured by an external company, Medallia, following the industry prescribed process. This is the first year that we have disclosed NPS and quarterly fluctuations may be expected.

...whilst delivering a compelling investment case

Higher quality revenue

- 78% of organic revenue is recurring
- 37% of organic revenue is from subscription contracts
- 9.0% growth in organic recurring revenue
- 6.6% organic revenue growth
- 86% renewal rates

Superior operating margin

- £59m annualised cost savings
- G&A expense as a percentage of revenue reduced by 360 bps to 13.8%

Acceleration starts here.

In FY18 we are changing the definition of organic to include the impact of the acquisitions of Intacct (now Sage Intacct) and Fairsail (now Sage People). Combined, they are expected to contribute around 1% of growth. On this basis we will be raising our organic revenue growth guidance to around 8%.

We expect to continue to achieve cost efficiencies that will be more than sufficient to offset any losses in the acquired businesses as they scale. We are therefore confident of delivering an organic operating margin of around 27.5% in FY18.

Strong cash flow

- Underlying cash conversion of 95%
- Free cash conversion of revenue of 15%

Progressive dividend

- We remain one of the very few FTSE 100 businesses that have delivered an increased ordinary dividend every year since 1999

We've invested for the future...

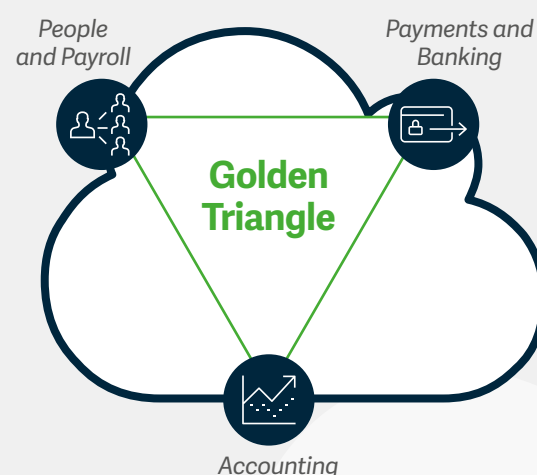
Welcome to Sage Business Cloud

Small and medium-sized businesses are the lifeblood of the economy, driving over two thirds of job creation. 80% of these Business Builders work every weekend, with 50% working more than 50 hours per week. At Sage we help the real heroes of the economy by using the best technology to offer them integrated software solutions that increase efficiency and insight, freeing up their time so that they can run their business more effectively.

We are the only worldwide company that can offer a complete suite of cloud business management solutions following the journey of a business all the way from start-up, to scale-up, through to enterprise, across the Golden Triangle. All of these cloud solutions can now be accessed through Sage Business Cloud, the one and only cloud business management platform companies will ever need throughout their business journey.

Launched in October 2017, Sage Business Cloud is designed to support companies of all sizes across a range of verticals. Sage Business Cloud delivers a powerful set of cloud services including Accounting, Financials, Enterprise Management, People, Payroll, Payments and Banking, as well as marketplace apps that can be provisioned to match the exact needs of any business.

Sage Business Cloud uses artificial intelligence (AI) and collective intelligence as technology catalysts to power the cloud products, driving intelligent automation, simplicity and ease of use for all our customers, partners, ISVs and developers.



The cloud solution for start-up to enterprise

Accounting

Winning in the market products

Our cloud accounting solutions allow us to win in the market. Cloud-led technology attracts start-ups to financial software and provides the catalyst for larger Business Builders to review their existing software and migrate to a Sage cloud solution.

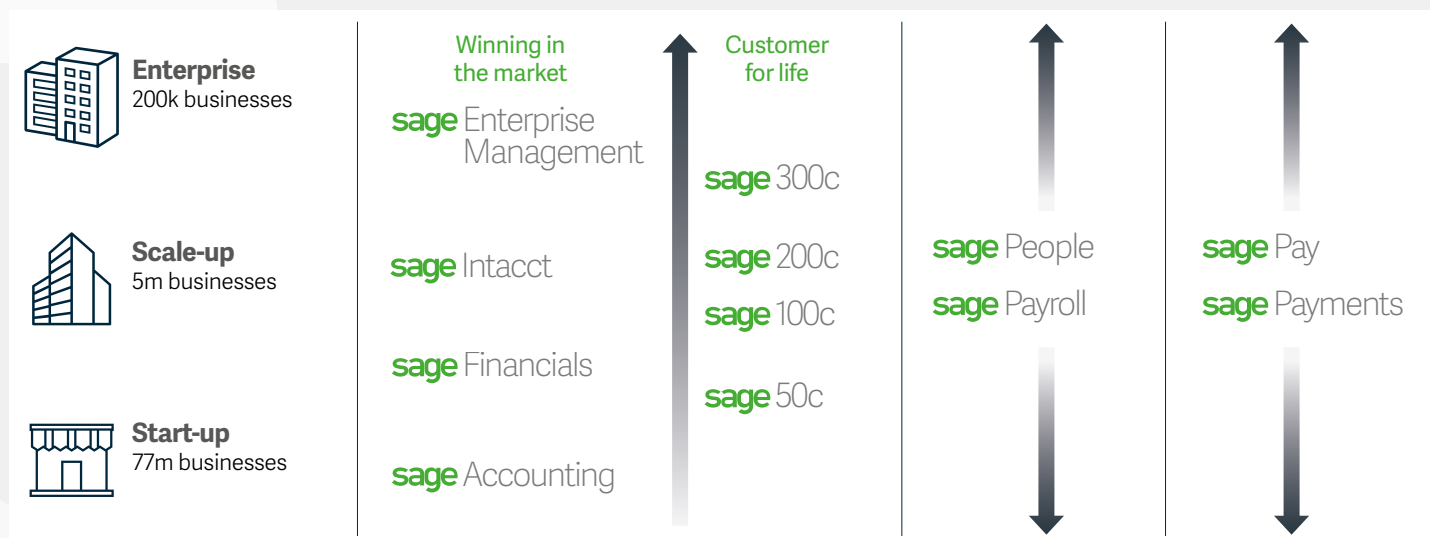
sage Accounting

(previously Sage One)

Serving customers who need a powerful, essential accounting solution that will enable them to take full control of their finances and help them reduce time spent on manual business administration and navigating complex, expensive accounting tools. Sage Accounting is accessible across any device (smartphone, tablet, laptop, PC) and includes technology advancements in mobile and chatbot technology, enabling day-to-day



Accounting

People
and PayrollPayments
and Banking

balance visibility, invoice and expense management and next generation conversational accounting.

sage Financials (previously Sage Live)

Serving customers beyond principal accounting needs, Sage Financials adds functionality to support more complex financial processing needs. Sage Financials is a hub that, when combined with other Sage Business Cloud products and marketplace applications, delivers a full end-to-end view of your business. Our powerful Financials product is designed to help you seamlessly scale and manage your business in real-time by integrating accounting with critical business functions. We enable business and finance leaders to access integrated management and financial reports across their business entities in minutes, not days, improving decision-making to grow and drive their businesses.

sage Intacct

Sage Intacct, acquired in August 2017, is a sophisticated and powerful solution perfect for growing businesses, especially in

technology, services and not-for-profit verticals. The solution allows for process-automation, rich financial and operational insight, cutting-edge features and seamless integration with the customer's existing application ecosystems.

sage Enterprise Management (previously Sage X3)

Sage Enterprise Management is not your typical ERP solution. It's a faster, simpler and more flexible industrial-strength business management solution for globally connected, large-scale businesses. Sage Enterprise Management offers multi-company, multi-currency, multi-language and multi-legislation support and is perfectly suited to manufacturing and complex distribution verticals.

Customer for life products

We recognise that not all customers want revolutionary change, especially when our traditional products give them everything they feel they need – that's why we never force migration. Instead we have cloud-enabled our much-loved Sage 50 and Sage 200 families of products so that customers

can benefit from the best of both worlds, retaining the familiarity and functionality of desktop, combined with the flexibility and automation of the cloud.

People and Payroll

Sage People, our Payroll & Human Capital Management ("HCM") solution, is simple, secure and efficient; helping our customers to remain compliant, pay their employees accurately and on time, and to deliver a great employee experience.

Payments and Banking

Through a combination of our existing payments assets and our partnerships with leading payments providers, we are continuing to develop a comprehensive range of payment solutions to speed up the movement of money in and out for our customers, across all of our major geographies. These solutions are designed to make the lives of Business Builders easier, automating routine transactions and utilising the latest Fintech innovations (see page 27 for more).

We've invested for the future...

Enhancing our global network

North America

In the US, 70% of buyers are looking to purchase cloud solutions.

Over half of our total addressable market is in North America, where cloud acceleration is the highest, representing a significant growth opportunity for Sage.

Major geographies:

- USA
- Canada

28%

of revenue

Sage is a market leader in the 23 countries in which it operates.

Growing in our markets

Our customers move over £3 trillion through their businesses every year using Sage accounts software, twice the GDP of the UK.

We serve 3 million customers in 23 countries, with the top nine countries providing 95% of our revenue. Whilst we have integrated and globalised functions, we ensure that the responsibility for each customer will remain under the remit of that country, with sales and service provided locally, in local language, by Sage experts.

Northern Europe

In the UK, over 50% of businesses pay their employees using Sage solutions.

Founded in Newcastle, Northern Europe is our home market, where we are the market leader in scale-up and enterprise due to strong brand awareness and loyal customers.

Major geographies:

- UK and Ireland

22%

of revenue

Central and Southern Europe

In Spain, over 50% of taxes are paid through Sage solutions.

Central and Southern Europe contributes the largest portion of revenue, with high market share and a history of customer loyalty, allowing us to maintain our installed base whilst winning new customers.

Major geographies:

- France
- Spain
- Germany

34%

of revenue

International

In the International region, 56% of revenue is on subscription.

International is our fastest growing region, driving growth through new customer acquisition and with over half of revenue now on subscription.

Major geographies:

- South Africa
- Brazil
- Australia

16%

of revenue

Acceleration starts here.

There remains a significant amount of value to unlock in our existing geographies and in FY18 we will continue to focus on these 23 countries, offering more to our existing customers and attracting new customers with the Sage Business Cloud.

We've invested for the future...

Supporting customers along the way

Our deep knowledge of local regulations sets us apart from our competition. It also ensures our customers remain 100% compliant, 100% of the time across all 23 countries.

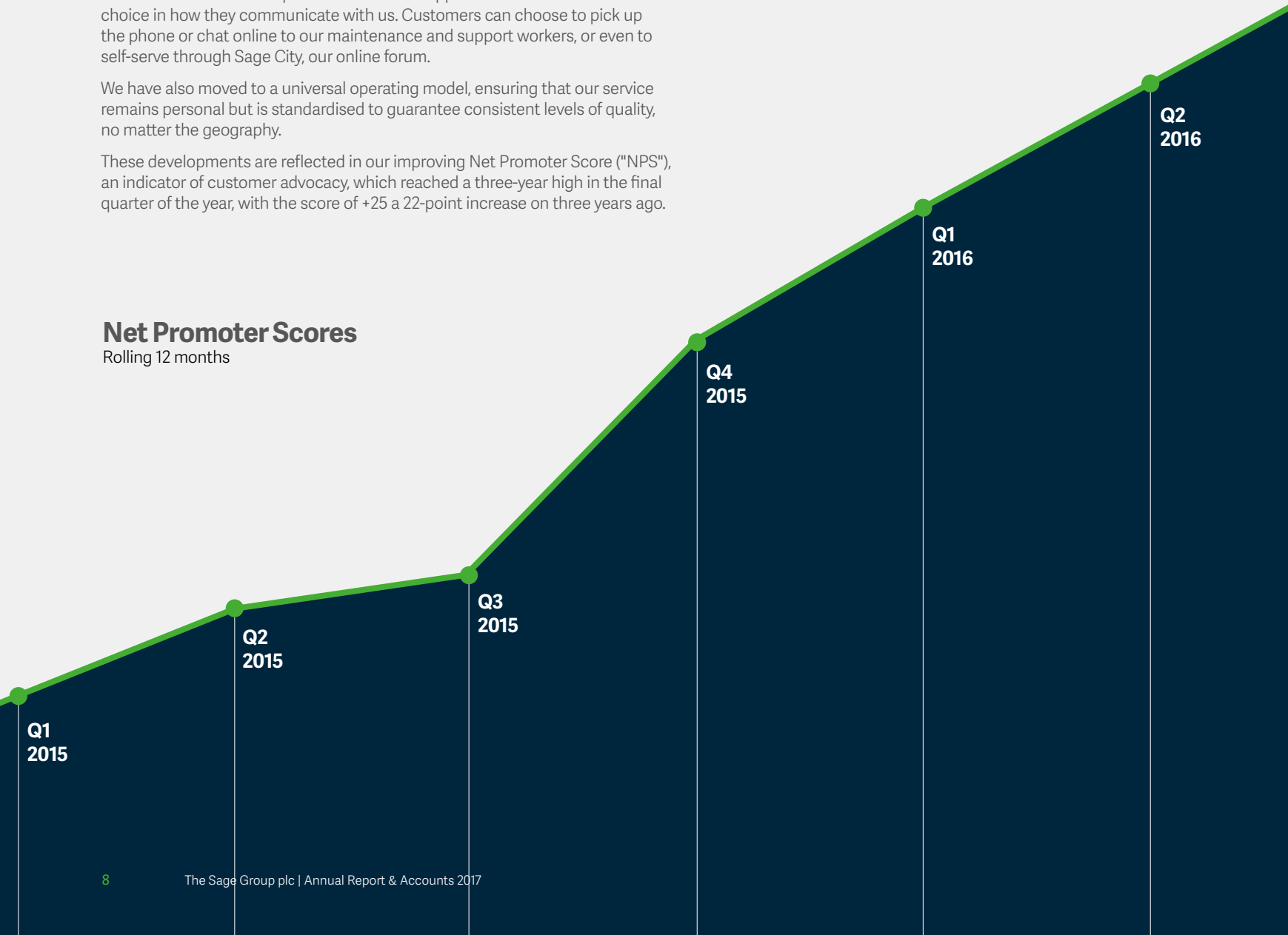
But we know that customer experience is as important as compliance and we have continued to develop our multi-channel approach so customers have the choice in how they communicate with us. Customers can choose to pick up the phone or chat online to our maintenance and support workers, or even to self-serve through Sage City, our online forum.

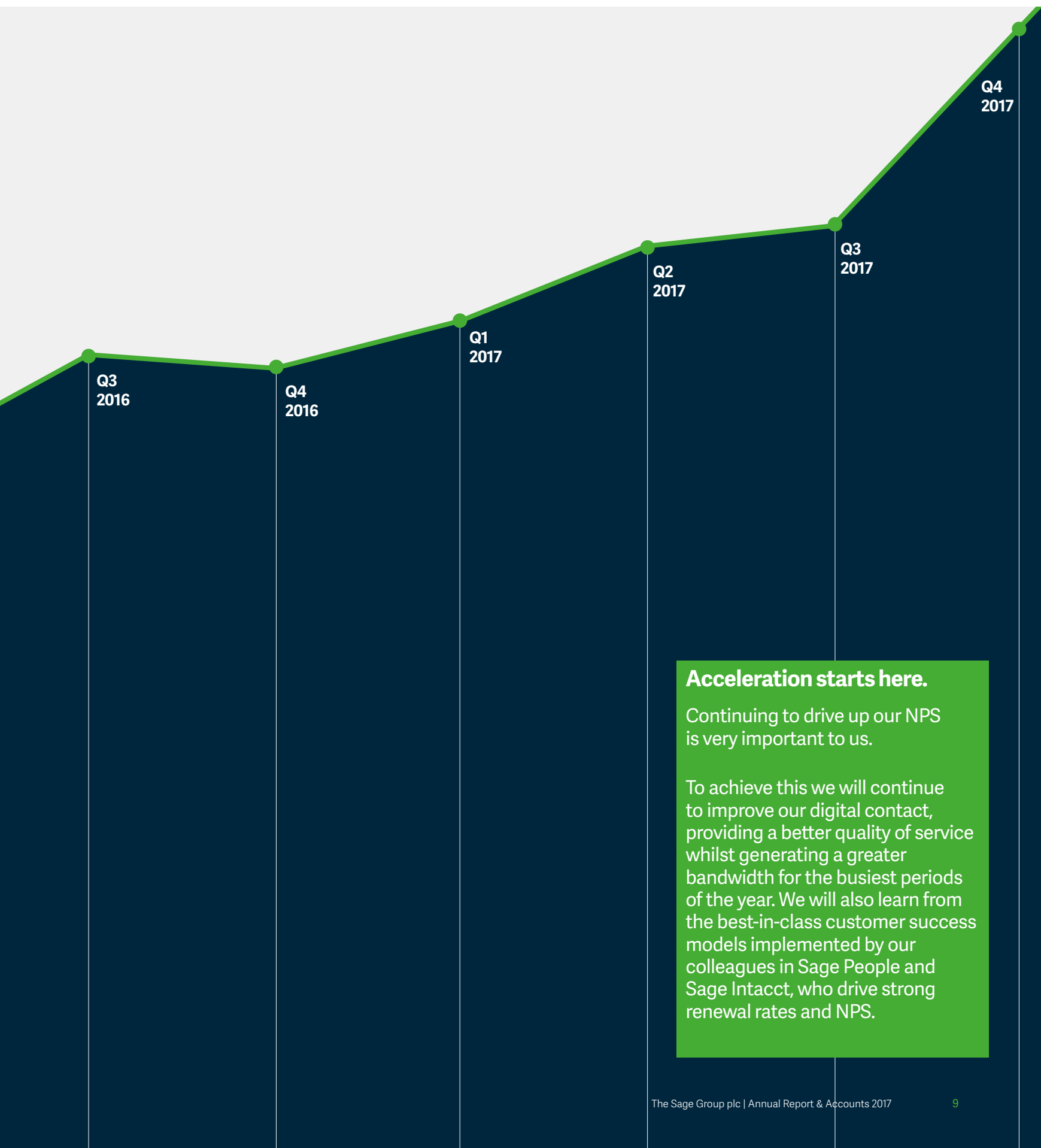
We have also moved to a universal operating model, ensuring that our service remains personal but is standardised to guarantee consistent levels of quality, no matter the geography.

These developments are reflected in our improving Net Promoter Score ("NPS"), an indicator of customer advocacy, which reached a three-year high in the final quarter of the year, with the score of +25 a 22-point increase on three years ago.

Net Promoter Scores

Rolling 12 months





Acceleration starts here.

Continuing to drive up our NPS is very important to us.

To achieve this we will continue to improve our digital contact, providing a better quality of service whilst generating a greater bandwidth for the busiest periods of the year. We will also learn from the best-in-class customer success models implemented by our colleagues in Sage People and Sage Intacct, who drive strong renewal rates and NPS.

We've invested for the future...

Acceleration starts here.

Our Total Addressable Market

Operating in 23 countries, providing solutions across the Golden Triangle for start-ups through to enterprise, gives us access to a huge total addressable market worth \$27 billion across 82 million businesses.

A significant number of these businesses are still currently using traditional methods such as spreadsheets or pen and paper.

These methods are becoming increasingly redundant as Business Builders place greater importance on automation, flexibility and data-security. The speed at which technology is increasing in our markets means that in the future all businesses will be software enabled, a huge opportunity for Sage.

\$27bn across
82m businesses



53%

of scale-up market spend
on cloud products

2020

The cloud and acceleration in the market

The cloud enables Business Builders to access their financial data anywhere, at any time, whilst providing a secure, easy-to-install and user friendly way of running their business.

The up-take of cloud-based technology is accelerating fast, in the scale-up segment in particular, with IDC research forecasting double-digit growth in cloud spend in each year up until 2020, at which point over 50% of market spend will be on financial software in the cloud.



Pegg

in 2016 Sage launched the world's first accountancy chatbot

Innovation

Technology continues to evolve rapidly, allowing Sage to provide solutions that continually offer the customer more.

Sage Business Cloud is a complete business management platform, taking us beyond offering just financial software. Sage Business Cloud solutions use AI to increase automation and provide intuitive dashboards to offer more insight into a customer's business. The solutions also provide real-time access to current financial data so customers can look ahead instead of looking backwards. Additional benefits are that they can be customised and integrated with other apps and are all available on smartphone, tablet or desktop.

Fragmented market

Our markets remain incredibly fragmented.

We are one of the market leaders in every country in which we operate but competition is currently localised and fragmented. We believe the emergence of the cloud provides an opportunity for the market to consolidate over time, enabling us to grow our market share and strengthen our position in the market.



The cloud has acted as a catalyst for accelerated growth and provides a unique and unprecedented opportunity to develop innovative products that will Revolutionise Businesses, meeting the demands of all customers, in all markets.

Through our global reach, we can capitalise on these market opportunities and achieve accelerated growth, led by Sage Business Cloud, which will allow us to Win in the Market and strengthen our ability to emerge as the true market leader.





Continuing to drive value

"The past year has been another strong year of progress, with great strides made in strengthening Sage's commitment to winning in the market and its philosophy of achieving customers for life."

Donald Brydon
Chairman

In the world of technology change is the only constant. Change has been continuously evident at Sage also as your Company has continued on its journey of transformation. Very considerable progress has been made in focusing the business and ensuring that it is fit for purpose in a world that will be dominated by cloud-based solutions. During the past three years there has been significant change within the organisation: software subscription contracts have risen from 450k to 1,234k, G&A as a proportion of organic revenue has reduced from 19.1% to 13.8% and retention rates have increased from 83% to 86%. Chief Executive, Stephen Kelly and his team have delivered on all of this whilst achieving organic revenue growth of 6% and operating margins of 27% throughout the transformation phase, quite an achievement. This matched the public commitments given by management when the transformation was announced.

Maintaining margins has been an important discipline to ensure that increased expenditure on research and product development was internally funded through increased productivity. Steve Hare, our CFO, has been relentless in ensuring that we met our commitments.

The past year has been another strong year of progress, with great strides made in strengthening Sage's commitment to winning in the market and its philosophy of achieving customers for life. It also saw the rollout of our cloud accounting solutions, Sage Live, Sage One (Global Accounting Core), X3 and the cloud-enabled Sage 50c and Sage 200c families across our major geographies, and there has been a step change in the discipline and efficiency of the go-to-market functions under the leadership of our President, Blair Crump.

Sage also completed the acquisitions of Intacct (now Sage Intacct), Fairsail (now Sage People) and Compass. With the current acceleration of the cloud market, it is essential to invest for growth. These acquisitions, combined with the organic progress made with our new customer acquisition strategy, provide some very compelling evidence that Sage can build on what it has achieved to date to continue to win new customers at scale and show accelerating momentum into next year and beyond, whilst maintaining and even enhancing margins over time.

With all the change taking place in your Company, the Board has placed great importance on the evolution of the right culture in the Company. During the year we conducted the "Your Voice" survey with encouraging results that the work we have done to develop the right culture is progressing well. The survey was completed by 70% of colleagues, providing us with valuable insight into how the business is viewed through the lens of our colleagues.

Members of the Board took the opportunity to meet with Sage partners and customers at Sage Summit, as we have enjoyed doing in prior years. This year there were no fewer than eight Sage Summit conferences held around the world with over 29,000 registered attendees, providing an unrivalled channel to support and champion the cause of our Business Builder entrepreneurs and partners. Board members also visited various parts of the Company during the year and also supported Sage Foundation by spending a strategy day with one of the recipients of Sage Foundation's help.

Ruth Markland and Inna Kuznetsova retired at the AGM in February, the former having served as both Senior Independent Director and Chair of the Remuneration Committee. I would like to thank them both for their contribution. We were joined by Soni Jiandani in February 2017 and Cath Keers in July 2017 as new Non-executive Directors. Soni brings with her a wealth of knowledge in the technology industry, having worked at Cisco for 22 years, amongst other technology companies. Cath has substantial digital and customer experience gained through high-profile FTSE companies including Tesco Mobile and O2 and has a deep understanding of leveraging sales and marketing activity to build successful brands. Drummond Hall succeeded Ruth as both Senior Independent Director and Chair of the Remuneration Committee.

We also created a new position of Board Associate and appointed Amy Lawson from the communication team to fill this role. The role is reserved for an employee and Amy has begun attending all Board meetings and participating in the discussion and debate. We believe this development will help further strengthen the bonds with our employees and provide new insights to the Board.

Your Company remains highly cash-generative and the Board was careful to balance the need to grow with investors' desire for dividends. Striking the appropriate balance allowed an increase of 9% in the dividend to 15.42p, as announced on 22 November 2017.

I would like to thank Stephen Kelly and his team for another year of strong progress and I look forward to the next phase of Sage's evolution as we start to see the benefits of the work carried out during transformation, with accelerating growth and strong margins that will benefit customers, colleagues, partners and shareholders.



Donald Brydon
Chairman

 More information on the Board Associate on page 68

Creating value

Our business model is the means by which we can deliver on our strategic objectives.



Inputs – Creating value

People
A tone from the top approach by an experienced management team, combined with a talent acquisition programme, provide an exceptionally skilled and engaged workforce.

Trusted adviser
We know our customers and our customers know Sage.

Innovation
In a continuously changing landscape we use the latest technology to bring forward-thinking products to the market.

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

Routes to market
Our multi-channel approach consisting of direct sales channels, business partners and accountants helps us grow in our markets.



The right strategy for our markets

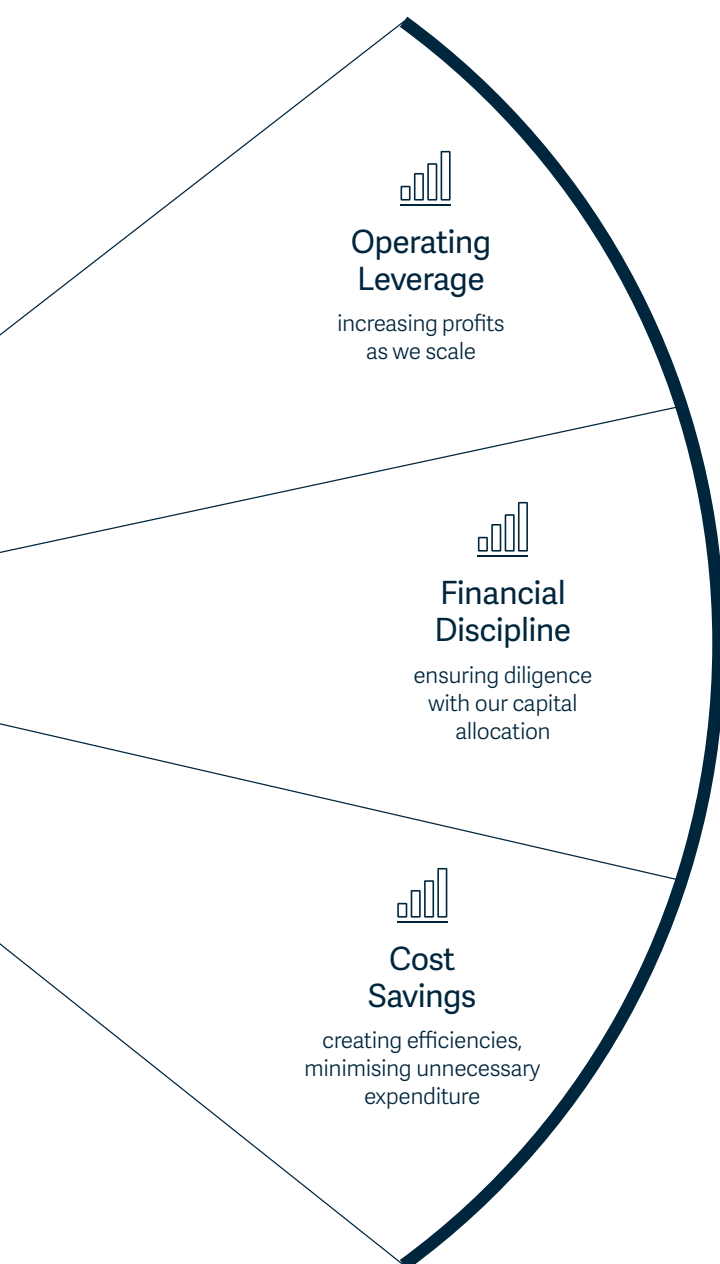


More information about our strategy on p20-31



Driving operating profit

Creating value and delivering to our stakeholders



Outcomes

Customers:

- NPS at a three-year high of +25
- The introduction of Sage Business Cloud

Colleagues:

- 70% of colleagues completed the “Your Voice” survey within the first nine days
- At least three days’ applicable training completed by every employee

Communities:

- 23,000 voluntary days given back to the community
- A combined corporation tax and national insurance charge of £191m for FY17
- £1.8m in grants awarded in FY17

Shareholder:

- Higher quality recurring revenue
- Superior operating margin
- Strong free cash flow
- Progressive dividend



More information about the value we create for our stakeholders on p40-47

In conversation with the Chief Executive and Chief Financial Officer

Invested in the future



Stephen Kelly
Chief Executive Officer
@SKellyCEO

Steve Hare
Chief Financial Officer
@SHareCFO

What have been your highlights both in FY17 and throughout the transformation?

SK: Well the first thing to say is we've achieved 6.6% organic revenue growth and a 28.0% organic operating margin in FY17. In fact, we've consistently exceeded 6% revenue growth and 27% margins for the past three years whilst carrying out a significant transformation programme.

In terms of our Customer for Life strategy, the continued shift to a subscription model has been a highlight in the year. 78% of our revenue is now recurring and software subscription revenue now represents 37% of total revenue, a striking improvement from 22% three years ago.

In FY17 the focus has been on moving our existing customers to the cloud-enabled versions of Sage 50 and Sage 200, which are protecting and enhancing the value in our installed base. These solutions provide the flexibility of the cloud, combined with the functionality of desktop.

The results here have been very encouraging, with cloud-enabled revenue rising by 140% in the year to £133m, with over 170,000 customers now on a cloud-enabled solution.

And this commitment to the installed base has also resulted in an 22 point increase in NPS from three years ago to 25 as at Q4 17, our highest rate throughout the transformation. We talk about customer obsession in the corridors of Sage and we are committed to building on this NPS trend.

FY17 has also been the year of the cloud for Sage. From virtually no cloud presence in FY14 we've now launched a comprehensive suite of cloud-first solutions in our major geographies. So we now have Sage One in 14 countries, Sage Live – which we developed internally in 26 weeks and has won multiple awards – is now in nine countries and Sage X3 cloud-first is now in 14 countries.

SH: Yes, and importantly these solutions are all growing significantly faster than the market rate and are starting to become a significant revenue stream. FY17 cloud ARR, including cloud enabled solutions and Sage Intacct and Sage People, was £300m and is growing at over 80%.

For me the cost transformation has also been a real achievement. We achieved £59m of annualised savings in FY17, which means over £100m of annualised savings achieved over the past two years, which we continue to



invest for growth. This has allowed us to reduce the G&A expense as a proportion of revenue from over 17% in FY16 to under 14% this year, down from 19% three years ago.

We've also committed that this will be the last year of transformational non-recurring (exceptional) costs. We will continue to identify cost savings but this financial discipline is now business as usual.

SK: The work that we have carried out throughout the transformation is already starting to show signs of progress, especially in our mid-size regions that have been more agile in adapting to change, with four out of our eight regions showing double-digit growth in FY17, clear signs that the strategy is working.

What should we look forward to in FY18?

SK: FY18 is the year of Sage Business Cloud, which we launched in October 2017, providing customers with the one and only cloud business management platform they will ever need from start-up to enterprise. Sage Business Cloud offers our customers a powerful set of cloud services, perfectly aligned to their requirements, unifying the Golden Triangle of Accounting, People & Payroll and Payments & Banking. Supporting core solutions, we are developing a thriving ecosystem with market place applications from ISV partners powered by a Sage developer platform for APIs and innovative

platform services including AI and the Pegg bot framework. There is no other consistent global competitor who offers this breadth of cloud solutions across our market segments and the Golden Triangle. It also accelerates the shift away from high-cost, hard to implement, monolithic ERP systems and positions Sage Business Cloud as compelling for new and existing customers, allowing them to join the platform and grow at any stage of their business journey.

SH: For me FY18 means we are starting on the path towards double digit revenue growth and superior operating margins. Our organic growth aspirations through Sage Business Cloud, combined with the acquisitions we have made, mean that we can start to target a more ambitious growth rate in FY18, with plans to reach 10% revenue growth in the mid-term. We are also setting ourselves the goal to trend our operating margins upwards in the mid-term. To do this we will continue to target cost savings and instil financial discipline within Sage. When the time is right we can stop over-investing in our go-to-market functions and these factors, combined with operating leverage, will allow our margins to rise.

SK: Free cash flow remains a key priority too. We are one of the only FTSE 100 companies that have increased their dividend every year since 1999 and we will continue to do that but we will also be mindful of how we deploy our capital. Steve and I spend a lot of time thinking about how we employ capital to drive the best

In conversation with the Chief Executive and Chief Financial Officer continued

returns. So when we look at an acquisition, financial discipline and strategic fit of the acquisition are very important considerations. In FY17 we have invested a significant amount of cash on acquisitions but we have retained strong year-end Group return on capital employed of 27% and net debt: EBITDA leverage at 1.6x, well within our guided range of 1-2x. So I think shareholders can expect to see a continuation of that discipline and an increasing acceleration of the performance of the Company.

Speaking of acquisitions, there were some significant purchases made in FY17. Can you tell us a bit more about them and their progress since joining Sage?

SK: Yes, I'm really excited about the three acquisitions which we announced in FY17. The largest was the acquisition of Intacct, now Sage Intacct, which has been named the Gartner Visionary for Cloud Financial Management Suites in North America. We also announced the acquisition of Fairsail, which we have rebranded as Sage People, the cloud HCM solution, and Compass, the benchmarking and collective intelligence platform.

Each of these acquisitions was carefully selected for its ability to accelerate our success in the cloud and to reinforce our Golden Triangle. Thanks to these acquisitions and the significant focus internally, we now have a comprehensive suite of cloud solutions across our Golden Triangle to take a customer from start-up all the way to enterprise in our major geographies.

SH: These were three different acquisitions but they do have some similarities, with the best example being that in all cases we have acquired fantastic teams led by first-class leadership. The acquisitions weren't about Sage acquiring businesses and imposing an inflexible way of working on them, it's about us learning from each other to accelerate Sage's strategy. The teams in our acquired businesses have built market-leading, cloud-first subscription models and we are delighted to welcome them to the Sage family.

It's very encouraging that all three businesses have grown more strongly under our ownership. Sage Intacct has surpassed ARR of \$100m for the first time ever and continues to grow at over 30%. Sage People had a record Q4 with the highest ever contract signed, the highest ever average contract value (ACV) and



renewals by value of 100%. And Compass has increased user numbers by 65% since acquisition.

Sage has transformed into a cloud-first company. How are you driving success in the cloud and which areas are you focusing on?

SH: Throughout FY17 we have really focused on improving functionality, user-experience and overall ecosystem in the cloud. This has resulted in driving our cloud-first solutions higher within their market segments and increasing revenue per contract. For instance,

during the year we signed over 50 Sage X3 contracts over £100,000 resulting in Sage X3 revenue growing at over 20% in FY17. Sage Live average ACV has shown a four-fold increase in the year and Sage One average ACV has risen by 34% on the prior year as we focus on customers more suited to these functionally-rich solutions.

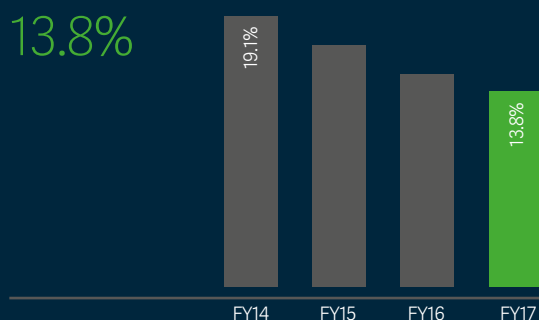
SK: Yes, we are the clear market leader in scale-up to lower enterprise and these market segments continue to drive most of our revenue, providing the sweet-spot of strong profitability and fragmented competition. The acquisition of Intacct significantly enhances this position as we now have a market-leading,

“The acquisitions weren't about Sage acquiring businesses and imposing an inflexible way of working on them, it's about us learning from each other to accelerate Sage's strategy”.

Progress through the transformation:

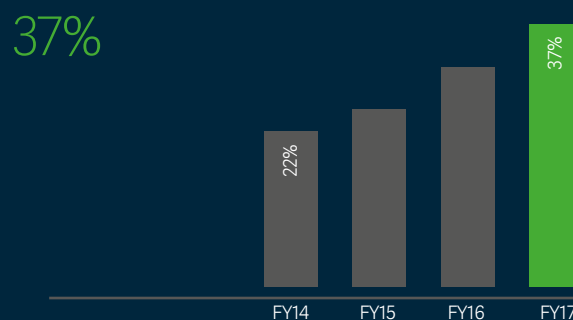
General & Administration ("G&A") expense as a % of organic revenue

13.8%



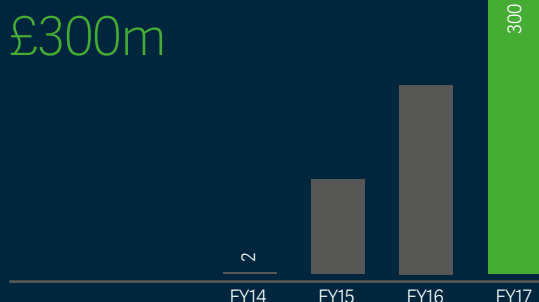
Software subscription revenue as a % of organic revenue

37%



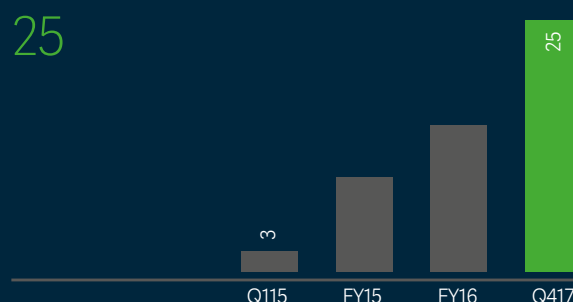
Cloud Annual Recurring Revenue (£m)*

£300m



Net Promoter Score**

25



* Annual recurring revenue ("ARR") is the value of all components of recurring revenue, annualised for the ensuing year. Cloud ARR includes the contributions of Sage People and Sage Intacct in addition to Sage One, Sage Live, the cloud version of Sage X3 and the cloud-enabled versions of the Sage 50 and Sage 200 families.

** NPS is measured by external company, Medallia, following the industry prescribed process. This is the first year that we have disclosed NPS and quarterly fluctuations may be expected.

cloud-first solution in this space to win in the US, which represents over 50% of our total addressable market.

The start-up market also remains an important part of the strategy. With Sage One, as well as improving functionality, we are continuing to focus on building our accountant network and launching Sage One through our new e-commerce website.

Tell us about your current go-to-market strategy, have there been any significant changes this year?

SK: I'm pleased to say things are progressing well under the stewardship of our President, Blair Crump. Regional leaders now report into Blair and five out of eight of these top leaders have changed in the past 18 months, assembling a highly competent and effective team. Blair is cutting through the complexity so our sales teams can focus on winning. There is still more to do here but we are making good progress.

SH: We've also made good progress with our partners and accountants this year, expanding our network, enhancing our referral programme and using this channel to advise on our product roadmap and strategy. The green shoots of this work are starting to show with partner revenue growing by 9% in the year and an increase in cloud partners by 125%.

SK: We've seen some successful marketing campaigns too this year thanks to a laser-guided focus on areas that will drive a significant conversion. Our targeted campaign in September 2017, featuring our updated brand in San Francisco and Chicago, resulted in a 41% rise in brand search queries and a rise of over 2,000% in web sessions.

There have been many achievements under your leadership at Sage, what would you say is your proudest so far?

SK: Throughout a transformation, instilling a positive culture is incredibly important. Sage Foundation has been an integral part of this and I'm really proud of what we have achieved so far. We offer each of our colleagues up to five paid days a year to volunteer, in which they can do something personal and important to them. I think it's fantastic that actually, in what is a relatively short period of time over three years, in FY17 we had an average of two Foundation days per colleague.

SH: I completely agree. To add to that we have a system where we look to our colleagues to make recommendations in causes they would like us to support. In FY17 alone we have awarded nearly two million pounds of grants which is a huge achievement. I think in this day and age everybody wants to see businesses

doing the right thing and contributing to their communities and it's been a great way to attract and retain the best talent.

SK: We can't talk about Sage Foundation without mentioning our partnership with the Invictus Games, which was a real highlight of FY17 and an immensely humbling experience. I was privileged to meet some inspirational people who told some truly amazing and moving stories. When you bring that back into the workplace, some of the things you grapple with on a day to day basis don't seem quite so big when you compare them to the journeys that these people have been through.

Stephen Kelly
Chief Executive Officer
@SKellyCEO

Steve Hare
Chief Financial Officer
@SHareCFO

Delivering our strategy

A year of strategic acquisitions and disposals.

This year's M&A activity has seen Sage strengthen the Golden Triangle by acquiring technology that will complement our existing suite of products seamlessly, whilst reinforcing our commitment to the cloud. The integration of collective intelligence modules within our existing products will fortify our customers for life, whilst being able to offer a complete suite of cloud solutions maximises our potential to win new customers at scale in the market.

Intacct – acquisition

In August 2017 we acquired Intacct, the leading provider of cloud financial management solutions, based in San Jose, California, with thousands of customers in North America. Intacct's cloud-based solution (to be known as Sage Intacct) is suitable for the upper scale-up to lower enterprise market and fits well between our Sage Live and X3 products, with very little overlap.

Sage Intacct is hugely popular in the North American market, growing at over 30%, well in excess of the market rate. The acquisition will provide us with the platform to build a market-leading position for cloud financial management solutions in North America, which represents over 50% of our total addressable market. FY18 public spend on cloud financial software in the scale-up market is expected to grow by \$400m, more than the entire cloud market of the next biggest geography.

Whilst the solution is currently only available in North America, in the medium term we have plans to deploy Sage Intacct across our other major English-speaking geographies, once we have integrated and established the business within Sage in North America.

Fairsail – acquisition

Having previously held a minority interest, we obtained full control of Fairsail (rebranded as Sage People) in March 2017. Sage People is a pure-cloud HCM system which keeps our Business Builders legal and compliant, whilst providing a single touchpoint for talent management, colleague recognition, career development and payroll services.

Sage People enhances our People and Payroll offering and reinforces our commitment to the Golden Triangle and the cloud. The solution is complementary with accounting products such as X3, providing cross-sell opportunities to the existing customer base, as well as growth opportunities through new customer acquisition internationally.

Compass – acquisition

We acquired Compass in March 2017, an innovative collective intelligence and e-commerce benchmarking platform. Compass can be integrated into our suite of financial solutions and enables customers to benchmark their own metrics in the context of their peers; another great example of our commitment to revolutionising business.

North American Payments – disposal

In FY17 we conducted a review of our payments strategy, concluding that we would leverage existing payments assets that are complementary to our core business model and growth aspirations and exit those areas where the strategic fit is less strong. The North American Payments business was in an industry where it is considered that partners would be able to provide a better service to our customers than providing the service internally. We therefore disposed of this business, and have since signed partnerships with best-in-class payments providers who will be able to offer market-leading payments solutions in North America and globally, increasing automation and speeding up the movement of money.

"We were attracted to Sage because it is the global category leader in the scale-up market segment. Working together, Sage and Intacct have a fantastic opportunity to grow this market position by winning in the US and worldwide cloud markets."

Rob Reid
CEO Intacct



We presented our strategy at our June 2015 Capital Markets Day, based around five strategic pillars. These pillars remain important today and continue to evolve with the business.

Customers for life



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

See page 23

Winning in the market



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

See page 25

One Sage



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

See page 31

Capacity for growth



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

See page 29

Revolutionise business



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

See page 27

Our strategy

"Today, I need help with more than just managing invoices and tracking expenses, I also need reports and cashflow forecasts that enable me to plan ahead and continue bringing new, innovative products to the market. Sage gives me that."

Denise Zannu

Owner of Black Mermaid's Bath & Body

Denise helps people to feel comfortable in their own skin. As her business moves from start-up to scale-up, Sage has helped Black Mermaid's Bath & Body not only survive, but thrive.



www.sage.com/investors



Customer for life...

Helping our customers be more successful through a deeper, enduring relationship with Sage. This involves providing choice, indispensable advice and the right product for the customer – however they want to deploy their solution.

We've invested for the future...

Throughout the transformation we have focused on the transition of customers from a licence model to subscription, allowing the mutual benefits of improved features and functionality for the customer, whilst driving higher value contracts and increasing our retention rates.

We do not force migration and pride ourselves on being able to give our customers products and contracts that best suit their needs. Any migrations are hassle-free and are delivered with exceptional customer service.

Demonstration that our strategy is working

Software subscription revenue as a proportion of total revenue has increased year-on-year and is now 37%, up from 22% in FY14. We have managed this transition whilst increasing our renewal rates and NPS.

Significant momentum has also been achieved with our cloud-enabled solutions with revenue increasing by 140% to £133m, whilst the number of cloud-enabled contracts have increased by 87% to 172,000.

↑140%

increase in cloud-enabled revenue in FY17

↑87%

increase in cloud-enabled contracts in FY17

KPIs

- Renewal rate



More information about our KPIs on p32-33

Principal risks

- Licensing model transition
- Market intelligence



More information about our Risks on p52-61

...acceleration starts here.

A pathway to the cloud for our on-premise customers.

At Sage we want to make it easy for our customers to take advantage of the benefits of the cloud, but we recognise that they want to upgrade their solutions at their own pace. That's why at Sage, our existing customers can upgrade to the cloud-enabled version of their existing solution, giving the flexibility and mobility of the cloud, whilst keeping the functionality and familiarity of the solutions they know and love.

And when our customers are ready for a native-cloud solution, we have Sage Business Cloud that will deliver the full benefits and advantages that the cloud has to offer. New and existing customers can access Sage Business Cloud at any stage of their business journey, adding solutions from Money to People as their business continues to grow and evolve. Start-up or enterprise, manufacturing or services company, Sage offers a rich and powerful set of cloud solutions from easy to use cloud accounting, to industry-specific business management software to support unique business requirements.

Our strategy

"Thanks to Sage, when we added a warehouse in Berlin, we were able to move to the cloud, keep teamwork and data in one place and easily manage everything from our head office in Madrid."

Luis Ongil

CEO and Co-founder of Percentil

Percentil keeps already-made clothing from ending up in landfills and saves over a hundred thousand litres of water per day. As one of our cloud customers, the Percentil business can be managed from any location in the world.



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Winning in the market...

Outpacing the competition to gain market share and achieve our ambition to be the leader in our chosen markets. Providing the very best cloud technology will unlock huge opportunities for growth.

We've invested for the future...

Throughout the transformation, significant work has been done to prime the organisation to win new customers at scale. We've launched a suite of award-winning cloud accounting solutions across our major geographies to provide the latest technology and functionality to win in the market. We continue to drive discipline and efficiency through our sales and marketing functions to unlock our potential to grow in the cloud.

FY17 has seen the launch of a new web and mobile experience on sage.com, which delivers an end-to-end experience for prospects, customers and partners to access any product, service or information from Sage. Visitors now have a seamless experience across all their devices, as they engage with blogs, communities and marketplaces through our site, geo-targeted to their location.

Demonstration that our strategy is working

We are starting to see clear evidence of new customer acquisition at scale: aided by 52 country launches of cloud products in FY17, we now have nearly 600,000 cloud contracts and the net new recurring contract number has increased by 32% since FY14.

Sage Business Cloud comprises revenue from the cloud and cloud-enabled elements of Sage One, Sage Live, Sage X3, Sage Intacct, Sage People and the Sage 50C and Sage 200C families. FY17 cloud ARR was £300m, growing at 83% in FY17.

52

Country launches of cloud products in FY17

£300m

Cloud annualised recurring revenue

KPIs

- Adoption of Sage One
- Adoption of Sage X3

Principal risks

- Market intelligence
- Competitive positioning and product development



More information about our KPIs on p32-33



More information about our Risks on p52-61

...acceleration starts here.

Cloud business management solutions are set to dominate the market for years to come. IDC predicts that by 2020, nearly 50% of consumer software spend in our major geographies will be on cloud-based solutions and cloud adoption growth rates are accelerating fast.

In FY17 the US spend on cloud financial software exceeded \$11bn and this pace is set to continue. Sage is strategically positioned to take full advantage of this transition to accelerate growth and deliver the best overall customer solutions and experiences.

To capitalise on this market shift, Sage has launched Sage Business Cloud in FY18, the one and only business management platform a customer will need throughout their business journey. Designed to support companies of all sizes across a range of verticals, Sage Business Cloud is a platform comprised of cloud products including Accounting, Financials, Enterprise, People, Payroll, Payments and Banking, as well as marketplace apps that can be provisioned to match the exact needs of any business. Sage Business Cloud products are supported by the very latest technology, such as AI and Machine Learning, to help our customers cut the burden of administration and improve productivity.

Our strategy

"We chose Sage because the complete business management solution is perfect for our philosophy. I love that one system can account for all parts of the company. If you take a stroll around the building you will find Sage software in every room."

Max Gülcher

Head of Finance & IT at Drees Lichttechnik

Sage fulfils Drees's ongoing need for maximum visibility in their increasingly complex operations. With the ability to easily manage so many parts of the business, Drees, like Sage, continues to charge down a path of innovation as the business grows.



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Revolutionise business...

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

We've invested for the future...

Our products have matched changes in technological advancements stride for stride, not only in terms of the cloud, but also in understanding the role that automation and AI will play in making accounting invisible. Sage One now uses AI to automatically perform bank reconciliations.

We also developed the world's first accounting chatbot which has thousands of users across all Sage platforms. Currently embedded within Sage One in the UK&I, US, Canada, Spain and Brazil, supporting three different languages, Pegg provides a virtual personal assistant to perform administration tasks through chat, voice and camera.

Our M&A activity has reinforced our commitment to being market leaders in providing the most innovative and forward thinking products. The acquisition of Compass now allows users to benchmark their own performance against their competition, whilst Intacct has been classified as a visionary in the renowned Gartner magic quadrant.

Demonstration that our strategy is working

Pegg has recently been integrated to provide customer service support for Sage 50 Payroll customers and can answer over 500 of the most frequently asked questions, reducing the time consumers spend waiting for a response from help desks, allowing them to improve their productivity.

500

questions that Pegg is trained to answer

KPIs

- Annualised Software Subscription Base ("ASB")



More information about our KPIs on p32-33

500

ISV partners in our ecosystem

Principal risks

- Partners and alliances
- Third party reliance



More information about our Risks on p52-61

...acceleration starts here.

Our commitment to revolutionising how start-ups launch their business is underpinned by our payments and banking partnerships. Every partnership signed is designed to make life easier for these Business Builders:

Getting started straight away: Our partnership with Stripe means an entrepreneur can set up and receive card payments instantly, with easy reconciliation.

Setting up direct debits: Our partnership with Go Cardless enables direct debits to be set up in minutes, ensuring that our Business Builders get paid on time, every time. This automated payment service reduces admin and is seamlessly integrated into our accounting solutions, enhancing efficiencies and reducing the risk of error.

Raising finance faster: Our partnership with Liberis means our customers can gain finance for their business quickly, accessing higher acceptance rates and a more efficient way to get access to working capital, taking care of the cash flow concern that most start-up businesses face.

Getting paid earlier: Embedding pay now buttons into our customers' sales invoices encourages faster cash receipts from their customers, improving their cash flow.

Direct bank feeds: Our partnerships with major global banks mean bank statement data can be imported to Sage software instantly via live direct bank feeds.

Our strategy

"Sage helped us build a foundation for growth by making it easy for us to manage inventory planning, monthly reporting, compliance and more."

Jacob Thundill
Founder and Director of Cocofina

Cocofina sells 32 products in 28 countries. With so much rapid growth, Jacob needed a strong financial partner to help maintain a solid foundation for the future.



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Capacity for growth...

Financial discipline and efficient capital allocation are integral to Sage's strategy to ensure ongoing cost savings generate superior operating margins as the business scales.

We've invested for the future...

Throughout the transformation there has been a huge drive for cost savings. Functions such as Marketing, Product Delivery and Technology have been centralised, we have halved the number of properties we occupy whilst investing in existing sites and we have hired top talent to drive forward growth and efficiencies. This has resulted in reducing the general & administration ("G&A") spend as a proportion of revenue ("G&A expense ratio") from 19% to 14%. We continue to identify cost savings across all business functions, to reinvest into go-to-market functions to drive growth.

Whilst reducing our operating expenditure we have continued to invest in capital expenditure. Of the savings made from property consolidation, £32 million was reinvested in FY17 in 11 new locations across nine countries, creating 270,000 square feet of agile, best-in-class work space, delivered for the benefit of 2,700 colleagues.

Any M&A activity is conducted with financial discipline, ensuring any acquisitions generate a strong return on investment. Furthermore, acquisitions of high-growth technology assets are funded through our cost saving initiatives to ensure that we can maintain and even enhance our margins.

Demonstration that our strategy is working

The reduction of unnecessary back office costs has generated over £100 million of cost savings over the transformation period and, as a result, our G&A expense ratio as a percentage of revenue has reduced significantly.

£59m

annualised cost savings in FY17

↓360bps

reduction in G&A expense ratio

KPIs

- G&A expense ratio

Principal risks

- Competitive positioning and product development
- Business model delivery
- Supporting control environment

More information about our KPIs on p32-33

More information about our Risks on p52-61

...acceleration starts here.

Beyond the transformation we will continue to strive for efficiencies and cost savings across all our functions; this will be achieved through a combination of people and process, with a tone from the top culture created amongst our colleagues who see financial discipline as business as usual.

Where appropriate, cost savings will be reinvested into those areas that will deliver growth, either organically through specific products, regions and functions or through targeted bolt-on M&A of high growth technology assets. We are committed to maintaining and enhancing margins beyond the transformation.

Our strategy

"It used to take days to share ticketing information between two people in the same room. Sage helps us cut through the red tape, and helps us do business faster. This gives us more time to focus on doing what we love, bringing the people of Bristol together."

Gavin Marshall
CFO of Bristol Sport

Bristol Sport shares Sage's value of instilling pride, focus, and a sense of unity in its people. A perfect partnership.



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One Sage...

Our people and our culture; working collaboratively with pace and agility, ensuring that we integrate our acquired businesses thoroughly. Operating as a truly unified organisation that provides exceptional experiences for our customers.

We've invested for the future...

Creating a unified culture in a previously decentralised business has been at the forefront of Sage's strategy during the transformation period. The creation of Sage TV Live – broadcast live to all employees – and All Hands meetings have increased colleague engagement.

The Sage Foundation has enabled Sage to give back to the local community, with colleagues being encouraged to take up to five days paid volunteering each year.

One Sage also means investing in the development of our colleagues, which continued in FY17 with a strong focus on creating consistent learning experiences across all of our geographies. This included SageLearning, a cloud-based learning management system, intensive standardised training for all sales and service colleagues, and the "Leading at Sage" programme which supports our community of 2,000 managers.

Demonstration that our strategy is working

Since its creation in 2015, Sage Foundation has led to over 150,000 hours being dedicated across 36,000 volunteer days by Sage colleagues to community-based projects and local charities.

£1.8m

grants awarded in FY17

23,000

volunteer days organised by Sage Foundation in FY17

KPIs

- Sage Foundation days

Principal risks

- Supporting control environment
- Information management and protection (including cyber)
- Regulatory and legal framework
- Brand



More information about our KPIs on p32-33



More information about our Risks on p52-61

...acceleration starts here.

We will continue to deploy sufficient resources to ensure the seamless integration of Sage's vision and strategy within any acquisitions we make. The key to our success during the integration phase is to protect the business model of the acquired company, to nurture continued momentum. We do this whilst welcoming colleagues to the Sage family and embedding a positive, aligned culture, as demonstrated through our recent acquisition of Intacct.

Welcoming Intacct into the Sage family – here's how we did it:

- Sage management invested significant time with Intacct management during the due diligence process to ensure that both cultures, values and strategic vision for Intacct as part of the Sage family were aligned
- Sage key management visited Intacct in the days following the acquisition announcement to welcome Sage Intacct colleagues and outline the new vision and strategy
- Key management personnel have been retained
- Sage Intacct has been strategically positioned within Sage Business Cloud
- The day that the acquisition was closed, CRM systems were linked and sales leads began to be shared between North American teams

Our Key Performance Indicators

Measuring our progress

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



Customers for life

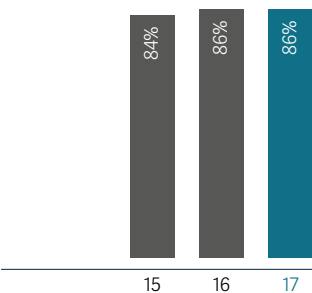
Renewal rate

86%
FY16: 86%

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

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

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



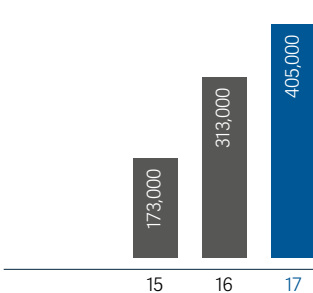
Winning in the market

Adoption of Sage One

Paying subscriptions

405,000
FY16: 313,000

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



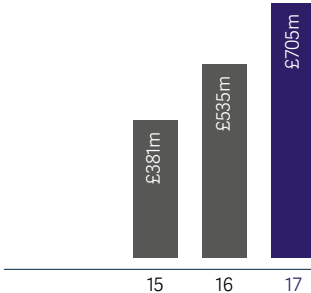
Revolutionise business

Annualised Software Subscription Base ("ASB")

£705m
FY16: £535m

Description: ASB is the leading indicator for how our move to subscription is progressing. Growth is supported by our latest technology updates which are delivered regularly on subscription. ASB is the amount of organic software subscription revenue in the last month of the period multiplied by 12.

Performance: Our progressive move to subscription continues to gain momentum with growth in ASB of 32% for the year to £705m.





Capacity for growth

General & administration expense ratio

13.8%

FY16: 17.4%

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

Performance: Throughout our transformation we have been moving towards a single, united operating model. In FY17 we have reduced our G&A cost as a proportion of revenue by 360bps.



One Sage

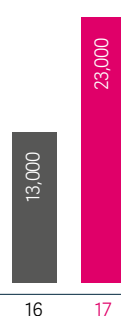
Sage Foundation days

23,000

FY16: 13,000

Description: Doing business the right way is important at Sage (see more at page 40). Giving back to the community through Sage Foundation allows our colleagues to volunteer to work with charitable causes and we encourage every colleague to take up to five Sage Foundation days per year.

Performance: The success of Sage Foundation in its first year continued to gain traction in its second year, leading to an additional 23,000 voluntary days organised by the Sage Foundation.



Financial measures

Underlying EPS growth

3.5%

FY16: 9.0%

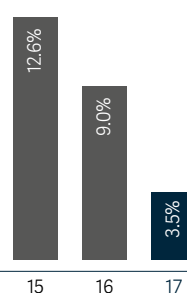
Description: Underlying basic EPS is defined as underlying profit after tax divided by the weighted average number of ordinary shares in issue during the year, excluding those held as treasury shares. Underlying profit after tax is defined as profit attributable to owners of the parent excluding:

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

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

For a reconciliation of underlying basic EPS to statutory basic EPS, turn to page 140.

Performance: Slower underlying EPS growth primarily reflects the impact of the loss-making acquisitions made during the period, combined with a higher effective tax rate.



Underlying Cash Conversion

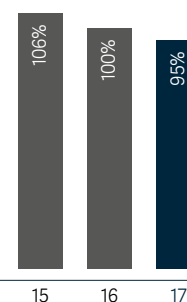
95%

FY16: 100%

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

Performance: The business remains cash generative with underlying cash conversion of 95%, down slightly from FY16, reflecting an increase in capital expenditure as we invest for growth, combined with strong Q4 sales, for which cash was collected in October 2017 and strong X3 performance, which attracts longer payment terms.

See how our underlying EPS growth KPI links to remuneration on page 94.



Continuing our strong performance

Group performance

Sage achieved organic revenue growth of 6.6% (FY16: 6.7%) and an organic operating profit margin of 28.0% (FY16: 27.1%). Recurring revenue growth continues to drive revenue, growing at 9.0% in FY17 (FY16: 10.4%), including software subscription growth in FY17 of 30.3% (FY16: 32.1%).

The organic revenue definition for FY17 neutralises the impact of foreign currency fluctuations and excludes the contribution from current and prior period acquisitions, discontinued operations, disposals and assets held for sale. The underlying revenue definition neutralises the impact of foreign currency fluctuations but includes the contribution from current and prior period acquisitions, discontinued operations, disposals and assets held for sale.

From FY18 onwards, organic revenue will include acquired businesses from the beginning of the financial year following their date of acquisition. Adjustments will be made to the comparative period to present acquired businesses as if these had been part of the Group throughout the period. Acquisitions and disposals which occurred close to the start of the opening comparative period where the contribution impact would be immaterial will not be adjusted. A reconciliation of operating profit to statutory operating profit is shown on page 38.

Statutory performance has been impacted by favourable movements in key exchange rates during the year. Statutory figures are based on continuing operations and include the impacts of acquisitions and disposals.

Revenue

	Statutory			Organic		
	FY17	FY16	Change	FY17	FY16	Change
Northern Europe	£368m	£336m	10%	£363m	£338m	7%
Central and Southern Europe	£580m	£491m	18%	£579m	£547m	6%
North America	£492m	£405m	21%	£481m	£457m	5%
International	£275m	£207m	33%	£273m	£249m	10%
Group	£1,715m	£1,439m	19%	£1,696m	£1,591m	7%

Operating profit

	Statutory			Organic			Underlying		
	FY17	FY16	Change	FY17	FY16	Change	FY17	FY16	Change
Group	£348m	£267m	30%	£475m	£431m	10%	£496m	£471m	5%
Margin	20.3%	18.6%	1.7%	28.0%	27.1%	0.9%	27.0%	27.0%	(0%)

Statutory operating profit is stated after non-recurring costs incurred relating to business transformation and recurring costs relating to amortisation of acquisition-related intangible assets and other M&A activity-related charges.

Throughout FY17, Sage has secured annualised savings of £59m (FY16: £51m), used to reinvest in go-to-market functions and to offset losses in high growth technology acquisitions. An associated non-recurring (exceptional) cost of £73m (FY16: £110m) has been recognised in the year.

Revenue mix

Segmental reporting

	Recurring revenue			Processing revenue			SSRS revenue		
	FY17	FY16	Change	FY17	FY16	Change	FY17	FY16	Change
Organic									
Northern Europe	£287m	£262m	9%	£37m	£35m	4%	£39m	£41m	(4%)
Central & Southern Europe	£449m	£424m	6%	–	£2m	(100%)	£130m	£121m	7%
Total Europe	£736m	£686m	7%	£37m	£37m	0%	£169m	£162m	4%
North America	£378m	£347m	9%	£32m	£31m	2%	£71m	£79m	(11%)
International	£200m	£174m	15%	£14m	£13m	7%	£59m	£62m	(5%)
Group	£1,314m	£1,207m	9%	£83m	£81m	2%	£299m	£303m	(1%)
% of total organic revenue	78%	76%		5%	5%		17%	19%	

Recurring revenue

Sage delivered recurring revenue growth of 9% (FY16: 10%), driven by the year-on-year increase in subscription revenue of 30% (FY16: 32%), in line with the transition to a subscription model. The slight slow down of recurring revenue is due to performance in France: excluding this region, recurring revenue grew at 11% for the year. Contract renewal rates remain stable at 86% (FY16: 86%) and recurring revenue now represents 78% of organic revenue (FY16: 76%).

Processing revenue

Processing revenue has grown by 2% (FY16: 22%), reflecting growth in Northern Europe, North America and International.

SSRS revenue

SSRS revenue declined by 1% (FY16: decline of 8%) in line with the continued transition to subscription revenue, balanced by strong growth in Sage X3 and an increase in professional services and training revenue.

Processing revenue was flat in Europe (FY16: 12%) reflecting growth in Sage Pay in the UK & Ireland, offset by slowing growth elsewhere.

SSRS revenue grew by 4% (FY16: decline of 8%) reflecting growth of Sage X3 and professional services, offset by the planned decline in licences.

Northern Europe

UK & Ireland – continuing momentum through C4L

UK & Ireland revenue grew by 7% (FY16: 7%) in the year, with recurring revenue growth of 9% underpinned by software subscription growth of 25%.

The main growth driver in FY17 was the 17% growth in Sage 50 Accounts, which remains a popular solution in the UK and Ireland, underpinned by growth of 86% in Sage 50c, the cloud enabled solution.

The Sage 200 franchise also performed well in the UK and Ireland, growing at 14%, as Sage continues to grow its position in the scale-up market.

Sage X3 revenue grew by 48% in the year in the UK and Ireland as the region continues to increase contract size, targeting bigger customers through the direct sales team. There were seven Sage X3 transactions signed over £100k in the year in the UK and Ireland.

Sage One revenue grew by 53% in the UK and Ireland driven by a 32% increase in ACV and increasing subscription numbers as the region continues to attract higher paying customers.

Processing growth of 4% was driven by Sage Pay as e-commerce continues to be popular in the UK and Ireland.

The focus for FY18 in the UK and Ireland is on the continued migration to subscription through cloud enabled solutions as well as driving growth in ACV and subscription numbers in Sage One and Sage Live.

Performance – European regions

Organic Revenue Growth	FY17	FY16
Northern Europe	+7%	+7%
Central Europe	+12%	+4%
France	+1%	+6%
Iberia	+10%	+7%
Central & Southern Europe	+6%	+6%
Total Europe	+6%	+6%

Revenue in the European regions grew by 6% overall in FY17 (FY16: 6%). Within Europe, all major geographies excluding France have grown in excess of the organic Group growth rate of 7% with double digit growth in Iberia (Spain and Portugal) and Central Europe (Germany, Switzerland, Poland).

Recurring revenue in Europe grew by 7% (10% excluding France), of which software subscription revenue grew by 19% (FY16: 27%). Software subscription revenue now represents 37% of total revenue in Europe (FY16: 33%).

Central and Southern Europe

France – challenges with up-front fees and partners

France revenue growth of 1% (FY16: 6%) was below the Group's ambitions for the country, largely due to a first year premium charged in prior years as customers were migrated to subscription. This is now being phased out but is expected to impact revenue growth in H1 18 with an improvement in performance expected in H2 18. There were also challenges in driving recurring revenue in the partner channel as significant upgrades had already been implemented in FY16 under the i7 migration.

Conversely, SSRS grew by 1%, driven by strong Sage X3 growth of 22% in the year with 18 contracts for over £100k signed in the year.

Focus in France for FY18 is on re-energising the partner channel and focusing on driving growth through Sage Business Cloud and the updated e-commerce website. Sage has also announced the appointment of new leadership in the country.

Iberia – revenue acceleration in the year

Strong revenue growth of 10% (FY16: 7%) was driven by growth in both recurring and SSRS revenue. The two largest solutions, Sage 200 (locally known as Murano) and Sage 50 (locally known as Contaplus), grew by 17% and 9% respectively, driven by cloud enabled launches in the year.

SSRS revenue growth has been driven, in part, by early adoption of functionality in Sage software to comply with a VAT legislative change – well ahead of the competition.

The focus for Iberia in FY18 is to continue to grow recurring and SSRS revenue through cloud solutions and driving growth in the partner channel.

Central Europe – significant acceleration in the year

Central Europe delivered revenue growth of 12% (FY16: 4%), a significant acceleration on the prior year, growing both recurring and SSRS revenue.

In Germany, growth of 14% was largely driven by the Sage 200 family (locally known as Office Line) which grew by 34%, driven by a strong partner channel. SSRS growth has been driven by Sage X3 growth and success in professional services.

The smaller Central European regions of Poland and Switzerland grew by 16% and 2% respectively with the Sage 50 family driving growth in each country.

The focus for Central Europe in FY18 is to drive growth in the cloud and on subscription.

Performance – North American region

Organic revenue growth	FY17	FY16
USA	+4%	+6%
Canada	+10%	+10%
North America	+5%	+6%

Growth of 5% in North America reflects 9% growth in recurring revenue (FY16: 9%), underpinned by software subscription growth of 97% (FY16: 85%); software subscription revenue is now 25% of total revenue (FY16: 14%).

Processing revenue growth of 2% (FY16: 25%) reflects a slow-down on the prior year due to some turnover of staff in the year with plans in place to recruit in Q1 FY18.

SSRS decline of 11% (FY16: 8%) reflects the planned decline of licences in line with the transition to subscription. Note this decline is more marked than other geographies, due to the lower relative subscription penetration rate in North America, offset by rapid acceleration of software subscription revenue.

US – success in cloud enabled solutions

Following a slow start to the year, new leadership has turned around the performance of the region by driving accountability and clearer targets in the salesforce and building partner relationships, leading to four quarters of successive acceleration in recurring revenue, with an exit rate of over 10% in Q4 FY17 and with subscription revenue doubling in the year.

Growth in the year was driven through the migration to cloud enabled solutions in the Sage 50 and Sage 200 families with triple digit software subscription revenue in both product lines, with particular success in selling the Sage 200 family through the reinigorated channel.

Sage X3 was also successful, growing at 20%, as the product continues to expand geographically and vertically. The US achieved Sage's biggest X3 contract in the year at \$600k.

Canada – double digit organic and recurring revenue growth

In Canada, both organic and recurring revenue achieved double digit growth with accelerating growth in each successive quarter in the year. Success in Canada reflects double digit growth in Sage X3 and Sage 50c.

In North America the focus in FY18 is to continue to increase the penetration of cloud enabled solution adoption in the Sage 50 and 200 families, as well as continuing to drive growth in Sage X3. Intacct will form part of North American revenue in FY18 so continuing to drive momentum in this solution, as well as encouraging collaboration and learning between the North American teams, is also a priority.

Performance – International region

Organic revenue growth	FY17	FY16
Africa and Middle East	+12%	+18%
Brazil	+12%	+12%
Australia & Asia	+4%	–7%
International	+10%	+9%

Organic revenue in the International region grew by 10% year-on-year (FY16: 9%), with recurring revenue growth of 15% (FY16: 16%), processing revenue growth of 7% (FY16: 48%) and SSRS decline of 5% (FY16: decline of 11%). Software subscription revenue in International is now 56% of total revenue (FY16: 50%).

Growth in the region has been driven by strong performance in Brazil, Africa & Middle East and Australia, balanced by a decline in the much smaller Asia region.

Africa and Middle East – winning in the market with Sage X3 and Sage One

Growth in Africa Middle East of 12% reflects growth of Sage X3 of 8% with strong growth in Africa in the Sage 200 family of 13% and 66% growth in Sage One.

Africa continues to embrace a strong relationship with customers, with the highest NPS score of all regions at +53 and retention rates of 87%. Africa's growth has slowed slightly from H1 17, reflecting challenging market conditions in the region.

The focus for the region in the year is to drive strong growth through new customer acquisition and services.

Brazil – success in new customer acquisition

Growth in Brazil of 12% was driven by recurring revenue growth of 17%, offset by an increase in slow and non-payment due to the ongoing recession in the country. Sage One revenue grew by over 400% in the country, driven by increasing contract value and subscription numbers, and Sage X3 grew by 48%.

The focus in FY18 is to improve retention rates and debt collection as well as expanding the partner channel.

Australia and Asia

In Australia, revenue growth of 7% is underpinned by recurring revenue growth of 9%, driven by local Sage One, which doubled in the year, and local growth products.

Asia revenue (accounting for 1% of total revenue) declined by 6% in the year due to challenges in sales of local products but with Sage X3 revenue doubling in the region.

The focus for FY18 is to build the salesforce and partner channel to boost retention rates and win in the cloud.

Financial review

	FY17			FY16		
	Revenue	Operating profit	Margin	Revenue	Operating profit	Margin
Organic to statutory reconciliations						
Organic	£1,696m	£475m	28.0%	£1,591m	£431m	27.1%
Organic adjustments ¹	£24m	(£8m)		£5m	£1m	
Underlying – Continuing	£1,720m	£467m	27.2%	£1,596m	£432m	27.1%
Discontinued operations	£119m	£29m		£146m	£39m	
Underlying	£1,839m	£496m	27.0%	£1,741m	£471m	27.0%
Discontinued operations	(£119m)	(£29m)		(£146m)	(£39m)	
Impact of foreign exchange ²	–	–		(£157m)	(£39m)	
Underlying (as reported) – Continuing	£1,720m	£467m	27.2%	£1,439m	£393m	27.3%
Recurring items ³	(£5m)	(£49m)			(£18m)	
Non-recurring items ⁴		(£70m)			(£108m)	
Statutory	£1,715m	£348m	20.3%	£1,439m	£267m	18.6%

1. Organic adjustments are as per note 2 of the financial statements

2. Impact of retranslating FY16 results at FY17 average rates

3. Recurring items comprise amortisation of acquired intangible assets, M&A activity-related items (including adjustments to acquired deferred income) and fair value adjustments

4. Non-recurring items comprise items that management judge to be one-off or non-operational including business transformation costs

Revenue

Statutory revenue grew by 19% to £1,715m (FY16: £1,439m), reflecting organic growth, foreign exchange movements experienced throughout the year and the revenue contribution from acquisitions of Fairsail and Intacct, net of the adjustment to acquired deferred income. The impact of foreign exchange of £157m in FY16 reflects a currency tailwind during the period.

Operating profit

Organic operating profit increased by 10% to £475m (FY16: £431m) in line with organic revenue and the 1% increase in margin. Statutory operating profit increased by £81m, with the operating profit margin rising by 1.7% due to the impact of foreign exchange in FY16 combined with recurring and non-recurring items in FY17.

Adjustments between underlying and statutory operating profit
Non-recurring items excluded from the underlying operating profit of £467m include £73m costs in relation to the business transformation comprised of people organisation charges of £32m, net property exit costs of £14m and other directly attributable costs of £27m, offset by £3m gain on sale of Syska GmbH, a subsidiary held in Germany. Recurring items of £49m represents amortisation of acquisition-related intangible assets and M&A activity-related charges.

Net finance cost

The statutory net finance cost for the period was £18m (FY16: £24m) and the underlying net finance cost was £25m (FY16: £21m). The difference between underlying and statutory net finance costs for the period reflects a gain of £7m (FY16: nil) from valuation adjustments of financial assets and a gain of £1m (FY16: charge of £6m) on FX movements on intercompany balances, offset by a fair value adjustment to a debt-related instrument charge of £1m (FY16: income £3m).

Taxation

The statutory income tax expense was £98m (FY16: £67m). The effective tax rate on statutory profit before tax was 25% (2016: 24%), whilst the underlying tax rate on continuing operations was 26% (2016: 25%).

The difference between the statutory effective tax rate and the underlying tax rate relates to non-recurring items which are deductible in countries with a tax rate higher than the UK.

Earnings per share

Underlying basic earnings per share increased by 4% to 31.90p (FY16: 30.82p) and statutory basic earnings per share increased to 27.80p (FY16: 19.28p) due to increased operating profit benefitting from the weakening of sterling, and lower non-recurring charges. Adjusted for transactions, underlying earnings per share increased by 7% reflecting a 3% impact from the losses contributed by acquired businesses and the disposal of the North America Payments business.

Cash flow and net debt

Cash flow	FY17	FY16
Underlying operating profit	£496m	£471m
Exchange rate translation movements	–	(£44m)
Underlying operating profit (as reported)	£496m	£427m
Recurring & non-recurring items	(£94m)	(£58m)
Depreciation/amortisation/profit on disposal	£36m	£30m
Share-based payments	£6m	£8m
Working capital and balance sheet movements	(£18m)	(£10m)
Exchange rate translation movements	£2m	£1m
Statutory cash flow from operating activities	£428m	£398m
Net interest paid	(£20m)	(£20m)
Tax paid	(£102m)	(£92m)
Net capital expenditure	(£52m)	(£32m)
M&A & integration-related expenditure	£22m	–
Free cash flow	£276m	£254m

Cash flow	FY17	FY16
Statutory cash flow from operating activities	£428m	£398m
Recurring & non-recurring items	£94m	£58m
Net capital expenditure	(£52m)	(£32m)
Working capital adjustment	£2m	–
Eliminate exchange rate translation movements	(£2m)	£1m
Underlying cash flow from operating activities	£470m	£425m
Underlying cash conversion	95%	100%

The Group remains cash generative with underlying cash flows from operating activities of £470m, which represents underlying cash conversion of 95%, down slightly from FY16, reflecting an increase in capex of £20m as the Group invests for growth, combined with strong Sage X3 performance which attracts longer payment terms.

A total of £157m was returned to shareholders through ordinary dividends paid. Net debt stood at £813m at 30 September 2017 (30 September 2016: £398m) with the increase reflecting cash spent on acquisitions, offset by disposal proceeds and exchange differences.

Treasury management

The Group continues to be able to borrow at competitive rates and currently deems this to be the most effective means of raising finance. The Group's syndicated bank multi-currency Revolving Credit Facility (RCF) expires in June 2019 with facility levels of £603m (US\$551m and €218m tranches). At 30 September 2017, £318m (FY16: Nil) of the RCF was drawn. Current year RCF drawings were used principally to fund the Fairsail and USPP note repayment in March 2017 and partly fund the Intacct acquisition in August 2017. A new term loan was arranged in July 2017 to partially fund the Intacct acquisition. This term loan was initially for \$390m (£291m), with \$240m (£179m) repaid at the end of August 2017 following the receipt of disposal proceeds from the North American Payments business. The balance, \$150m (£112m), remained outstanding at 30 September 2017, the term loan is initially for a 12 month term, with an unconditional option to extend for a further 12 months.

Total USPP loan notes at 30 September 2017 were £523m (US\$600m and EUR€85m), (FY16: £575m (US\$650m and €85m). Approximately £40m (US\$50m) of maturing USPP notes were repaid in March 2017 from free cash flow and RCF drawings.

Foreign exchange

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

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

Average exchange rates (equal to GBP)	FY17	FY16	Change
Euro (€)	1.15	1.28	(10%)
US Dollar (\$)	1.27	1.42	(11%)
South African Rand (ZAR)	16.95	21.05	(19%)
Australian Dollar (A\$)	1.66	1.94	(14%)
Brazilian Real (R\$)	4.06	5.18	(22%)

Capital structure and dividend

With consistent and strong cash flows, the Group retains considerable financial flexibility going forward. The Board's main strategic policy remains an acceleration of growth, both organically and through targeted bolt-on acquisitions. The growth underpins the Board's sustainable, progressive dividend policy. Consistent with this policy, the Board is proposing a 9.0% increase in the total ordinary dividend per share for the year to 15.42p per share (FY16: 14.15p per share).

Doing business the right way



People

Building a high-performance culture and a positive colleague experience is essential at Sage. Our People mission is to create the best workplace for colleagues who live Sage values and are aligned, engaged and passionate about Sage products, customers and partners. We are committed to enabling all colleagues to be themselves at work, believing that diversity of thought, inclusion and equal opportunity drives genuine innovation.

See pages 41-43



Business Builders

It is in all of our interests to champion small businesses and entrepreneurs – and at Sage, with millions of small business customers around the world, we see that as our noble cause.

See pages 44-45



Community

Founded in 2015, Sage Foundation's mission is simple: to mobilise our 13,000 colleagues around the world to build social, economic and entrepreneurial opportunities in our local communities.

See pages 46-47



Environment

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

See pages 48-49

People

Building a culture of high performance and a great colleague experience.



Sage continued to deliver on its transformation aims during FY17 by embedding the One Sage operating model and unifying the organisation with a single set of Sage values and behaviours.

Building and nurturing a high-performance and customer-obsessed culture is at the heart of the People agenda. We have invested in new cloud-based systems, talent acquisition practices and leadership development in order to create a great colleague experience which enables sustainable deployment of our strategy.

We are embedding practices which focus on developing our talent internally, valuing diversity and creating the most inspiring workplace which challenges our colleagues to be the best that they can be so that we can provide our customers, partners and each other with the best experience of Sage.

Amanda Cusdin
Chief People Officer (interim)

Leadership

During FY17 Sage continued to develop a cohesive and capable leadership community through the creation of a new leadership development framework which is centred around four pillars:

1. Manager essentials;
2. Senior leaders;
3. Executive leaders;
4. Future leaders.

Manager essentials is designed for our 2,000 managers across Sage. We have designed and deployed the "Leading at Sage" programme which encourages continual feedback and evaluation against the transformational leadership model (align, model, coach, reinforce) and culminates in a "Licence to Lead" for existing and new management.

Our senior management team ("SMT") are the key driving force behind achieving our results and shaping our culture. We are investing in FY18 to develop the capability of our 150 SMT leaders with quarterly development sessions. This will further embed the One Sage model as we harmonise our leadership values, behaviours and capabilities.

We recognise that our executive leaders have different development needs and leadership experience and during FY18 we will be continuing to invest in our most senior executives through tailored bespoke development plans for each of our top 30 leaders, underpinned with a targeted development programme.

Our Values



People continued

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

Diversity

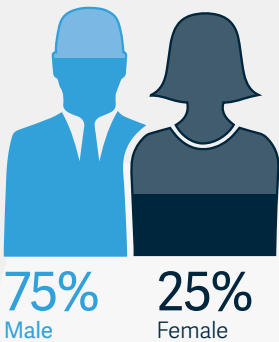
We have significant ambitions for improving our gender balance in technology and leadership roles and we set targets to achieve 35% female representation in the SMT and in technology roles by the end of FY18. Significant progress has been made against this ambition, with SMT female representation increasing from 26% to 29% in FY17, and we have 28% representation of women in technology which is higher than industry standards. During FY17 we progressed the development of a strong pipeline of high-potential female talent. Sage continued to receive external recognition for our tech leader Kriti Sharma, VP Bots and Artificial Intelligence, making the Forbes 30 under 30 list for Technology.

The Sage diversity agenda is underpinned by a number of initiatives, including the launch of the Women@Sage mentoring programme, supporting the development of women and the Women@Sage Network which provides a platform to share experiences and learnings. Complementing this, and the wider diversity agenda, unconscious bias training has been developed and deployed as a mandatory learning module for all colleagues.

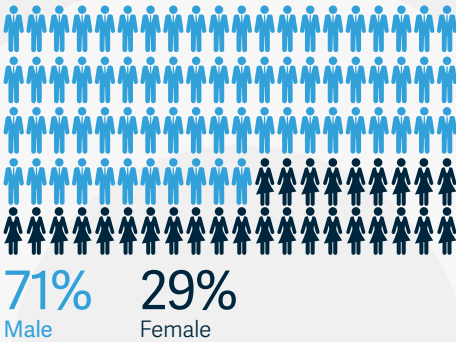
Kids@Sage days took place across a number of locations, including North America, Brazil, UK and Spain. Over 300 children came to work at Sage with their parents for one day, helping to introduce technology at an early age, whilst creating a stronger connection between work and family life for colleagues.

Heading into FY18, the release of Sage's Gender Pay Report will explain the progress achieved to date and our ongoing focus on eliminating any disparity. In addition, Sage will focus on embracing all forms of diversity, placing more emphasis on ethnicity and LGBT, creating a truly inclusive environment where colleagues can be their true selves at work. To support this, Sage will launch a Returner programme for men and women who have been away from the workplace for career breaks, giving them the confidence and skills to restart their careers. Sage will continue to

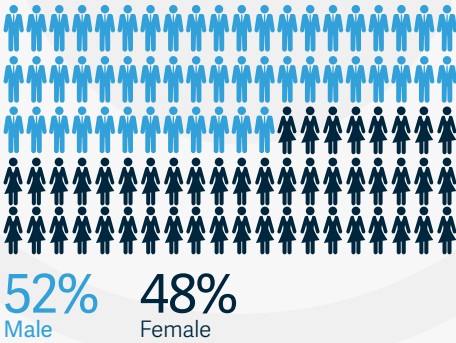
Board gender diversity



SMT gender diversity



Total workforce gender diversity



invest in the LGBT community with the Pride@Sage network and in Health and Wellbeing activities for all.

Talent Management

Talent management is key to driving the business forward and we place this at the top of the People agenda, with a focus on creating consistency by identifying, harnessing and strengthening the capability of our key talent who are critical to the delivery of Sage's ambitions.

In FY17 our core development programmes were standardised across all Sage geographies. All new hires now experience a consistent on-boarding journey from offer through their first 90 days, including a Sage Induction with certified cloud product training. Colleagues who join our Sales and Services function receive intensive training which has proven results in accelerating performance and integration to Sage. In July 2017, SageLearning, Sage's cloud-based learning management system, was launched. This allows all colleagues to view learning opportunities and take ownership of their development and career progression at Sage.

Sage's talent review process dovetails with the performance management process and seeks to identify development areas for key talent and plan succession. The Executive Committee meets quarterly to discuss talent and in FY18 this dynamic approach will move deeper into the organisation, ensuring the visibility and development of emerging talent (millennial talent represents 40% of Sage's workforce).

Sage supports apprenticeship schemes across the globe with a record number of 87 apprentices joining Sage in the UK alone during September 2017. To complement our apprentice programme, Sage has introduced a graduate programme in FY17 for technology and engineering graduates with the desire to grow this in FY18.

Sage has developed an omni-channel approach to hiring great talent and our internal recruiters work with entrepreneurial

partners and strong digital media campaigners who provide agile and flexible solutions to meet our resourcing needs.

Great place to work

Our People mission is to create the best workplace for colleagues who live Sage values and are all aligned, engaged and passionate about Sage products, customers and partners. During FY17 we have launched our new global HCM system and global Your Sage intranet, we have broadcast worldwide 11 times to all colleagues via Sage Live TV and invited 150 of our best performers on a trip of a lifetime to Dubai, we have given colleagues the chance to give their feedback and the opportunity to own a part of Sage and finally we have devoted 150,000 hours of colleague time to voluntary work.

SagePeople, Sage's cloud HCM system, provides colleagues with a single global platform to safely and securely access information. Where possible, core people processes are now automated and the system provides enhanced visibility and improved analytics which drive operational efficiency. Launching SagePeople demonstrates our passion for our own products and builds on our X3 roll-out with another Sage product embedded in the business.

Your Sage has enhanced colleague engagement by providing a single platform for cascading relevant and "in the moment" content about progress, priorities and products to all our colleagues simultaneously. This is supplemented by Sage TV Live, a monthly broadcast hosted by the CEO and guests.

Rewarding colleagues for high performance is core to generating progress across the business. We review our rewards structures each year and for FY18 we have made changes to the sales compensation schemes in order to better align performance and reward. Each year we host our exceptional performers at our 'Platinum Elite' exclusive reward trip and in 2018 we will host these colleagues in Mexico.

In May 2017, Sage introduced our first global Share Save plan available to all colleagues, predicated on the idea of "don't just work at Sage, own it" which enables colleagues to have a personal stake in the Company's success, rewarding contribution whilst creating a stronger sense of belonging. The scheme was very well received with 21% participation from across all colleagues.

Understanding how colleagues experience the Sage culture, and their alignment with Sage strategy and values is important to the leadership of Sage. In July 2017 Sage launched an all-colleague engagement survey, Your Voice, to take feedback from across the business and received a strong response rate of 70%. The strong levels of engagement highlight the many positive aspects of being a Sage colleague and we are working to address areas of improvement. Throughout FY18 we will put in place mechanisms for more regular pulse checks on engagement across the organisation.

Sage is committed to its communities and, since its launch in January 2016, Sage Foundation has mobilised the hearts and minds of colleagues and partners; it is woven into the fabric of the organisation's culture with a commitment to do business in the right way, giving a helping hand to those who need it. This is evidenced by the growth of volunteering, which has increased by more than 100% and is now in excess of 150,000 hours. Colleagues receive up to five days paid time for volunteering. Sage Foundation creates a sense of purpose beyond work itself for colleagues, it is developmental and restorative and brings together communities for good causes. The Sage Board has given their time as volunteers this year and Sage Foundation is often cited as a "pull" factor by new applicants to Sage, demonstrating its influence on the strong culture Sage is building.

Year-end employee count split by region

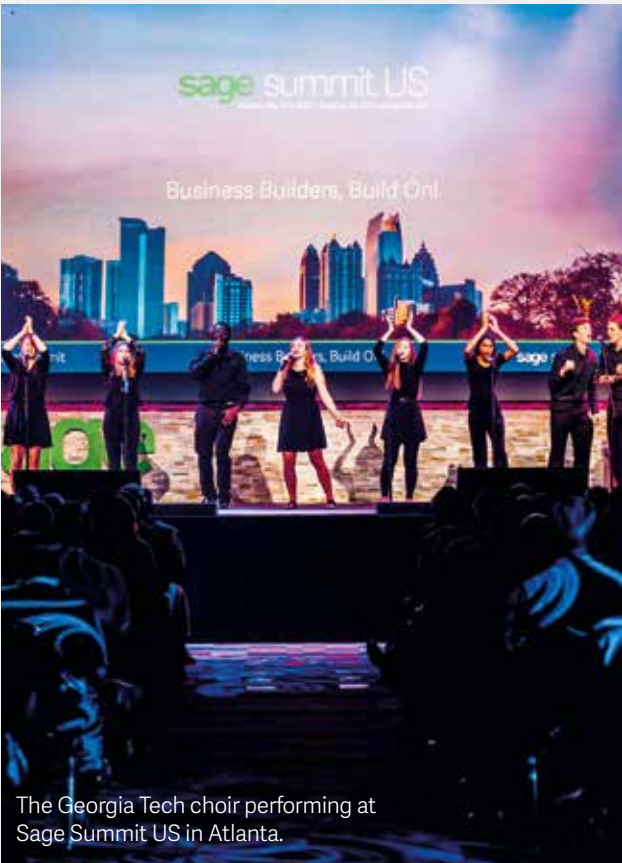


Business Builders

Shining a light on the heroes of the global economy.

With small businesses creating two thirds of all new jobs and making up 99% of the private sector in most countries, one thing is for certain – when Business Builders do well, we all do. It is in all of our interests to champion small businesses and entrepreneurs – and at Sage, with millions of small business customers around the world, we see that as our noble cause.

This year, we’ve formalised our commitment to small & medium businesses through the Sage Forum for Business Builders – giving entrepreneurs the world over a voice; campaigning for change that creates the ideal environment for businesses to flourish, and representing Business Builders at the top table. Sage is committed to three different courses of action through the Forum: commissioning regular pieces of research that assess the small business landscape; holding events and panel discussions that allow entrepreneurs to talk directly to politicians; and campaigning to change policy for the better. Here are just a few of the ways we’ve supported the heroes of the economy this year.



The Georgia Tech choir performing at Sage Summit US in Atlanta.

Taking Sage Summit on the road

Following on from 2016’s Sage Summit in Chicago – the world’s largest gathering of entrepreneurs – in FY17 we took Sage Summit on the road, to eight different cities around the world. Overall around 29,000 people registered to attend a Sage Summit. We were joined by all-star guests – from George Foreman in Atlanta, to Deborah Meaden in London, to Rick Mercer in Toronto – inspiring auditoriums full of Business Builders. The events garnered over 550 million social impressions; around 750 pieces of press coverage; and raised over \$150,000 for charity through Sage Foundation.

29,000
Registered attendees across all Sage Summits

552m
Social impressions

716
Inspiring sessions & talks for entrepreneurs



An Taoiseach Enda Kenny speaking at Sages Ireland Debate.

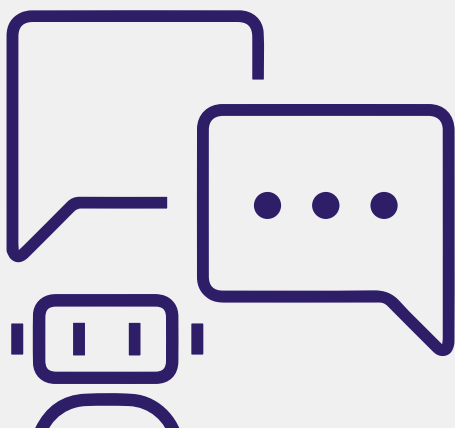
Ireland Debate

In December 2016, Sage gathered small businesses in Dublin alongside An Taoiseach Enda Kenny, a Minister and other influential policymakers to debate the opportunities and challenges facing Irish entrepreneurs. The debate coincided with the launch of a piece of major global research looking at the landscape of Business Builders in 16 of Sage's markets around the world. The debate was covered in major broadcast and print media across Ireland including RTE, TV3 and the Irish Independent. As An Taoiseach said at the event – "we understand that small businesses are a key part of the social fabric of society... The Sage Forum for Business Builders offers an important platform to entrepreneurs and SMEs to voice their opinions."

Education around the Fourth Industrial Revolution

As an industry leader in Artificial Intelligence, Sage feels a strong sense of responsibility to help create an industry that supports Business Builders today and in the future. The Fourth Industrial Revolution is changing the way entrepreneurs do business for the better; artificial intelligence has the power to free Business Builders from the burden of administrative tasks, and in turn, boost productivity. We are driven to do business the right way, and are working to make sure that AI is ethically engineered, as well as building a workforce that will have the right skills for tomorrow.

We have established five core principles towards the ethical creation of AI. We are committed to adhering to all of these principles, and enabling the wider tech community to do the same. We have also been working to build the next generation of engineers, AI developers and conversation designers through the creation of Botcamp – a training programme dedicated to providing school leavers with the right skills to help them become the technology leaders of tomorrow.



General election campaign in the UK

Sage responded immediately to news of the snap general election in the UK last June, setting out a call to action for the successful political party to back business growth and ambition. Working with think tank The Entrepreneurs Network, we reached out to Sage customers and a network of over 10,000 entrepreneurs to hear their views on how an incoming government could support their needs. Ahead of polling day we launched A Boost to British Businesses – Policies for a New Government, 25 concrete policy ideas in areas such as skills, technology, tax, regulation and procurement. An open letter signed by Stephen Kelly gained widespread media coverage ahead of election day, and the ideas were submitted to key ministers as soon as they formed the new Government.

70%

The proportion of entrepreneurs around the world who do not feel listened to by governments

Community

Sage Foundation: working together to do more good.

Founded in 2015, Sage Foundation’s mission is simple: to mobilise our 13,000 colleagues around the world to build social, economic and entrepreneurial opportunities in our local communities.

For us, this isn’t just the right way to do business – it’s the only way.

FY17 was the year that Sage Foundation truly became ingrained into the culture of the business. Our colleagues gave back almost 23,000 days in volunteering – that’s a 120% increase on last year. Commitment to Sage Foundation is the golden thread that connects us – from front-line sales colleagues to senior leaders. Indeed, this is illustrated by the Board’s group volunteering day this year.

Since Sage Foundation’s inauguration, we’ve decided to concentrate our efforts down to three key groups of people that we want to help: women, young people and military veterans. Take a look at just a few examples of the work we’ve done with these groups this year.

Women

In South Africa in July, Sage Foundation released a report titled “The Hidden Factors: Fostering Female Entrepreneurship.” The study was motivated by a recognition of the importance of this emerging group’s contribution to the economy, combined with a realisation that there was very little information out there on female entrepreneurs in South Africa. The study found that only 20% of women surveyed saw running your own business as a viable career path when growing up. But female entrepreneurs showed greater self-confidence, leadership and competitive spirit than their counterparts in the corporate world. The report was launched with a panel event featuring Jennifer Warawa, Sage’s EVP Partners, Accountants and Alliances.

Young people

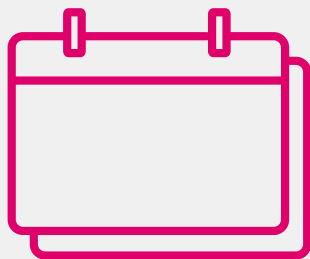
In September 2017 in the UK, Sage launched A Place to Call Home – a report on youth homelessness in London and Newcastle. The study was launched with an exclusive exhibition and panel discussion at the Southbank Centre in London, featuring photography, film and conversation from

a group of the young people themselves. It is part of a wider call from Sage and Stephen Kelly to make FY18 the year that businesses work together to give more young people a place to call home.

#SageServingHeroes: Military veterans

Sage is committed to helping ex-servicemen and women to make the transition into civilian life, and find meaningful employment. We do this in part through our support of the Invictus Games. The Invictus Games use the power of sport to inspire recovery and support rehabilitation of disabled, sick or injured acting and ex-servicemen and women. Sage has supported the initiative since last year’s Games in Orlando, and this year we were proud to step up our commitment to become a Premier Partner for the Toronto Games in September.

In June, we announced the launch of the Sage Serving Heroes Program in Canada, to support veterans as they move into the workplace. The program has started by working with a small group of Invictus Team Canada competitors, providing them with mentoring, business support and Sage technology to help them start and grow businesses.



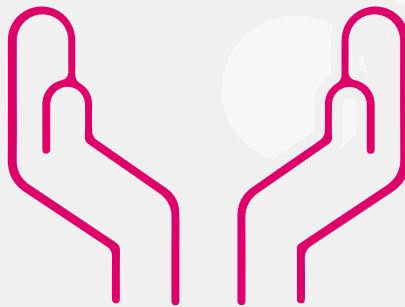
22,859

The number of working days this year that Sage colleagues have spent volunteering



Over 80

The number of small charities around the world that we’ve helped this year



\$1m

The total amount we have given away to charities across 2017

The Million Dollar Challenge

In 2016, Sage's CFO Steve Hare pledged to run a total of 500km for his chosen charity—CVYP. Steve completed the final leg of his challenge in June this year in Newcastle, surrounded by dozens of Sage colleagues, customers and partners. Steve's original pledge has turned into the Million Dollar Challenge – mobilising Sage's colleagues, customers and partners in a united mission to raise a total of one million dollars throughout 2017 for their chosen causes and through their chosen activities. And by the end of 2017, we'll have reached our target.

500km

the distance run over the last year by CFO Steve Hare for charity CVYP



CFO Steve Hare completing his 500k running challenge.



The Enterprise Fund

The Enterprise Fund was set up this year as a chance for small charities who might otherwise be overlooked for funding to bid for much-needed cash to innovate and grow – specifically, charities that are delivering change for women, young people and military veterans. We gave away grants valued at between \$5,000 and \$35,000, donating a total of \$1,000,000 to over 80 small charities all around the world throughout the whole of 2017.

\$5,000-\$35,000

the size of grants given away in Sage Foundation's Enterprise Fund

Mandela Day

Mandela Day may be only one day – an annual day of celebration and activism in South Africa in honour of Nelson Mandela's legacy – but this year Sage Foundation stretched the day's goodwill out for the whole month of July. By the end of the month, the team had mobilised almost 1,000 Sage colleagues and partners across eight different regions in Africa to support the work of 35 non-profits through volunteering.

1,000

The number of colleagues in Africa who volunteered in honour of Mandela Day



"It's about spreading the love, helping others and putting a smile on people's faces."

Lesedi Morei

Sage business partner from OS Holdings; volunteered as part of Mandela Day in South Africa

Environment

Actively managing our impact.

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

Greenhouse gas emissions

This section includes our mandatory reporting of greenhouse gas emissions pursuant to the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 ("Regulations"). This data is included here to provide a complete picture of our approach to environmental corporate responsibility.

Reporting period

Our Mandatory Greenhouse Gas Report reporting period is 1 October 2016 to 30 September 2017. This reporting year has been established to align with our financial reporting year.

Organisational boundary and responsibility

We report our emissions data using an operational control approach to define our organisational boundary which meets the definitional requirements of the Regulations in respect of those emissions for which we are responsible.

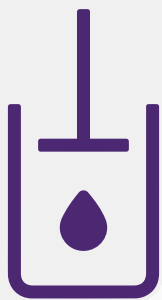
Sage has reported on all material emission sources which we are deemed to be responsible for. We do not have responsibility for any emission sources that are beyond the boundary of our operational control.

We have collected data on energy in our buildings, air conditioning refrigerant consumption and business car travel, because we believe these encompass the most material emissions to our business. Going forward, we will review this, to ensure that we continue to capture significant business emissions.

Methodology

The methodology used to calculate our emissions is based on the "Environmental Reporting Guidelines: including mandatory greenhouse gas emissions reporting guidance" (June 2013) issued by the Department for Business, Energy & Industrial Strategy ("BEIS"). We have also used the BEIS2017 conversion factors for the UK, combined with the most recent IEA international conversion factors (2015) for non-UK electricity, within our reporting methodology.

In some cases, we have extrapolated total emissions by using available information from part of a reporting period and extending it to apply to the full reporting year. For example, this has occurred where supplier invoices for the full reporting year were not available prior to the publication of this year's Annual Report & Accounts. For further details, our methodology document can be found at www.sage.com/company/about-sage/corporate-social-responsibility.



1,338

(FY16: 2,108)

Combustion of fuel and operation of facilities



11,783

(FY16: 14,253)

Electricity, heat, steam and cooling purchased for own use

Global greenhouse gas emissions data

For period 1 October 2016 to 30 September 2017

	FY17- tonnes CO ₂ e	FY16- tonnes CO ₂ e
Scope 1: Combustion of fuels and operation of facility	1,338	2,108
Scope 2: Electricity, heat, steam and cooling purchased for own use	11,783	14,253
Scope 3: Company business travel vehicles	5,391	6,345
Total emissions	18,512	22,706
Company's chosen intensity measurement:		
– Emissions reported above normalised to tonnes of CO ₂ e per total GBP £1,000,000 revenue	10.76	14.47

All data is inclusive of operations active at any point during the reporting year. Where disposals have occurred or operations ceased during the year, data has been included to be reported up until this date.

Carbon Emissions

Scope of reported emissions

Emissions data has been reported for all the Group operations in Australia, Austria, Belgium, Brazil, Canada, France, Germany, Ireland, Malaysia, Morocco, Poland, Portugal, Singapore, South Africa, Spain, Switzerland, the United Arab Emirates, the United Kingdom and the United States. However, emissions could not be reported for offices in the United Arab Emirates (though travel emissions have been reported) and Nigeria, where energy usage is not itemised on invoices. We will be working with our suppliers in these locations to capture this information in the FY18 reporting year.

Building usage emissions have not been included for where we have operations with a headcount of less than 25 people.

Intensity ratio

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

Carbon Disclosure Project

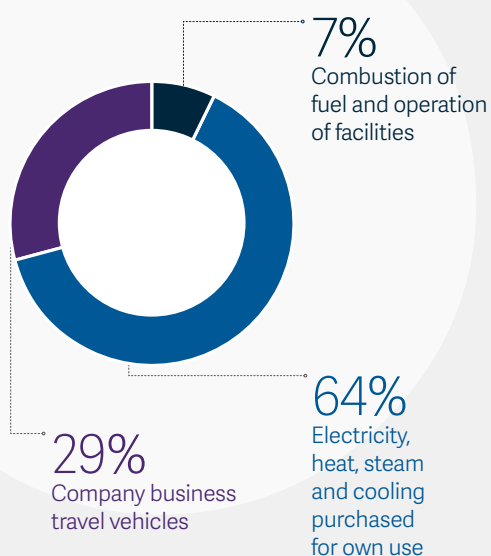
We once again took part in the Carbon Disclosure Project during the year under review by reporting our Scope 1, 2 and 3 emissions for the financial year ending 30 September 2016.

Reducing carbon and waste

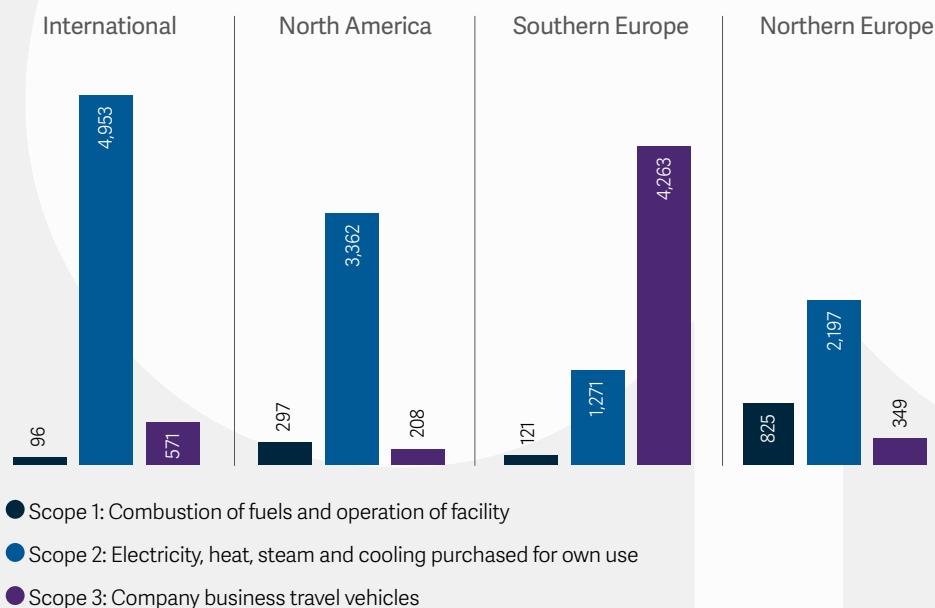
We have continued to make a concerted effort to reduce our carbon footprint, through reducing our consumption and purchasing alternative sources of fuel and generation, specifically:

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

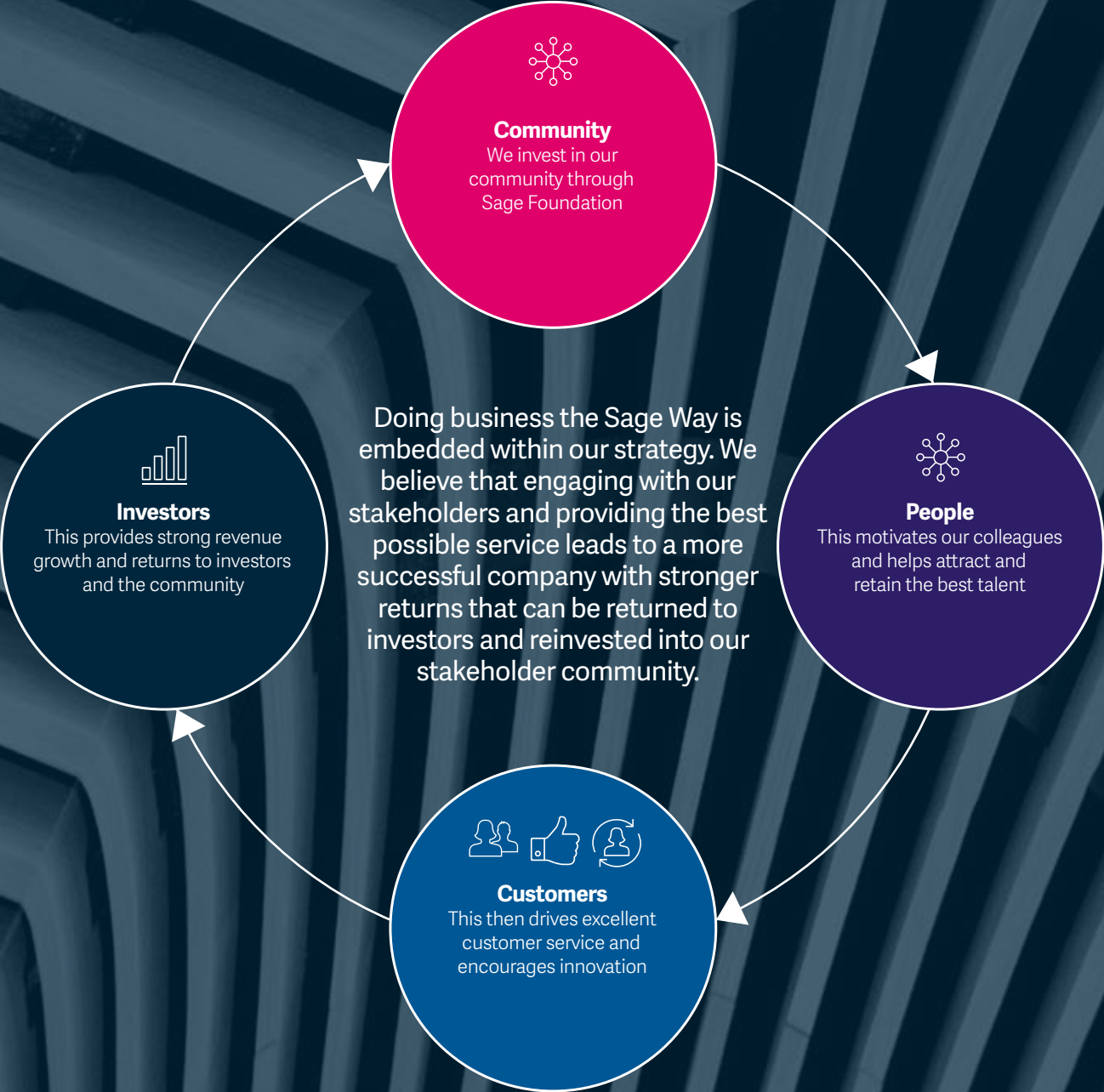
Total CO₂e by type



Sum of CO₂e (tonnes)



Why is doing business the right way important?



Continuous improvement

No complacency when maintaining ethical working practices.

Board reporting

Our refreshed Code of Conduct was endorsed by the Board in January 2017. Board reporting includes stakeholder impact information where relevant, and the Board reviews and approves key policies at least annually, including our Energy & Environment Policy.

Ethics

We are committed to conducting business in an honest and ethical manner, by acting professionally, fairly and with integrity in all our business dealings and relationships. Our Code of Conduct sets out the principles we expect all our people to live by. Complementing the Code of Conduct, we have a set of global policies covering areas such as anti-bribery and corruption, money laundering, whistleblowing and competition law. To embed awareness of these policies we conduct a programme of targeted training for all colleagues. We monitor the effectiveness of training through assessments undertaken by our Risk & Assurance team. During 2017, we refreshed our whistleblowing procedures and launched a poster campaign in six languages across all our office locations globally to ensure that all colleagues had information about our independent whistleblowing hotline.

As well as ensuring our own conduct is appropriate, we have procedures to prevent bribery being committed on our behalf by any associated persons, particularly in our subsidiaries, and third parties we work with. Our senior management regularly complete a conflicts declaration to ensure that any additional business commitments or client and supplier relationships they or members of their teams may have are clear and transparent. Suppliers are required to adhere to our Supplier Code of Conduct. All colleagues are encouraged to report any conflicts they may become aware of, and in

2018 we will be enhancing our procedures in this area. We recognise that there is no room for complacency when it comes to maintaining ethical working practices, and so we place a high priority on the review and refresh of our efforts each year to ensure that we mitigate risk and support our colleagues to do business the right way.

Modern slavery

In September 2017 we published our second annual Anti-Slavery and Human Trafficking Statement in accordance with the Modern Slavery Act 2015. The statement can be found via our website homepage at www.sage.com/modern-slavery. Given the nature of Sage's business model, we believe the risk of modern slavery in our supply chain is low compared to businesses operating in other sectors such as manufacturing and retail. However, we do not intend to be complacent and will continue to work to improve our policies and procedures to ensure slavery and human trafficking is not taking place anywhere in our supply chains. Having identified the facilities management support as our primary area for slavery risk, we have reviewed and improved our procurement processes and policies, to ensure that goods and services originate from sources that do not jeopardise human rights, safety or the environment. Our standard form procurement contracts include language requiring suppliers to comply with applicable anti-slavery and human trafficking legislation, including the Modern Slavery Act 2015. Work is ongoing to introduce or improve controls via the roll out of our enterprise solution X3 to three new countries, bringing standardised purchasing and invoicing across a greater proportion of our procurement activities. In 2018 we will continue this work and we will also gather data on our progress so far and measure the impact of our training and awareness activities.



Data protection and GDPR

Sound data protection and privacy practices are essential for Sage. The implementation of the EU General Data Protection Regulations ("GDPR") planned for May 2018 is therefore a critical project for us. We are working hard to ensure that we are ready, and our customers can be ready too. We have established a Data Governance Committee to oversee Sage's response to GDPR. Subject to specific local data laws, GDPR will be the standard against which we assess all of our future data protection activities.

Principal risks and uncertainties

Managing risk

During FY17 we moved from the execution phase of our business transformation which brought together all parts of the business as a connected whole (One Sage), into a business as usual operation. Recognising the nature and pace of change in both our business and the marketplace in which we operate, and that our external risk landscape continues to evolve, we have continued to develop and enhance our risk management during FY17 to provide greater visibility and ownership of risk across the business and support this area of focus for the Board.

We continue to create appropriate and scalable processes and practices, enabling us to grow the business the right way, and apply appropriate risk mitigation strategies. During the year, we have maintained our focus on driving risk consideration in decision making, working to reinforce and embed our three lines of defence model and, through the activities of the newly created Sage Compliance function, reinforce adherence to policy and process.

Principal risks

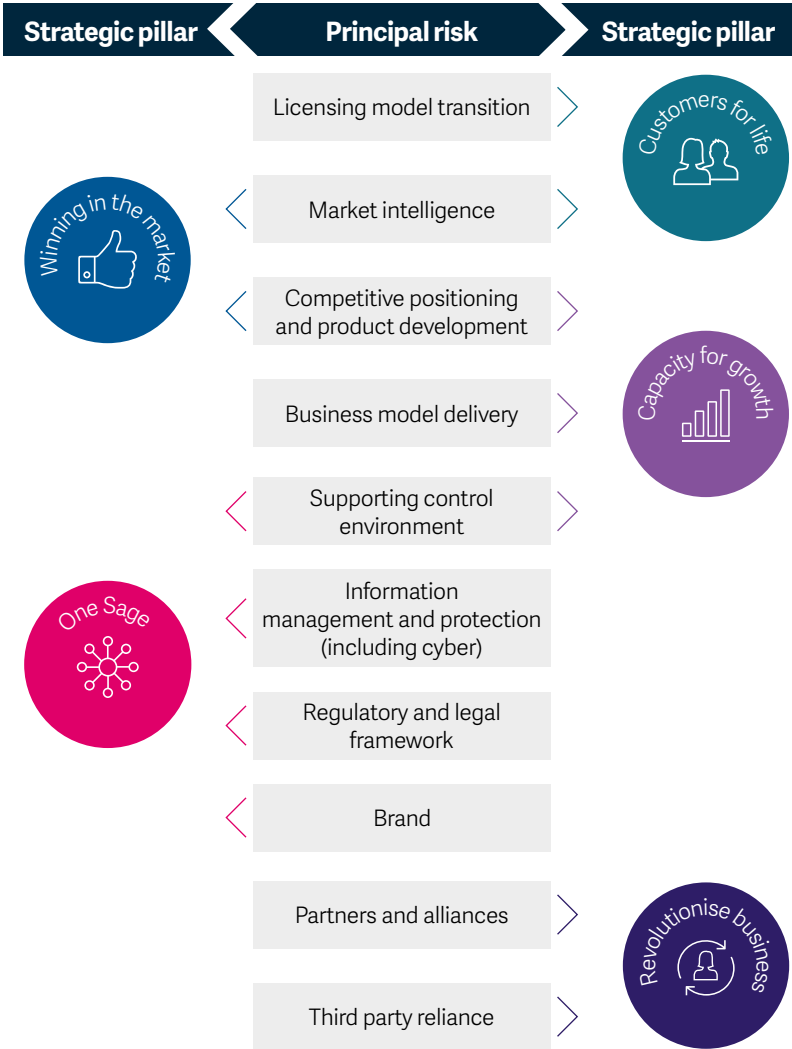
Our risk management process and associated reporting activities continue to evolve.






The Board and the Audit and Risk Committee carried out a robust assessment of the principal risks facing the Company through a refresh exercise at the start of the year, including considering those that would threaten its business model, future performance, solvency or liquidity. This assessment included consideration of any potential impact associated with the UK's decision to exercise their rights under Article 50 of the Lisbon Treaty. The Board monitors the risk environment, and reviews the relevance and appropriateness of the principal risks. These are formally reviewed at the beginning of each year in consultation with the Audit and Risk Committee, and continue to be proactively managed by executive sponsors and risk owners, supported by Sage's Risk function. On an ongoing basis, consideration is given to the local relevance of the principal risks, and the identification and escalation of local risks as appropriate.

Principal risks are also formally reported to the Global Risk Committee on a quarterly basis, alongside escalated local risks. We manage risk in line with our risk management policy and approach, as set out in Risk Management on page 59. Currently there are ten principal risks which we monitor and report against. These are aligned to successful delivery of our strategy and mapped against the strategic pillars to which they relate, as set out opposite. The principal risks have remained broadly consistent both throughout the year and with the prior year, reflecting the multi-year nature of our strategy and related risks.




During the year the risk appetite statements and associated metrics evolved to better reflect outputs from plans in place. This enhanced the ongoing measurement of progress, and enabled objective review and assessment during the regular meetings with executive sponsors and risk owners.

As detailed in the following table, a range of measures are in place, being deployed or developed, to manage and mitigate our principal risks.











Principal risk	Risk background	Management and mitigation
Licensing model transition 		
<p>Sage does not successfully manage its ongoing transition to subscription licensing against defined timelines and targets or appropriately adapt its customer approach.</p> <p>Strategic alignment:</p> 	<p>Sage is continuing its transition from a perpetual to a subscription-based licensing model.</p> <p>In addition to providing additional value for customers, this transition assists with cash flow; offers a platform for cross selling; and lowers attrition rates, which in turn aids revenue forecasting.</p> <p>It also provides regular customer engagement and enhanced opportunities to develop these relationships.</p> <p>The speed of transition needs to be balanced against any reduction in short-term revenues.</p>	<ul style="list-style-type: none"> – An approved licensing model transition strategy is in place – A series of approved subscription revenue targets are defined, which span multiple years and support successful and balanced delivery of our strategy – Ongoing monitoring and review of the approved targets takes place at country, regional and Group levels to proactively manage the licence transition, and revenue targets – New products are being offered on a subscription only basis – Customer Business Centres (CBCs) are operating in North America and Europe to integrate digital marketing, sales and service operations for customers using Software-as-a-Service (SaaS), and support planned growth ambitions
Market intelligence 		
<p>Sage fails to understand and anticipate changes in the external environment, including customer needs, emerging market trends, competitor strategies and regulatory / legal requirements.</p> <p>Strategic alignment:</p>  	<p>Sage continues to develop its market intelligence capability in support of a consolidated understanding of market and customer needs, and aligning this with competitive positioning and product development activities.</p>	<ul style="list-style-type: none"> – A Market and Competitive Intelligence team is established, which has Group responsibility for market intelligence – Market intelligence surveys are undertaken, to identify market opportunities – Brand health surveys are undertaken to understand customer perception of the Sage brand and its products – An approved internal communications plan is delivered, to share market intelligence and build brand awareness – Market data is provided through a market data portal, allowing ease of access and improved analysis <p>In progress:</p> <ul style="list-style-type: none"> – Regular, targeted internal market data communications, which build awareness of the market data portal – Ongoing refinement and improvement of market data through feedback from the business






Key

-  Improving risk environment
-  Static risk environment
-  Worsening risk environment





Principal risks and uncertainties continued

Principal risk	Risk background	Management and mitigation
Competitive positioning and product development 		
<p>Sage is unable to clearly identify the approach to market, or deploy competitive advantage, including product development.</p> <p>Strategic alignment:</p> <div></div>	<p>The competitive environment in which Sage operates continues to see significant developments.</p> <p>Sage must continually translate market intelligence into effective strategies targeting attractive market segments with appropriate products and continually work to reinforce competitive superiority.</p> <p>During the transition to One Sage products, we continue to manage the local product base and plan and evolve these in line with longer-term aspirations.</p>	<ul style="list-style-type: none">– A Product Marketing team is in place to oversee competitive positioning and product development– A Product Delivery team is in place to develop and deliver products– Sage-wide templates are being used for Battlecards to ensure consistent information is provided– Battlecards are in place for key products in all countries, which set out the strengths and weaknesses of competitors and their products– Defined Customer for Life roadmaps are in place, detailing how products fit together, and any interdependencies– A BattleApp has been released which provides timely information to support the activities of sales channels– Acquisitions of Fairsail (now Sage People) and Intacct to enhance Sage's product portfolio, and cloud offering <p>In progress:</p> <ul style="list-style-type: none">– Prioritised product development based on Customer for Life roadmaps– Analysis of product investments is being enhanced to further consider anticipated return on investment
Business model delivery 		
<p>Sage does not successfully deliver a global operating model that supports its growth ambitions.</p> <p>Strategic alignment:</p> <div></div>	<p>Sage continues to embed its global operating model which provides enhanced governance, process harmonisation, efficiencies and scalability.</p> <p>The effective interaction between all parts of the organisation is essential to allow Sage to grow at pace.</p>	<ul style="list-style-type: none">– The One Sage operating model has been in place from October 2016– A Business Operations Forum is operating, providing governance over project activity in order to support the effective operation and enhancement of the operating model– A formal gating process operates through which all projects must pass, and ensures a clear purpose and success criteria are established for each– The Programme Management Office (PMO) provides oversight of and reports on project progress and potential conflicts– Divestiture of Sage Payment Solutions in the US, and structure of an ongoing partnership agreement, consistent with our payments service strategy <p>In progress:</p> <ul style="list-style-type: none">– Ongoing monitoring and management of projects through the Business Operations Forum, including measuring of success factors




- Key
-  Improving risk environment
 -  Static risk environment
 -  Worsening risk environment

Principal risk	Risk background	Management and mitigation
Supporting control environment 		
<p>Sage's control environment, business processes and technology infrastructure do not support the efficient and effective operation of the business.</p> <p>Strategic alignment:</p>  	<p>Sage's footprint has developed often through acquisition. Ongoing alignment and rationalisation of these systems and processes, is required to support the One Sage operating model.</p>	<ul style="list-style-type: none"> Established Global and Regional Risk Committees drive accountability for risk, provide governance, and set the tone-from-the-top Shared Service Centres are established in Newcastle, Atlanta and Johannesburg enabling the creation of consistent and consolidated systems and processes Policy Approval Committee in place to supervise and approve policies within the Sage-wide policy suite Customer Business Centres (CBCs) are built around core systems to underpin operational consistency and expansion, including Salesforce CRM and Sage's own X3 for General Ledger activity. As volumes scale, all new customers for CBC supported products are being set-up in these systems A Governance, Risk and Compliance technology solution is in place <p>In progress:</p> <ul style="list-style-type: none"> Migration of country General Ledgers onto X3 continues for certain processes, in line with plans Continuation of the Excellence in Controls initiative to enhance the supporting control environment across key business processes Definition and deployment of control frameworks for Shared Service Centres and for Sales as output from the Excellence in Controls initiative Implementation of Sage People as a single application to store and manage colleague data
Information management and protection (including cyber) 		
<p>Sage fails to adequately understand, manage and protect information.</p> <p>Strategic alignment:</p> 	<p>Sage's footprint has developed through a series of acquisitions, each arriving with its own processes, technologies and activities appropriate to a smaller business.</p> <p>Harmonising and rationalising these, as necessary, is required to support the One Sage operating model and to support a business view on all data being held and processed, including management and protection.</p>	<ul style="list-style-type: none"> Accountability is established within both OneIT and Product Services for all internal and external data being processed by Sage OneIT and Product Services report to the Chief Information Officer and Chief Product Delivery Officer respectively A network of Information Security Officers supports the business Formal certification schemes are maintained, across appropriate parts of the business, and include internal and external validation of compliance Secure coding standards are in place to design security into new products A comprehensive information security policy suite is in place, defining the framework within which Sage operates Awareness training for Information Management and protection has been rolled-out across the organisation A new Information Security Risk Management Methodology has been designed, and deployed across defined critical assets The Incident Management framework includes the rating of incidents and requirements for escalation has been embedded within all regions Structured IT internal audit activity is undertaken by Sage Assurance against an agreed plan, and supplemented by ad-hoc activity. Findings are reported to management and the Audit and Risk Committee <p>In progress:</p> <ul style="list-style-type: none"> Information Security is being aligned with the existing Governance structures (Global and Regional Risk Committees), to establish clear accountability Deployment of the Information Security Risk Management Methodology more widely across business critical assets The Data Governance Committee provides direction around data and Data Protection, and our response to GDPR

Principal risks and uncertainties continued

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

Key

-  Improving risk environment
-  Static risk environment
-  Worsening risk environment

Principal risk	Risk background	Management and mitigation
Partners and alliances 		
<p>Sage fails to identify, build, enable and maintain appropriate partnerships and alliances.</p> <p>Strategic alignment:</p> 	<p>There are instances where leveraging partnerships and alliances can support the growth ambitions of Sage.</p> <p>The governance and control around engagement and use must be defined, as well as management of the ecosystem.</p>	<ul style="list-style-type: none"> – A Partner and Alliances team is established to oversee the selection and management of Sage's partners and alliances, including accountability for active management of relationships – Definitions are in place to ensure clarity and consistency over partners and alliances, to enable appropriate and consistent management of these arrangements – All contracts for partners and alliances require approval through legal services – Defined legal provisions are required for inclusion in contracts. Any variance in provisions must be recorded as part of the formal contract approval process <p>In progress:</p> <ul style="list-style-type: none"> – Deployment of revised Sage Partner Programme in line with plan
Third party reliance 		
<p>Sage does not understand and manage its third party ecosystem.</p> <p>Strategic alignment:</p> 	<p>Several Sage customer service offerings are delivered or supported using third parties, whilst Sage remains accountable for quality of performance.</p> <p>The third party ecosystem must be understood and effectively managed, in order to limit Sage's exposure.</p>	<ul style="list-style-type: none"> – A Procurement function ensures key controls are applied in the selection and on-boarding of third parties – The Procurement function supports the business with the selection of third parties and negotiation of contracts – Legal resources are used in contract negotiation – A Procurement Lifecycle Policy and Procedures are defined, agreed and published. These contain clear roles and responsibilities for colleagues and align with existing processes, including investment approval <p>In progress:</p> <ul style="list-style-type: none"> – All colleague training developed, to enhance colleague understanding and support process – Automation of procurement requests is being developed in Service Now, to simplify colleague experience

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

Viability statement

The viability period

The Directors reviewed the period used for the assessment and determined that a three-year period remained suitable. This period aligns our viability statement with our planning time horizon for our three-year strategic plan and is appropriate given the nature and investment cycle of a technology business. Cash flows over this period have a relatively high degree of predictability, particularly as business moves to the subscription model. Projections beyond this period become less reliable given the inherent uncertainty of technology and market developments.

Assessing viability

The strategy and associated principal risks, which the Board and the Audit and Risk Committee review at least annually, are a foundation for

the Group's strategic plan. 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 was stress tested using sensitivity analysis. To achieve this, management reviewed the principal risks and considered which might threaten the Group's viability. It was determined that none of the individual risks would in isolation compromise the Group's viability, and so a number of different severe but plausible scenarios were considered where principal risks arose in combination.

The scenarios identified and the combination of principal risks involved were as follows.

#	Description of scenario	Principal risks involved
1	An information security incident relating to Sage internal or colleague information, leading to data: <ul style="list-style-type: none"> – being lost or leaked outside the Group; and/or – becoming corrupted or contaminated; and/or – becoming inaccessible. 	<ul style="list-style-type: none"> – Sage brand – Third party reliance – Supporting control environment – Information management and protection (including cyber) – Legal and regulatory framework
2	An information security incident relating to customers, leading to data: <ul style="list-style-type: none"> – being lost or leaked outside the Group; and/or – becoming corrupted or contaminated; and/or – becoming inaccessible for the customers. 	<ul style="list-style-type: none"> – Sage brand – Partners and alliances – Third party reliance – Information management and protection (including cyber) – Legal and regulatory framework
3	Sage, or a third party acting on Sage's behalf, fails to comply with legal obligations, leading to: <ul style="list-style-type: none"> – allegations of bribery or corruption; and/or – allegations of modern slavery; and/or – breach of sanctions. 	<ul style="list-style-type: none"> – Sage brand – Partners and alliances – Third party reliance – Legal and regulatory framework
4	A Sage product or service does not comply with regulatory or legal requirements, leading to: <ul style="list-style-type: none"> – action against and / or direct costs for our customers; and/or – remediation requirements. 	<ul style="list-style-type: none"> – Sage brand – Partners and alliances – Third party reliance – Legal and regulatory framework
5	A strategic or corporate alliance through which key customer services are delivered is acquired by a competitor or is subject to a catastrophic failure (for example, for reasons including bankruptcy, fraud or legal action), leading to: <ul style="list-style-type: none"> – migration of services; and/or – temporary non-availability of services; and/or – potential discontinuance of services. 	<ul style="list-style-type: none"> – Sage brand – Partners and alliances – Legal and regulatory framework

The monetary impact of each scenario was estimated by a cross functional group of senior leaders, including representatives from Finance, Risk, IT, Product Marketing and Legal, who evaluated the possible consequences, primarily through reducing revenues and net cash in-flows. These impacts were based on similar events in the public domain and internal estimates.

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

As set out in the Audit and Risk Committee's report on page 76, the Directors reviewed and discussed the process undertaken by management, and also reviewed the results of reverse stress testing performed to provide an illustration of the reduction in revenue that would be required to break the Group's covenants or exhaust all available cash.

Confirmation of longer-term viability

Based on the assessment explained above, 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.

Risk management

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

How we identify risk

Our risk identification process follows a dual approach, seeking:

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

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

Our risk appetite

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

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

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

How we manage risk

Our risk management framework enables us to identify, evaluate, analyse, manage and mitigate those risks which threaten the successful achievement of our business strategy and objectives, within acceptable tolerance. Risks are owned and managed within the business, and formally reviewed on a quarterly basis through the Global and Regional Risk Committees, which are described on pages 60 and 61. Sage Risk continues to review and develop its approach to guide, support and challenge the business in managing risk, in order to enable successful delivery of our strategy.

To supplement business as usual risk management activities, Sage Risk undertakes a number of targeted in-focus reviews against identified risks each year. In 2017 these were conducted against one principal risk, namely Information Management and Protection (including cyber), and a further six reviews across specific areas, specifically Business Continuity, Payroll Outsource, Data Repair Services, General Data Protection Regulations, Quotas and Commissions and Sales Data in North America. In each case Sage Risk worked to critically review activities and collaboratively improve practices and processes, for which ownership remains within the business. Following each review, Sage Risk has remained engaged with the business to provide ongoing guidance, support and challenge. The results of these reviews feed into the quarterly risk reporting cycle to the Global Risk Committee.

During 2017, Sage Risk reviewed and revised its organisational structure. The geographic footprint of the team has been enhanced with dedicated resources being onboarded in Africa, Asia, North America and Latin America. The responsibilities of each Risk colleague continue to

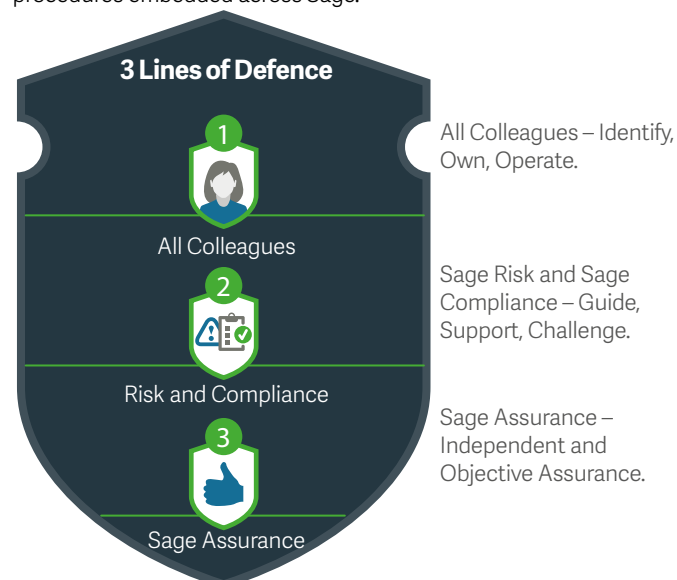


include specific geographic scope, together with alignment to both principal risks and Sage business functions. These changes ensure that Sage Risk can continue to effectively support colleagues and functions within the business and in-country risk management. To assist colleagues in understanding how to identify and report risks, compulsory risk management training for all colleagues was developed and released in April 2017, followed by training for incident management in May 2017. Further, a Governance, Risk and Compliance tool has been implemented which workflows colleague reporting and management of risk.

Our Three Lines of Defence

Sage's Three Lines of Defence approach ensures accountability and transparency by setting out the roles and responsibilities of all colleagues.

The model and its effective operation support a strong control environment with best in class Governance, Risk and Control procedures embedded across Sage.



Principal risks and uncertainties continued

Underpinning this, Sage has continued to develop its three lines of defence model to ensure accountability and transparency by setting out the roles and responsibilities of each Sage colleague. The model and its effective operation is intended to support a strong control environment with appropriate governance, risk and control procedures embedded across Sage.

To promote this model the Sage Compliance function has grown and embedded its activities, to support the business in continuing to develop the internal control framework, assist our aim of a 100% compliance culture and ensure that we continue to embrace our values and behaviours in the Sage Way.

Values and behaviours

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

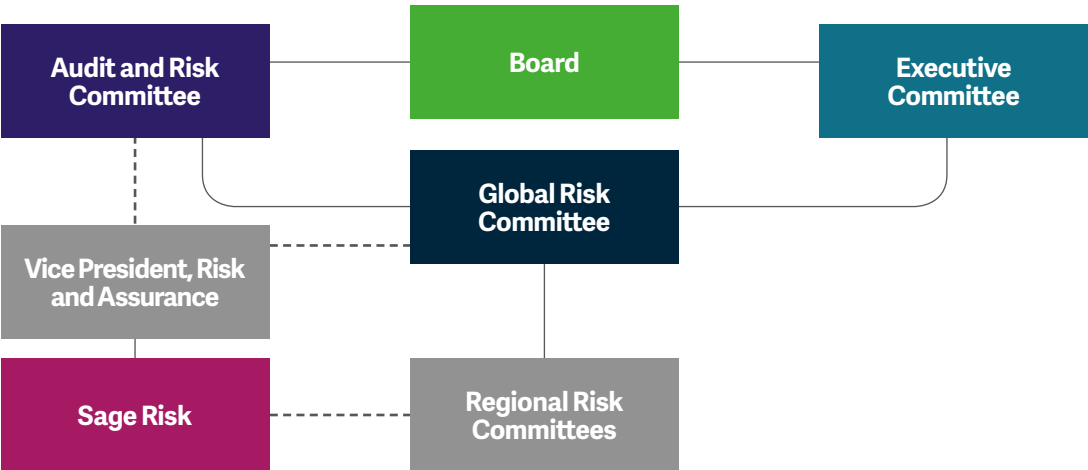
The Sage Values and Behaviours set out how Sage’s strategy should be executed. Our Code of Conduct supports and reinforces the required values and behaviours expected across Sage, including compliance with ethical standards. Behaviour forms a significant part of our colleague performance management process.

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

To facilitate colleague understanding of the requirements of the Sage policy framework, during 2017 we have created and rolled-out a number of training courses to all colleagues, with tests of competency and understanding.

Risk governance

We operate a formal governance structure to manage risk.



Board

The Board has overall responsibility for risk management and establishing the Group’s risk appetite. It monitors the risk environment, and reviews the relevance and appropriateness of the principal risks to the business.

Audit and Risk Committee

The Audit and Risk Committee supports the Board in setting the Group’s risk appetite and ensuring that processes are in place to identify, manage and mitigate the Group’s principal risks. At each meeting, the committee reviews the principal risks, associated appetite statements and metrics, to assess whether they continue to be relevant and aligned to the achievement of Sage’s strategic objectives and within an acceptable tolerance for the Group. The committee also monitors the adequacy and effectiveness of the control environment through the review of Internal Audit reports from Sage Assurance and consideration of relevant reporting from management, Sage Risk and the external auditor. Further information on the committee’s activity in 2017 is set out in the Audit and Risk Committee section on pages 76 to 81.

Executive Committee

The Executive Committee is responsible for the stewardship of the risk management approach. It develops the strategy and oversees delivery of related operational plans, whilst managing risk. For each principal risk, sponsorship is assigned to a member of the Executive Committee.

Global Risk Committee

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

- Oversee cultural change;
- Establish clear governance and accountability for risk, and any associated (remediation) activities;
- Provide direction to regions and countries, including creation and deployment of common methodologies and practices;
- Provide a point of escalation;
- Consideration of risk in decision making;

- Drive the inclusion of risk management into performance management;
- Enable the Company to effectively operate as One Sage;
- Review and approve defined policies; and
- Provide the Board and Audit and Risk Committee with sufficient effective information to enable them to discharge their risk reporting requirements.

Its membership includes representatives from across the business and all key support functions. The Chairman of the Audit and Risk Committee may attend any meeting as desired, and joined the April 2017 meeting.

Regional Risk Committees

Four Regional Risk Committees were operational through 2017, in Europe, Africa / Asia, North America and South America. Each Committee met four times during 2017. In October 2017 the Africa / Asia committee was split in two to create five Regional Risk Committees. Africa Middle East and Asia Australia committees were formed, to allow greater risk focus in these territories.

The Regional Risk Committees meet in advance of the Global Risk Committee, supporting its operation and the management of principal and local risks within each region. In addition to managing identified local risks, they also monitor the deployment of risk management activities throughout the countries within their regions, monitor the realisation of risks through reported incidents within their regions, and provide associated escalation and reporting.

Vice President (“VP”) Risk and Assurance

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

Sage Risk

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

Sage Compliance

Sage Compliance provides guidance, support and challenge to the business to drive excellence in governance and control, and design and embed control frameworks which reinforce behaviours set out in the Sage Way, supporting our ambition of a 100% compliance culture. Led by the Compliance Director, it continues to develop its capability to ensure it is fully aligned with business activities.

Sage Assurance

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

Directors' approval of Strategic Report

Our 2017 Strategic report, from page 1 to page 61, has been reviewed and approved by the Board of Directors on 21 November 2017.

A handwritten signature in white ink, consisting of a stylized 'S' followed by a horizontal line and a small 'h'.

Steve Hare
Chief Financial Officer

Chairman's introduction to corporate governance



Donald Brydon
Chairman

Enabling our strategic ambition

There has been much focus on corporate governance in the recent past and the landscape continues to change. Nevertheless, the core principles remain intact and I am pleased to share the way we see the role of the Board.

It is important that we all remember the Board is not a committee where individuals represent distinct interests but rather a risk managing and capital allocation body which, in addition to shaping the framework for strategic development, participates in and is accountable for the taking of appropriately calibrated risks.

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.

Good governance is about helping to run the Company well. It involves being satisfied that an effective internal framework of systems and controls is 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.

Compliance with the UK Corporate Governance Code (April 2016) ("the Code")

Throughout the financial year ended 30 September 2017 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.

To assist this, the Board has created a new position of Board Associate (described on page 68) to enhance the voice of employees in the Board's deliberations.

The Executive Team is required to provide the information to the Board that the Board needs to enable it to exercise its judgement. 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. The Board has ultimate responsibility for ensuring an appropriate culture in the Company to act as a backdrop to the way in which the Company behaves towards all stakeholders.

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
Chairman

Board of Directors

Knowledge and experience

Donald Brydon (72)



Chairman



Appointed to the Board
6 July 2012

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

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

Areas of expertise:
Donald 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 has overseen comprehensive changes to 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

Neil Berkett (62)



Independent
Non-executive Director



Appointed to the Board
5 July 2013

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

Areas of expertise:
Neil 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

Drummond Hall (68)



Senior Independent
Non-executive Director



Appointed to the Board
1 January 2014

Experience:
Drummond Hall was previously Chief Executive of Dairy Crest Group plc from 2002 to 2006, having joined the company in 1991. Prior to this the majority of his career was spent with Procter and Gamble, Mars and Pepsi Co. Drummond 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 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. Drummond was appointed Senior Independent Non-executive Director on 28 February 2017.

Other current appointments:

- WH Smith plc – Senior Independent Non-executive Director
- First Group plc – Senior Independent Non-executive Director

Steve Hare (56)



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

Areas of expertise:
Steve has significant financial, operational and transformation experience which includes driving change programmes in a number of his previous roles. This experience allows him to ensure Sage continues to perform strongly whilst delivering the recent transformation and positioning Sage for continued growth.

Key to committees



Audit and Risk Committee



Nomination Committee



Remuneration Committee

Jonathan Howell (55)

Independent
Non-executive Director



Appointed to the Board
15 May 2013

Experience:

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

Areas of expertise:

Jonathan'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.

Soni Jiandani (51)

Independent
Non-executive Director



Appointed to the Board
28 February 2017

Experience:

An engineer by background, Soni Jiandani has over 25 years' experience in the technology industry, including 22 years at Cisco where she held the position of SVP, Marketing. During her time at Cisco, she led a team which was responsible for establishing multi-billion dollar revenue streams in the Switching, Storage Networking and Server markets. She was also part of the team that established many successful, company-funded start-ups which were subsequently acquired (spin-ins) which provided access to adjacent markets. Prior to joining Cisco, Soni held marketing executive positions at UB Networks and Excelan.

Areas of expertise:

Soni has extensive experience in marketing and driving industry transformation through market disruption. Her background of bringing innovative technologies to market is a valuable addition to the Board's skills and experience.

Cath Keers (52)

Independent
Non-executive Director



Appointed to the Board
1 July 2017

Experience:

Cath started her retail career with Thorn EMI and, after marketing and business development roles at Sky TV, Avon and Next, joined the BT Group in 1996, holding a number of commercial roles, including Marketing Director O2, Chairman of Tesco Mobile and Customer Director O2, where she was in charge of refocusing the organisation's customer strategy.

Areas of expertise:

Cath brings a wealth of digital and customer experience insights to the Board, together with a deep understanding of leveraging sales and marketing activity to build successful brands.

Other current appointments:

- Royal Mail plc – Independent Non-executive Director;
- TalkTalk Telecom Group plc – Independent Non-executive Director;
- Liverpool Victoria Friendly Society Limited – Independent Non-executive Director; and
- Ustwo Fampany Ltd – Chairman.

Stephen Kelly (55)

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 the 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, lies at the heart of the transformation we are driving at Sage.

Changes to the Board

Ruth Markland and Inna Kuznetsova stood down from the Board after the Annual General Meeting on 28 February 2017. Soni Jiandani was appointed with effect from 28 February 2017, and Cath Keers was appointed with effect from 1 July 2017.

Executive Committee



From left to right

Sanjay Almeida, Vicki Bradin, Blair Crump, Amanda Cusdin, Steve Hare, Stephen Kelly, Ron McMurtrie and Klaus-Michael Vogelberg

Stephen Kelly (55)

Chief Executive Officer, Board of Directors

For Stephen Kelly's skills and experience see page 65.

Steve Hare (56)Chief Financial Officer,
Board of Directors

For Steve Hare's skills and experience see page 64.

Klaus-Michael Vogelberg (52)

Chief Technology Officer

Responsible for Sage's technology strategy and software architecture, Klaus-Michael is Chief Technology Officer. 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.

Ron McMurtrie (52)

Chief Marketing Officer (Interim)

Ron McMurtrie joined Sage in 2017 and leads marketing across the Company, inspiring long-term relationships through creativity and innovation.

Ron aligns the strategic direction of product, brand, digital marketing and communications, and oversees key functional areas for new customer acquisition, building customers for life, and advancing Sage's cloud strategy.

Before joining Sage, Ron was global Chief Marketing Officer at Recall, an information management company, leading worldwide marketing strategy and operations. Previously, Ron has over 20 years' experience in similar roles for brands including VCE – the joint venture between Cisco, EMC and VMware – First Data, Verizon and MCI. Ron is a multi-dimensional leader with P&L and personnel responsibility spanning direct sales, marketing, enterprise consulting and professional services in private and public-sector markets.

Vicki Bradin (39)

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 multinationals and UK public limited companies, helping grow and transform businesses whilst managing their regulatory and litigation risk.

Blair Crump (55)

President

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.

Amanda Cusdin (40)

Chief People Officer (Interim)

Amanda became interim Chief People Officer in October 2017, having joined Sage in March 2015.

Amanda has 18 years' of HR experience across several global FTSE organisations in a variety of sectors where she focused on supporting executive leaders to drive change and transformation. During her career to date Amanda has built extensive experience across the Americas, Asia and Europe. She has led specifically in M&A, growth in new geographies and working across cultures and matrix organisations. Amanda has also specialised in talent development to executive level.

Amanda has a Bachelor's degree in History from the University of Warwick and postgraduate qualifications in Human Resources Management.

Sanjay Almeida (44)

Chief Product Delivery Officer

Sanjay joined Sage as Chief Product Delivery Officer in October 2017, responsible for the product strategy and delivery of Sage's full suite of products. Sanjay joined Sage from SAP, where he had been Senior Vice President and Chief Product Officer of the company's Ariba business since October 2015.

Prior to this, Sanjay spent ten years at Concur Technologies, before the company was acquired by SAP. Here he held senior positions in Research & Development, before being made Senior Vice President of Global Product Management and Strategy.

Sanjay has an MBA in General Management from the Kellogg School of Management, Northwestern University.

Corporate governance report

The role of the Board at Sage is to provide strategic leadership and effective oversight of the Group's activities. In order to achieve this, the Board receives regular reports from the CEO and CFO, and each meeting's business aligns to an annual agenda which provides time to discuss broader themes and initiatives. In particular, this year the Board has focused on:

- The Group's long-term strategy, and reviewing progress against strategic objectives;
- Considering Sage's business culture, and embedding our Values and Behaviours;
- Our principal risks, risk appetite, and the manner in which the changing external environment may affect Sage's strategy;
- Our product portfolio, and our strategy for delivering new and innovative products together with continuous improvements in product quality;
- Mergers and acquisitions, including the acquisition of Sage People and Intacct and the divestment of the US Payments business; and
- Succession planning, both at Board and Executive Committee level, and talent development.

The Board's activities and focus during the year are described in more detail on page 72.

Board composition and independence

The Board composition is set out on pages 64 to 65. These pages also include details of the Directors' skills and experience. The Directors have a range of experience and can bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct. This experience and judgement is considered vital to our success. It is the balance of skills, experience, independence and knowledge of our Directors which ensures the duties and responsibilities of the Board and its committees are discharged effectively. The Board has spent significant time over the past year sourcing suitable replacements for Ruth Markland and Inna Kuznetsova, who both retired at the AGM in February 2017. Their replacements, Soni Jiandani and Cath Keers, were selected for their knowledge and experience in those areas identified as being of importance to Board balance, such as technology sector expertise. You can read more about the nominations process in our Nomination Committee report on page 82.

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.

Drummond Hall accepted the appointment of Senior Independent Director upon the retirement of Ruth Markland. Drummond joined the Board in 2014 and is Chairman of the Remuneration Committee.

The Board also considered the Chairman's role and determined that Donald 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.

Board in action: Atlanta engagement visit

In May 2017, Drummond Hall visited our Atlanta CBC and Sage Summit as part of his engagement activities. The visit started with a site tour and walk around the sales floor, then a series of meetings with the local senior management team which were themed around Sage's strategic pillars.

At Sage Summit, Drummond participated as a judge at the Big Give Live Philanthropitch, a social impact competition that provides high potential non-profit organisations with access to human and financial capital. Three non-profits whose missions align with the Sage Foundation's priority funding areas pitched to the Summit audience and judging panel for the chance to win up to \$15,000 in funding. Later that day, Drummond joined customer and Partner roundtable activities, providing the opportunity to get closer to our US operations through the voice of the customer and to understand the needs of our US Partners.

Visits such as these have many benefits. They help our directors see parts of the business up close and meet Sage colleagues from sales through to senior management, with the chance to challenge and question the organisation in a constructive way. Equally, our colleagues, customers and partners see and value the effort we are making to engage with them and understand their challenges and opportunities.



Board Associate

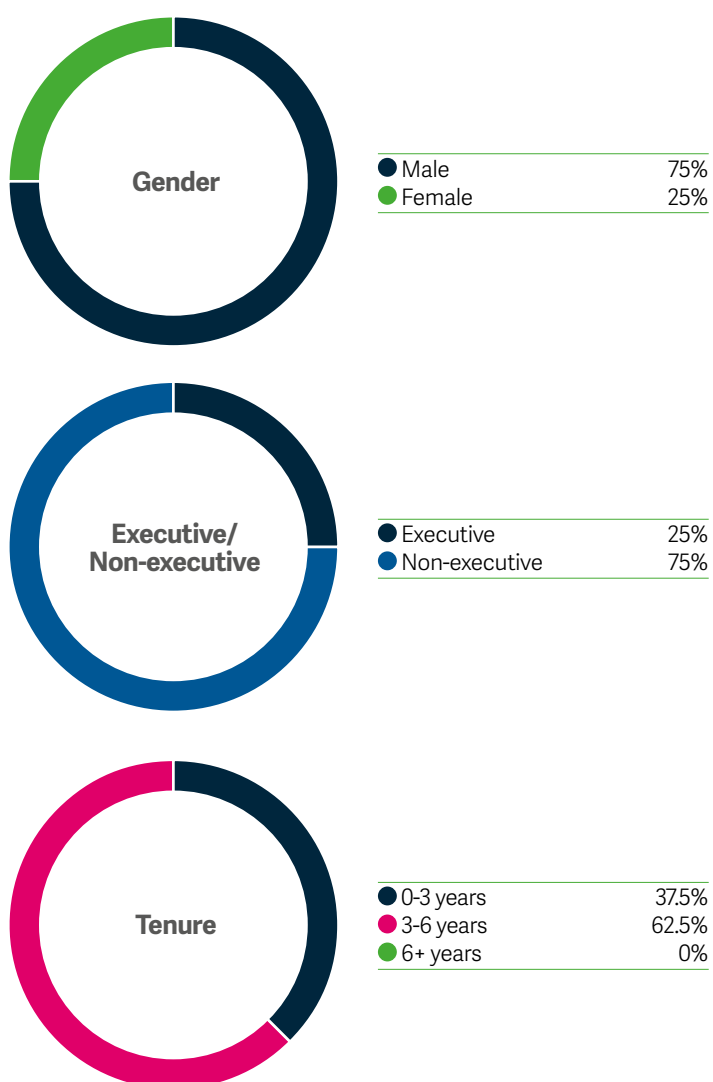
In 2017, the Board took the innovative step of appointing a Board Associate from amongst a selection of high-performing nominees. All nominees were considered by the Board and shortlisted candidates were interviewed by the Chairman and at least one other NED. Non-executive Director Amy Lawson, EVP Communications, took up the position in September 2017. Amy will attend all Board meetings for

one year as an observer and a contributor, bringing a new voice and dynamic to the Board table, whilst allowing colleague insight into the workings of the Boardroom. Amy plans to share her experiences with colleagues, and has already published a blog post on Your Sage with her thoughts on the role of the Board, how colleagues can strengthen their understanding of Sage's strategy, and what that means for them.

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, whilst ensuring that appointments reflect the most appropriate candidates. 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%).



Conflicts of interest

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

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

Board and Committee meetings and attendance

Director	Board	Audit & Risk Committee	Nomination Committee	Remuneration Committee
Donald Brydon ¹	13/14	4/4	4/4	2/2
Stephen Kelly	13/14	–	–	–
Steve Hare	14/14	–	–	–
Drummond Hall	14/14	–	5/5	7/7
Jonathan Howell ²	14/14	4/4	3/3	7/7
Neil Berkett ³	14/14	4/4	3/3	6/7
Soni Jiandani ⁴	9/10	–	1/2	–
Cath Keers ⁵	1/3	–	–	1/3
Inna Kuznetsova ⁶	4/4	2/2	2/3	2/2
Ruth Markland ⁷	4/4	2/2	2/3	2/2

1. Donald Brydon served on the Remuneration Committee until 28 February 2017, and was not in attendance at the Board meeting which dealt with his re-appointment.
2. Jonathan Howell served on the Nomination Committee until 28 February 2017.
3. Neil Berkett served on the Nomination Committee until 28 February 2017.
4. Soni Jiandani was appointed on 28 February 2017.
5. Cath Keers was appointed on 1 July 2017.
6. Inna Kuznetsova served on all committees until her resignation on 28 February 2017.
7. Ruth Markland served on all committees until her resignation on 28 February 2017.

The Board meets not less than six times per year. During FY17, it met six times in person, with a further eight telephone meetings dealing with matters arising in between scheduled meetings, such as acquisitions.

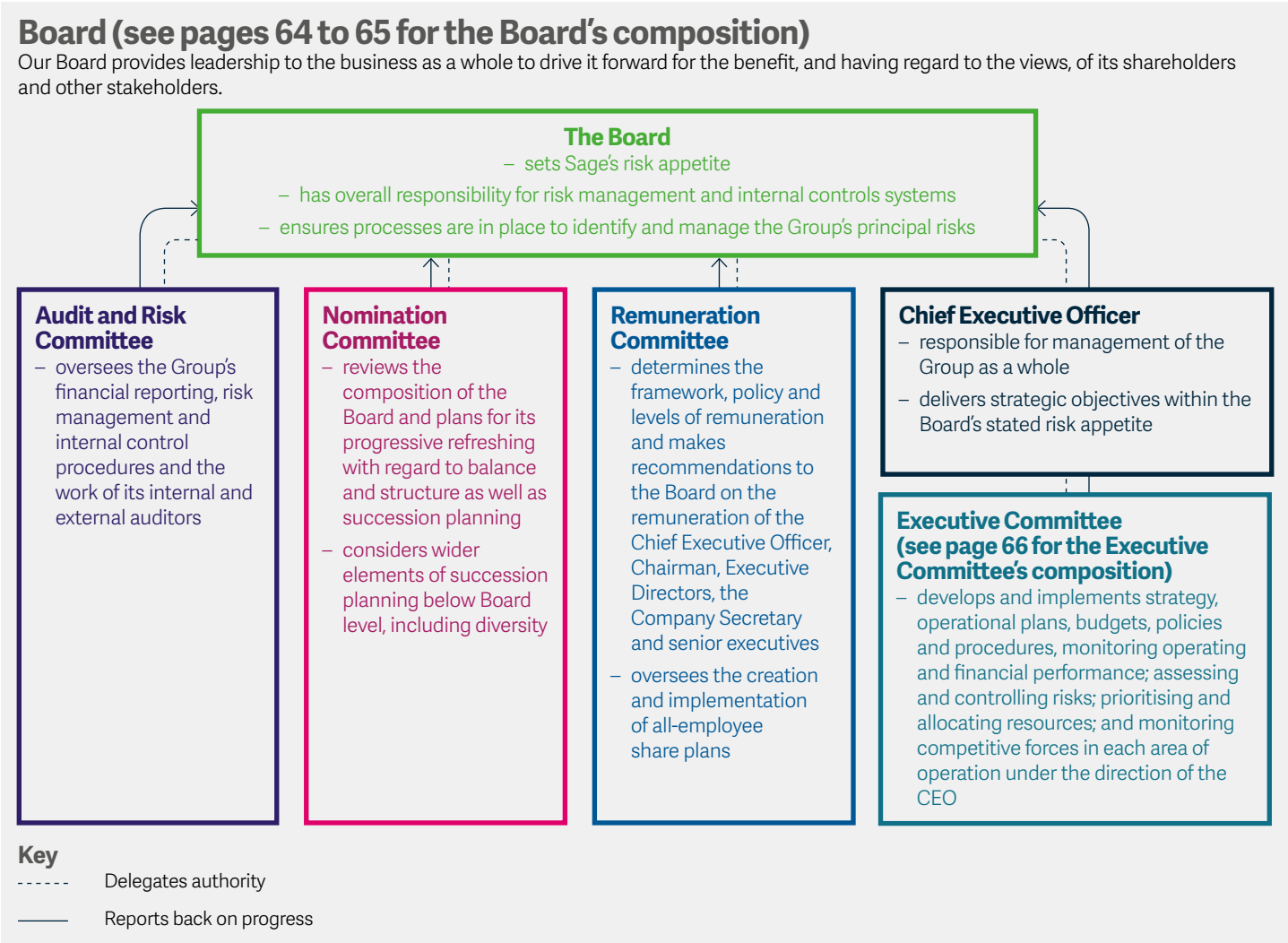
Induction and professional development

During 2017, Sage welcomed its first new Non-executive Directors since 2014. We therefore took the opportunity to refresh our induction programme, to ensure that the new Non-executive Directors could develop a full understanding of how Sage works. Each new Director was provided with a tailored programme, including meetings with management, external advisers and fellow Board members and briefings on all aspects of Sage's activities. You can read more about Soni Jiandani's experience of her induction in her first non-executive role in a FTSE-listed plc on page 83 of the Nomination Committee report.

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. In addition to training and updates on industry and corporate governance developments, in 2017 we implemented a formal Director engagement programme. Directors were asked which areas of the business they would most like to understand in more depth, and they took part in visits to several locations including Newcastle, Dublin, Spain and Atlanta, where they met with local management teams, customers and partners and were provided with site tours. Directors were able to gain greater understanding and insight into particular issues faced by the business in those regions or business areas. Feedback from those involved was positive, with Directors feeling that they had been provided with an opportunity to improve the breadth and depth of their knowledge of Sage and its people, and senior management welcoming the chance to engage on an individual level with the Directors. Some Directors also attended Sage Summit, which this year took on a roadshow approach across multiple locations. At Summit, the Directors also had the opportunity to directly engage with Sage partners and customers in attendance, as well as colleagues represented at the events. Read more about Sage Summit on page 44.

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 effectively.

Our governance framework



Beneath the Executive Committee there exists a clearly defined organisational management structure and a governance framework consisting of sub-committees, each of which reports directly or indirectly into one of the Committees referenced above. These sub-committees operate within defined terms of reference and in accordance with Sage’s suite of global governance policies, which include Finance, IT, Procurement, Legal and HR policies as well as Sage’s Code of Conduct. All decisions made by individuals or by committee and which involve financial spend or an associated risk, are governed by Sage’s Delegation of Authority matrix (DOA). The DOA is structured to ensure that day-to-day operational decisions can be taken efficiently, whilst driving higher-risk and high-value commitments for approval through the appropriate channels. By maintaining this structure we gain assurance that our operations are being run effectively and that decisions are made in line with our commitment to always do business the right way.

The terms of reference of each Committee, which are reviewed on an annual basis, can be found on our website www.sage.com/board-committees.

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 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.

There were no instances of significant control failing or weakness in the year.

You can read more about our risk management and internal controls systems in our Strategic Report on pages 59 to 61 and the associated work of the Audit and Risk Committee on page 76 to 81.

Board roles



**Donald Brydon,
Chairman**

Responsible for leading the Board, monitoring its effectiveness and governance

As Chairman I am responsible for leading the Board in challenging and agreeing the strategy proposed by the Chief Executive Officer. My role as Chairman also carries a particular responsibility to monitor and assess Sage's corporate governance practices and the overall effectiveness of the Board.

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 meet 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**

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;
- Delivering the Board's strategy through the Executive Committee; and
- 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.



**Drummond Hall, Senior
Independent Director**

Acts as a sounding board for the Chairman and discusses any concerns with shareholders that cannot be resolved through the normal channels of communication

My role as Senior Independent Director is:

- To support the Chairman in the delivery of his objectives;
- To provide an additional point of contact for shareholders, including those who may wish to raise issues with the Board, other than through the Chairman; and
- Together with the other independent Non-executive Directors, to evaluate the performance of the Chairman.



**Vicki Bradin,
Company Secretary**

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 also 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 www.sage.com/company/about-sage/leadership/board-of-directors.

How the Board operates

The Board has formally adopted a schedule of matters reserved to it for decision. This schedule was last reviewed at the September 2017 Board meeting and is available via our website www.sage.com/matters-reserved.

The Board's activities throughout the year are underpinned by our external reporting calendar and our internal business planning processes. A rolling annual agenda ensures that all important topics receive sufficient attention. Standing items such as cybersecurity, KPIs and financial updates provide the Board with a consistent view of progress during the year, whilst sessions on other topics allow deeper insight.

2017 Board Activities

Q1 2017

Full-year results announcement, Annual Report & Accounts, Succession Planning, Board objectives, Cybersecurity

Q2 2017

Strategy day, Review of Sage Values and Code of Conduct, Sage Foundation presentation, AGM, Corporate Governance reform, Site engagement visits

Q3 2017

Half-year results announcement, Site engagement visits, US Payments sale, Communications strategy, Board Associate appointment

Q4 2017















Strategy pulse-check, Acquisition of Intacct, UKI operations presentation, Product demo, FY18 Budget, Talent pipeline review, Culture review, Modern Slavery statement

In order for the Board and Committees to operate at their best, it is essential that they receive, in a timely fashion, papers which are clear, focused and relevant. During FY17, focus has been given to improving the template paper structure and offering guidance to authors and presenters to help them better understand the Board's information needs. Papers are circulated electronically via a secure portal, giving directors ample time to consider and digest their contents. Directors can also use the portal to make annotations to papers, and store and share relevant content for reference at Board meetings.

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. It also helps foster a culture of ownership and accountability within the Executive Leadership Team and ensures that the Board are able to build strong relationships over time with those individuals.

How the Board spent the year

The Board has adopted a written set of objectives for the financial year, against which it informally assesses progress at each meeting. A formal review takes place as part of the annual Board evaluation process.

Board focus	Sage Strategic Pillars		Actions taken in FY17
Culture	One Sage 	Customer for Life 	– Commissioned a culture review led by CPO which included a Group-wide employee engagement survey, output to inform FY18 objectives
Succession planning	One Sage 	Capacity for Growth 	– Two new NED appointments – Annual Talent Review of senior leadership pipeline
Competitive advantage	Winning in the Market 		– Acquisitions of Intacct and Fairsail (now Sage People)
Growth strategy (overall)	Capacity for Growth 		– Board Strategy Day in January 2017
Strategic technology	Revolutionise Business 		– Acquisition of Compass, a highly innovative analytics and benchmarking platform, providing Sage's small business customers with high-quality analytics and real-time actionable insight, using the power of big data
USA growth strategy	Winning in the Market 	Customer for Life 	– Acquisition of Intacct – Divestment of US Payments business
Strategic partnerships	Winning in the Market 	Revolutionise Business 	– Partnerships with GoCardless and Stripe – Sage accounting software first to have a live banking feed with Lloyds
Product quality	Customer for Life 		– Increased use of APIs
Principal risks	Capacity for Growth 		– Annual review of principal risks – Regular updates on risk management and assurance from the Audit & Risk Committee
Corporate governance	One Sage 		– Regular Board updates – Appointment of Board Associate – Engagement with Government corporate governance reforms through BEIS and FRC

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 Directors have an understanding of their views. The Annual General

Meeting is used to communicate with private and institutional investors and the Board welcomes their participation. Sage has operated several all-employee share schemes over the years, and yet has had historically low levels of employee shareholder attendance at the AGM. In 2017, a group of 20 attendees drawn from amongst our Newcastle colleagues, including our apprentice population, were invited to attend the AGM. They were provided with a short briefing beforehand, explaining the purpose of the AGM, the order of business and what to expect. Feedback was positive, and we hope that with the introduction in 2017 of the Sage Save & Share Plan, future AGMs may feature greater employee shareholder participation.

The Board evaluation process

Principles of evaluation

The UK Corporate Governance Code stipulates that boards should conduct a formal and rigorous review of their performance annually, and an externally facilitated review at least every three years. In recent years, the Board has taken the view that the changes to Board composition and the fundamental transformation of Sage's business warranted a more regular external evaluation, and so it has conducted an external evaluation biennially.

Last 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). 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. Feedback was provided when the Board met in September 2016 and each Committee was provided with a separate report. Individual director reports were also provided to the Chairman, and the Senior Independent Director led the review of the Chairman's performance. The conclusions from that year's report formed the basis of the Board's objectives for FY17, and provided valuable insight into potential areas for improvement as the Board strives to provide world-class leadership and oversight of the Group.

Board evaluation 2016/17

In FY17, the Secretariat reviewed a number of online evaluation tools on behalf of the Chairman, and selected a tool which provided a comprehensive suite of question banks and clear, engaging, reporting functionality. The question banks were tailored into six questionnaires, covering the Board, each of the Committees, the Chairman and individual Directors. Questions were designed to be as specific to Sage as possible and to enable the respondents to rate each question element on a sliding scale, as well as focusing in on the elements of each topic that they felt could be improved on or which they would like to discuss more. Free text comment boxes allowed them to expand on these thoughts as they saw fit. All the Directors, the Company Secretary and a selection of regular meeting participants were invited to respond to the questionnaires.

The evaluation included the following topics:

- Board composition and the dynamics of Board discussions;
- Strategy: line of sight and the quality of information flows;
- Succession planning: Board and senior management;
- Meeting logistics: timing, preparation and content of Board packs;
- Effectiveness of the Chairman and each of the Committee chairmen; and
- Individual Director performance and development opportunities.

In September 2017, the Board received and discussed a full report on the results of the evaluation.

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. Several key themes were identified, which have been fed into the Board's objectives for FY18. 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 remain focused on the key strategic priorities for the Company and measuring progress against them with increased granularity. It will devote time to succession planning and reviewing the skills needed within the Board to support the strategy, as well as focusing more on understanding the working culture within Sage and how best to embed Sage's stated values and behaviours within the context of this culture. The Chairman will lead on delivering these objectives with support from the CEO and the Company Secretary.

Actions for 2017/2018

The Board has set new objectives for itself for FY18, taking account of the findings from the evaluation. These will be reported on in the FY18 Annual Report. Other areas of focus will include:

- Ensuring the Directors get sufficient time to engage with the talent pipeline within the business;
- Enabling Directors to increase their understanding of the wider technology environment;
- Building on the work undertaken in 2017 to improve the Directors' engagement plans and their continuing professional development; and
- Driving further improvements in the quality of the information that the Board receives.

sage Intacct

Intacct acquisition

With a focus on growing Sage's share of the cloud market, particularly in North America, any strategic acquisitions need to fulfil a number of criteria. The Board's role in mergers and acquisitions is to challenge and test management's assumptions and leverage their particular skills and experience in this area.

The journey towards adding Intacct to the Sage family started over a year prior to completion, with initial meetings between the respective management teams to determine whether there might be a strategic and cultural fit. IDC predicts that by 2020, over 50% of financial software in the scale-up segment will be in the cloud and the rate of growth in the US is large. In FY18 alone it is expected to grow by \$400m, more than the entire value of the UK cloud financial management market. However, the market still remains fragmented with many legacy, on-premise vendors – this was the time for Sage to act. There is also a shift away from large, monolithic, hard to implement ERP systems, towards best-of-breed integrated solutions such as Sage Intacct and Sage Live. The acquisition represented an amazing opportunity to capitalise on both of these market trends. By January 2017, the M&A Committee had provided an in-principle approval and financial advisers had been engaged.

With a deal of this size and importance to Sage, thorough due diligence was critical. The Board were kept apprised of progress, with regular project updates from the CEO, CFO and wider deal team at each Board meeting from January 2017 onwards. Throughout this process Board members contributed to the strategic discussion, seeking clear evidence to support the argument that this acquisition was the logical next step in Sage's strategy and would enhance its ability to grow at scale.

The Board's responsibility does not stop with completion of an acquisition. Throughout 2018, the Board will continue to monitor and assess the progress of Sage Intacct's integration, and the long-term value creation we aim for it to create.

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
21 November 2017

Audit and Risk Committee



Jonathan Howell
Chairman of the Audit and Risk Committee

Dear shareholder,

I am pleased to present the annual report of the Audit and Risk Committee (“the Committee”) for 2017. This report explains the Committee’s responsibilities and shows how it has delivered on them during the year. Key activities undertaken by the Committee during the year include keeping under review and considering the impact of the business transformation on risk assessment, the ongoing effectiveness of internal controls, and the appropriateness of the Group’s going concern, viability assessment, financial reporting and accounting judgements.

The Committee operates in accordance with the principles of the Financial Reporting Council’s (“FRC”) UK Corporate Governance Code (“the Code”) and the associated recommendations set out in the FRC’s Guidance on Audit Committees, as revised in 2016.

Role of the Committee

The Committee is an essential element of Sage’s overall governance framework. The Board has delegated to the Committee the 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, the latest version of which was updated during the year and reviewed and approved by the Committee in September 2017.

“We are committed to ensuring that Sage continues to apply rigorous risk management procedures across the Group as new processes and behaviours become embedded.”

Audit and Risk Committee Membership:	
	Meetings attended
Jonathan Howell (Chairman)	4/4
Neil Berkett	4/4
Donald Brydon	4/4
Inna Kuznetsova (until 28 February 2017)	2/2
Ruth Markland (until 28 February 2017)	2/2

Composition

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, the Board considers that the Committee has the necessary competence and broad experience relevant to the sector in which Sage operates as required by the Code. Neil Berkett and Drummond Hall are both former Chief Executives with extensive experience of leading businesses that, like Sage, are customer focused. This understanding of the challenges presented by the Group’s transformation and customer-focused strategy enables them to contribute strongly to the Committee’s activities. Further details of the background, knowledge and experience of the Chairman and each of the Committee members can be found on pages 64 to 65 of this report.

Activities during the year

The Committee met four 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 (Control and Operations). The Chairman of the Board and Chief Executive Officer were also present at all four meetings. The Chairman reported 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.



At each meeting, the Committee receives and considers:

- scheduled finance updates on financial reporting, including significant reporting and accounting matters;
- scheduled risk updates, including quarterly risk dashboards outlining both principal and any escalated local risks. The Committee also received summary reports and supplementary briefings from Sage Risk and management on selected principal risks and other “in-focus” reviews;
- summary reports of escalated incidents and instances of whistleblowing, together with management actions;
- progress against the plan and results of Internal Audit’s activities, including Internal Audit and management reports on internal control including financial, compliance and operational matters, and the implementation of management actions to address identified control weaknesses; and
- updates on delivery of the external audit plan and reports from the external auditor on the Group’s financial reporting and observations made on the internal financial control environment in the course of their work.

During the year the Committee also received updates on the legal and regulatory frameworks relevant to its areas of responsibility, including the Bribery Act and the responsibilities of Directors. Specific items addressed by the Committee at each of its meetings since the 2016 Annual Report and Accounts were as follows:



The activities of the Committee are explained further in the rest of this report.

Outside these formal meetings, the Chairman meets regularly with the Chief Financial Officer, the external auditor, the VP Risk and Assurance and the EVP Finance. Additionally, the Chairman attended the April meeting of the Global Risk Committee.

Financial reporting, including significant reporting and accounting matters

At each meeting the Committee received scheduled finance updates from the EVP Finance, including information on developments in reporting and accounting matters. The Committee considered how these matters were addressed in preparing the Group's financial statements. Those matters which the Committee was particularly focused on are set out below. The Committee also assessed the overall quality of financial reporting through review and discussion of the interim and annual financial statements. The Committee also received updates on the strategies and policies of the Group's Treasury and Tax functions and their approach to risks and controls in their areas of operation.

In performing its review, the Committee considered the work, judgements and conclusions of management and the group finance team. The Committee also received reports from the external auditor setting out its view on the accounting treatments included in the financial statements, based on its review of the interim financial statements and its audit of the annual consolidated financial statements. The Committee's review included assessing the appropriateness of the accounting policies and practices, confirming 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 and the deferred tax position. In the current year, the Committee also reviewed management's assessment of the Group's operating and reportable segments following the change in management structure implemented from 1 October 2016.

Significant reporting and accounting matters

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

Revenue Recognition

The Group sells its products in different ways around the world. 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 ongoing transition in business model to selling software as a service, the increased focus on recurring revenue through software subscriptions and the growth in the level of sales made via business partners and other intermediaries.

The revenue recognition accounting policy is set out in note 3.1 to the financial statements and is referenced in the Group's significant accounting judgements.

The Committee continued to monitor the application of the Group's revenue recognition accounting policy and received reports from management on the processes in place to confirm adherence to the policy. The Committee considered whether the work undertaken supported 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. As part of this, the Committee considered the appropriateness of the accounting for a number of sales arrangements where the accounting was complex.

The Committee discussed and challenged management's conclusions, satisfying itself that a consistent approach had been applied to determine revenue recognised in 2017.

In addition, the Committee received progress updates for the project to implement IFRS 15 Revenue from Contracts with Customers. The expected areas of impact of the new standard are explained in note 1 to the financial statements. The Committee will continue to monitor the project closely as it progresses over the course of 2018. The first year of reporting under the new standard will be the year ending 30 September 2019.

Goodwill impairment testing

The assessment of the recoverability of goodwill remains an area of focus for the Committee given the quantum of the Group's goodwill balances and the evolution of Sage's business model.

The Committee has considered the appropriateness of the cash generating units ("CGUs") tested for impairment and the judgements and assumptions applied in calculating their recoverable amounts.

A summary of the 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 that set out detailed analysis of the key inputs to forecast future cash flows, including discount rates and growth rates, used in calculating recoverable amounts on a value in use basis. The report also explained the rationale for combining Singapore and Malaysia into a single CGU following the changes to the way the businesses were being managed. The Committee considered the appropriateness of the assumptions used and also reviewed the impact of a sensitivity analysis applying downside scenarios. From information provided in the report and discussion with management, the Committee obtained appropriate assurance that the change to the CGUs was appropriate and 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 its procedures and conclusion 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.

Non-recurring items (Business transformation)

Significant costs were incurred on the Group's major business transformation activities during 2017 to transform the Group to the new operating model. These have included internal transformations to create People Services (HR) and IT centres of excellence as well as further rationalisation of the Group's property portfolio. In Finance, there has been further implementation of the X3 system across the Group and the migration of more operations into the European Financial Shared Service Centre. The recognition of further costs during the year reflects the phased nature of the implementation process and is consistent with the scale of the overall project. The recognition and measurement of such costs and their presentation as non-recurring items has been a key area of focus for the Committee.

The Group's accounting policy for non-recurring items is summarised in note 3.6 to the financial statements.

Management provided updates during the year of the amounts charged as non-recurring costs, including analysis of material elements of the costs. The net costs incurred in 2017 were £73m. The Committee also received reports from the external auditor on its findings.

The Committee considered the appropriateness of the measurement, recognition and presentation of these costs and satisfied itself that the position taken was reasonable and in accordance with the Group's established accounting policy. Where provisions were recognised for transformation costs, the Committee reviewed the basis on which management had concluded that the qualification and recognition criteria for restructuring provisions had been met in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The Committee's review confirmed that the costs are appropriately presented as non-recurring items in the current year as they are one-time costs directly related to a major transformational restructuring. In future, the costs of implementing further efficiencies and simplification in the business will be "business as usual" and will not be presented as non-recurring items unless appropriate under the criteria in the Group's policy for such costs to be presented separately.

Following the completion of each of these transactions, the Committee was satisfied that the accounting policies, judgements and estimates applied to these transactions, and the disclosures made about them in the financial statements, were appropriate.

The Committee also advised the Board on whether the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess Sage's position and performance, business model and strategy. In reaching its conclusion, the Committee considered going concern, reviewed the Annual Report and Accounts as well as the results of processes performed by management to provide assurance to support the fair presentation of the Group's financial statements. These included an analysis of how the key events in the year had been described in the Annual Report and Accounts and representations received from country management teams on a range of financial controls. The Committee also considered the perspective of the external auditor.

Significant transactions

During the year the Group undertook a number of business acquisition and disposal transactions. The application of certain aspects of accounting policies to these transactions requires judgement and estimation. A summary of the accounting policies applied is set out in note 16 together with disclosures for each of the transactions.

The Committee received reports from management explaining the accounting applied to business acquisitions and disposals and the disclosures required. The Committee concentrated particularly on the judgements and estimations applied to the following significant transactions and considered whether they were appropriate.

Acquisition of Sage People Limited (formerly Fairsail Limited)

Management reported to the Committee the basis on which the acquisition was accounted for, including the identification and measurement of intangible assets acquired in the transaction. In addition to the valuation of intangible assets, the Committee considered the appropriateness of the revaluation of the investment of the Group's initial stake in the company and the resultant gain recorded in the income statement of £13m.

Acquisition of Intacct Corporation

Following acquisition of Intacct on 3 August 2017, management presented the provisional acquisition accounting to the Committee. This consisted of an assessment related to the fair value of consideration transferred as well as the valuation of assets and liabilities acquired. The Committee considered the appropriateness of the valuation of consideration transferred including the accounting for share options which were granted to the vendors of Intacct. Consideration was also given to the approach used to value the intangible assets acquired, including the work being performed by an external valuation expert.

Disposal of the North American Payments business

In advance of the disposal of the North American Payments business which completed in the second half, management presented an analysis to the Committee which outlined why the business was to be classified as an asset held for sale on the Group's balance sheet at 31 March 2017 and classified as a discontinued operation in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

The Committee considered the judgements made in this assessment which included the determination that the business was a "major line of business". Following the disposal of the business, management presented an analysis of the calculation of the profit on disposal of £25m. The Committee considered the appropriateness of this calculation including the valuation of proceeds received.

In addition, the Committee reviewed the process undertaken by management to assess the Group's longer-term viability in order to 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, and which of the Group's principal risks and combinations thereof should be modelled for sensitivity analysis of liquidity and solvency. It reviewed the results of management's scenario modelling and the reverse stress testing of these models.

The Group's viability statement can be found on page 58.

Risk Management and Internal Controls

The Committee, on behalf of the Board, monitors and reviews the Company's internal control and risk management systems, reviewing 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 carried out the following:

- Reviewed the principal risks, the associated risk appetites and metrics, and challenged and confirmed its 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.
- Received and considered minutes of the Global Risk Committee including its performance in maturing and embedding risk and the suitability of its composition.
- Detailed In-Focus reviews on selected principal risks and other relevant and important issues (see In-Focus Reviews section below).
- Reviewed, considered and concluded upon an assessment of the effectiveness of risk management as well as reviewing summary reports from Sage Compliance on the Group adherence to policies, including Code of Conduct, Data Protection, Anti-Bribery and Corruption and Anti-Money Laundering.
- Received reports from Internal Audit and management on internal control and monitored the implementation of management actions to address identified control weaknesses. The Committee also satisfied itself that management's response to any financial reporting or internal financial control issues identified by the external auditor was appropriate.
- Reviewed at each Committee meeting escalated incidents and instances of whistleblowing and associated management actions, and also assessed whether they demonstrated a significant failing or weakness in internal controls (see Incident Management, Fraud and Whistleblowing section below).

In-Focus Reviews

The Committee also uses in-depth reviews to consider selected principal risks and other relevant, current and important issues. During the year the Committee undertook a review of the Group's Principal Risk "Information Management and Protection (including cyber)" in order to understand and challenge its reported status, mitigating actions, and the progress made in the management of the risk. The Committee also received supplementary briefings and updates on the Shared Service Centres, enabling it to monitor progress of the consolidation of General Ledgers for certain processes into X3. In addition, the Committee considered Sage Assurance reports on the effectiveness of the control environment, internal control observations from the external auditor and an update on the implications of, and planned response to, the upcoming General Data Protection Regulations to understand and challenge our approach. In addition, the Committee received papers on Conflicts of Interest, setting out Sage's compliance obligations, and colleague conflict of interest register for consideration and approval, and on the Company response to the management of risk in 'emerging markets'.

Incident Management, Fraud and Whistleblowing

The Committee considered the suitability and alignment of the Incident Management and Whistleblowing policies, and confirmed their appropriateness in facilitating appropriate disclosure to senior executive management and the Committee. The Committee also received an assessment of the Group's fraud risk during the year. 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, and alleged fraud, bribery or corruption.

Following its review of the Company's internal control systems, the Committee considered whether any matter required disclosure as a significant failing or weakness in internal control during the year.

Internal Audit

Internal Audit is delivered by Sage Assurance.

The Internal Audit Charter 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, and this was undertaken at the Committee's February meeting. 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 Committee reviewed and approved the nature and scope of the work of Internal Audit, and the Internal Audit plan was approved by the Committee at the beginning of the financial year, along with any subsequent quarterly updates.

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, 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 IIA standards. 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 significant progress continued to be made and that Internal Audit remains effective and meets the needs of the Group. This report was presented to the Committee, its findings discussed, and the Committee endorsed this conclusion.

The Committee considered the approach and findings of the assessment, including the development of a data analytics strategy and the alignment of assurance activity with business initiatives such as 'Excellence in Controls', and endorsed the areas of continued focus.

External auditor – Ernst & Young ("EY")

The Committee reviews and makes a recommendation to the Board with regard to the re-appointment of the external auditor. In making this recommendation, the Committee considers auditor effectiveness, including its independence, objectivity and scepticism, 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.

Further consideration is given to partner rotation and any other factors which may impact the Committee's judgement regarding the external auditor.

This has been EY's third year as Sage's external auditor following the formal tender process conducted in 2014. The current audit partner is Alison Duncan and she has been in the role for all three years.

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 effectiveness, objectivity and independence of the external auditor during the year. The Committee based its conclusion on its own observations and interactions with the external auditor, and consideration of a number of areas:

- Experience and expertise of the auditor in its direct communication with, and support to, the Committee;
- Content, quality of insights and added value of the auditor's reports;
- Scope, approach to and fulfilment of the agreed external audit plan;
- Robustness and perceptiveness of the auditor in its handling of key accounting and audit judgements; and
- The interaction between management and the auditor.

The Committee's own assessment of the effectiveness of the external auditors was supplemented by a report from management evaluating the effectiveness of the external auditor. Management's report included a summary of the findings of a survey of key Sage colleagues which assessed the quality of the auditor's reporting to, and interaction with, the various finance teams across the Group. Management concluded that the working relationship between finance functions and auditors across the Group was effective and the audit had been carried out in an independent, professional, organised and constructive manner.

At each Committee meeting, Committee members met privately with the external auditor 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 regularly with the external auditor to facilitate effective and timely communication. Further, the Committee received a report from EY evaluating its independence and a formal statement of independence as 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 2018 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.

The Policy was in place throughout the financial year and reflects the Financial Reporting Council (FRC) Revised Ethical Standard 2016, Revised Guidance for Audit Committees 2016 and UK Corporate Governance Code 2016 in relation to the provision of non-audit services by the external auditor.


The Policy states that Sage will not use the external auditor for non-audit services. However, in certain circumstances, and as permitted by the Ethical Standard, non-audit services may be provided by the external auditor with pre-approval by the Committee unless clearly trivial. This is provided that the approval process set out in The Auditor Independence Policy is adhered to and that potential threats to independence and objectivity have been assessed and safeguards applied to eliminate or reduce these threats to an appropriate level.

The Committee considered the application of the Policy with regard to non-audit services and confirms it was properly and consistently applied during the year.

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. In 2017, the ratio of non-audit fees to audit fee was 6% principally reflecting the fee paid for the half year interim review. 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.

Evaluation of the performance of the Committee

The Audit and Risk Committee evaluation for 2016/17 was completed as part of the overall performance evaluation of the Board. An explanation of how this was conducted and the items identified for greater attention, focus and potential improvement is set out on page 74. The Committee has considered this in the context of the matters that are applicable to the Audit and Risk Committee.



Jonathan Howell

Chairman of the Audit and Risk Committee

21 November 2017

Nomination Committee



Donald Brydon
Chairman of the Nomination Committee

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. The Chairman's other significant commitments are detailed on page 64.

Committee meetings

This year the Committee's main activity was focused on replacing two outgoing Directors; Ruth Markland and Inna Kuznetsova. The Committee also considered Board succession planning more generally. In addition to the formal Committee meetings there were frequent informal exchanges.

The Committee's annual evaluation was conducted internally and concluded that the Committee continues to function effectively in respect of its core purpose. However, during 2018, consideration will be given to whether the Committee can also take a more structured role in wider matters of executive succession.

"The appointment of two new non-executives brings a fresh perspective and new skills and experience, to enhance the diversity of the Board."

Nomination Committee membership and meeting attendance:

	Meetings attended
Donald Brydon (Chairman)	4/4
Jonathan Howell (rotated off 28 February 2017)	3/3
Neil Berkett (rotated off 28 February 2017)	3/3
Drummond Hall	5/5
Soni Jiandani (appointed 28 February 2017)	1/2
Ruth Markland (resigned 28 February 2017)	2/3
Inna Kuznetsova (resigned 28 February 2017)	2/3

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 with due regard for the benefit of diversity (including gender diversity) on the Board and at senior management level, and to 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. Sage has voluntarily submitted gender diversity data to the Hampton-Alexander Review for the second year running. It is pleasing to be able to report that 30% of Sage's senior management population is now female. During 2018, the Committee will consider the Parker Review Committee's final report on ethnic diversity and its "Beyond one by '21" recommendation. We will consider not only how we can ensure sufficient consideration is given to the ethnic origin of future Board candidates, but also how our People function addresses ethnic diversity in our hiring practices and senior management talent pipeline. Further details on diversity are provided at page 42.

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.

Following on from 2016's comprehensive talent review, the Board continued to focus on strengthening the pipeline of executive talent in the Company. In July 2017, the Board received an update on progress against actions identified from the 2016 review, and discussed the effectiveness of initiatives such as the Leading@Sage development programme, which was introduced to 2000 Sage colleagues during 2017. 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 and Inna Kuznetsova stood down from the Board at the Annual General Meeting on 28 February 2017. On Ruth's departure, Drummond Hall took on the position of Senior Independent Director. In our 2016 Annual Report, we reported that the Committee had reviewed the Board's composition with respect to both skills and diversity and as a consequence engaged a specialist firm, Sciteb, to conduct a search for potential candidates for non-executive roles. Sciteb undertakes no other business for the Company. A number of potential candidates were identified, but Soni Jiandani's background in driving industry transformation through market disruption and her extensive technology experience made her an exceptional candidate and she was appointed with effect from 28 February. Cath Keers was appointed with effect from 1 July. An external search agency was not used in Cath's appointment. The Committee concluded, following formal interviews conducted by the whole Committee and other Board members and noting the strength of her digital and customer experience, that Cath Keers would be an appropriate candidate for the role of Non-executive Director on the Board.



Donald Brydon

Chairman of the Nomination Committee

21 November 2017

Focus on Induction: Soni Jiandani

Q: How important was a thorough induction for you?

A: It's important to be able to make a valuable contribution straight away, and to get a deep understanding of the Group is key to that. My induction programme has helped me to ensure that I am armed with the information I need to navigate a new environment.

Q: What skills do you bring to the Board table?

A: I have spent many years in Silicon Valley, working with large multinationals as well as smaller start-ups, with a wealth of product marketing experience. I hope I am bringing with me that innovation mindset and a view of the US technology industry in particular.

Q: How will you be contributing as a member of the Nomination Committee?

A: I will be looking to ensure that we have effective conversations about what the future composition of the Board and executive management looks like. We must remember that the business landscape is changing rapidly, and we want to stay ahead of the curve with the skills and experience we look for.



Directors' remuneration report

Remuneration Committee



Drummond Hall

Chairman of the Remuneration Committee

Dear fellow shareholder,

It is my pleasure to present the Directors' Remuneration Report for the year ended 30 September 2017.

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 for FY18. 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

Key remuneration outcomes for FY17

The 2017 bonus was based on organic revenue growth and the satisfaction of underpins relating to underlying operating margin and recurring revenue growth (80% of bonus) and personal strategic measures (20%). For the year ended 30 September 2017, organic revenues grew 6.6%, which continues the recent growth trend of the business, and margin was 27%, satisfying market guidance issued at the beginning of the year. However, recurring revenue growth at 9% fell short of the stretching target we set for

"In the context of a year of strong performance and overall growth, the Committee still faced some tough decisions on the remuneration of our senior executives. We have maintained the integrity of our remuneration policy, which we regard as key to driving superior levels of performance linked to strategic business goals."

Remuneration Committee membership:

- | | |
|--|--|
| – Drummond Hall, Chairman | – Inna Kuznetsova (until 28 February 2017) |
| – Donald Brydon (until 28 February 2017) | – Ruth Markland (until 28 February 2017) |
| – Neil Berkett | – Cath Keers (from 1 July 2017) |
| – Jonathan Howell | |

this underpin. As a result, the Committee took the decision not to pay bonus on financial measures despite a year of strong performance overall. Whilst this was a tough decision, it maintains the integrity of our remuneration policy and its link to our guiding principle of high performance against strategic business goals. The Executive Directors achieved their strategic objectives, which led to 19% of the maximum bonus paying out for the Chief Executive Officer and 19% for the Chief Financial Officer. More details on the bonus outcome are set out on page 93.

Performance Share Plan (PSP) awards granted in 2015 were based on organic revenue growth, earnings per share growth and relative TSR performance measured over the three-year period to 30 September 2017. Overall, the Committee determined that 66.1% of the maximum number of shares under award will vest in January 2018. Further detail is set out on page 94.

Looking forward to FY18

The Committee has introduced a two-year holding period for PSP awards granted to Executive Directors from FY18. The holding period will apply upon vesting of the awards.

We have adjusted the PSP targets to reflect the updated definition of organic revenue which includes Intacct and Fairsail (Sage People) from FY18. The adjustments also apply to awards granted in FY16 and FY17, reflecting the extent to which the revised definition of organic measures will contribute to performance over each three-year period. We believe this provides the right incentive for management to consider the performance of the acquired businesses and facilitates the comparison of long-term performance to reported actuals as well as maintaining appropriate levels of stretch in targets. The Committee is satisfied that the adjusted targets are materially neither easier nor more difficult to achieve. More information is set out on page 95.

Finally, I look forward to engaging with our shareholders on behalf of the Board in a review of our remuneration policy before it is submitted to a binding shareholder vote at the 2019 AGM, when our current policy expires.



Remuneration Committee meetings held in FY17

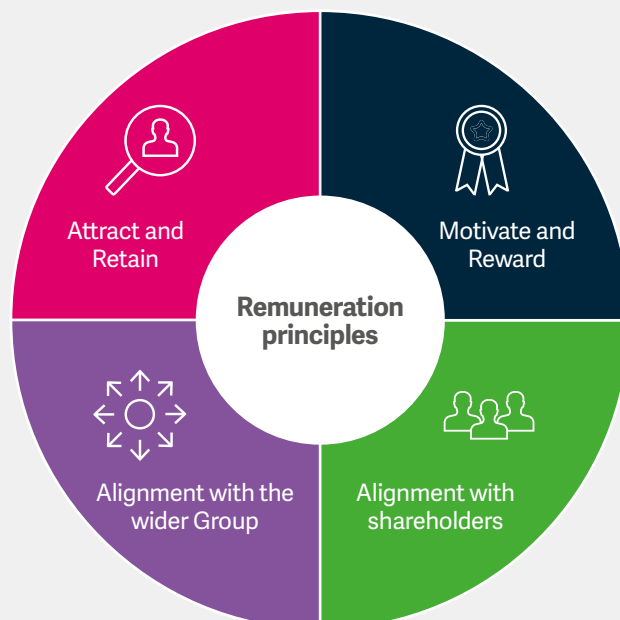
No one other than a member of the Committee is entitled to be present at its meetings. The Chairman of the Board and the Chief Executive Officer may attend meetings as required, except where his own performance or remuneration is discussed. No Director is involved in deciding his or her own remuneration.

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 seven times, where it discussed the following key matters:



Remuneration at a glance

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







The key elements of our remuneration policy are summarised below.

Element of Remuneration Policy	Purpose	Application of Element in FY18 for CEO	Application of Element in FY18 for CFO
Base salary	Enables Sage to attract and retain Executive Directors of the calibre required to deliver the Group's strategy	£810,000 (0% increase)	£522,000 (0% increase)
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 in carrying 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. Vesting is after three years, and awards are subject on vesting to a holding period for two years before being released	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	See page 99 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 2017 is 219% of base salary	Shareholding at 30 September 2017 is 227% of base salary

Delivering our remuneration principles in 2018

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 2018
 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 2018 to our maximum level of performance-related pay under either the annual bonus plan or the PSP. The CEO and CFO will not receive a salary increase in 2018.
 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.	2018 annual bonus As outlined in the Strategic Report, organic revenue growth remains the key strategic measure of performance during the coming year and the Committee has therefore determined that in 2018 the key bonus measure shall continue to be Group organic revenue growth (80% of overall bonus). This measure aligns to the updated definition of organic revenue growth as detailed on page 34. Strategic measures continue to be linked to executives' VSGM ¹ goals, which are derived from the process explained in the 2016 Strategic Report on page 27, and make up the remaining 20% of bonus. Payout under the organic revenue growth measure will be dependent upon the satisfaction of two underpin conditions which are unchanged from 2017: the first based on underlying operating profit margin, to protect our profitability, and the second, recurring revenue growth, to drive our movement to a high-quality subscription model. Recurring revenue growth continues to be one of the two main measures under the PSP. 2018 PSP awards There are no changes to the performance measures for PSP awards. An adjustment to the targets to reflect acquisitions during financial year 2017 has been made; this is explained in further detail on pages 95 and 99. The PSP operates as follows: <ul style="list-style-type: none"> – Half of the 2018 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 2018 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 2018 PSP award to vest, two underpin performance conditions based on EPS growth and organic revenue growth will also need to be achieved.
 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 92 to 103.
 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 2018: 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 three years with effect from 2018, as approved by shareholders in the 2016 AGM. Shareholding requirement 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. Holding period The Committee has introduced a two-year holding period for PSP awards granted to Executive Directors from FY18. The holding period will apply upon vesting of the awards.

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

Directors' remuneration report continued

Single figure for total remuneration summary:

Director	2017 Total £'000	2016 Total £'000
Executive Directors		
S Kelly	3,336	1,723
S Hare ¹	2,181	3,030
Non-Executive Directors		
D H Brydon	397	397
R Markland	31	75
N Berkett	60	60
D Hall	83	76
J Howell	77	77
I Kuznetsova	25	60
S Jiandani	35	–
C Keers	15	–

Note:

1. The single figure total in 2016 is updated this year in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013. For further detail, see the footnote to the Single Figure of Remuneration table on page 92 below.


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 (April 2016) 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 89 to 91).
- **The Directors' Annual Remuneration Report (pages 92 to 103).** This section sets out details of how our existing remuneration policy was implemented for the year ended 30 September 2017 and how we intend the policy to apply for the year ending 30 September 2018.



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). The remuneration policy will undergo a full review during calendar year 2018 and be presented for shareholder approval at the 2019 AGM.

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: <ul style="list-style-type: none"> – Pay increases for other employees in major operating businesses of the Group – The individual's skills and responsibilities – Pay at companies of a similar size and international scope to Sage, in particular those within the FTSE 100 (excluding the top 30) – Corporate and individual performance 	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: <ul style="list-style-type: none"> – Increase in scope and responsibility – Increase to reflect the individual's development and performance in role (e.g. for a new appointment where base salary may be increased over time rather than set directly at the level of the previous incumbent or market level) – Alignment to market level 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: <ul style="list-style-type: none"> – Appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market – Provides a sufficient level of benefit based on the role and individual circumstances, such as relocation As the costs of providing benefits will depend on a Director's individual circumstances, the Remuneration Committee has not set a monetary maximum.	None.

Remuneration policy table continued

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.	<ul style="list-style-type: none"> – 80% of the bonus will be determined by measure(s) of Group financial performance. – 20% of the bonus will be based on pre-determined financial, strategic or operational measures appropriate to the individual Director. The measures that will apply for the financial year 2018 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: <ul style="list-style-type: none"> – Target performance: 20% of the maximum shares awarded – Stretch performance: 80% of the maximum shares awarded – Exceptional performance: 100% of the shares awarded 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: <ul style="list-style-type: none"> – 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 2018 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. This scheme closed for new invitations in 2016 and a new UK tax-approved all-employee plan, The Sage Save and Share Plan, launched in May 2017. Similar to the previous plan, Executive Directors make monthly savings over a period of three 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 The Sage Save and Share Plan if operated 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.

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: <ul style="list-style-type: none"> – The Chairman is paid a single, consolidated fee – The Non-executive Directors are paid a basic fee, plus additional fees for chairmanship of Board Committees and to the Senior Independent Director – Fees are currently paid in cash but the Company may choose to provide some of the fees in shares 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: <ul style="list-style-type: none"> – Reflects the commitment and contribution that is expected from the Chairman and non-Executive Directors – Is appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market, particularly companies of a similar size and international scope to Sage, in particular those within the FTSE 100 (excluding the top 30) 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 2018

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 2016 and 2017.

Director	(a) Salary/fees ¹ £'000		(b) Benefits ² £'000		(c) Bonus ³ £'000		(d) Pension ⁴ £'000		(e) PSP awards ⁵ £'000		Total ⁶ £'000	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Executive Directors												
S Kelly	805	790	52	50	194	686	201	197	2,084	–	3,336	1,723
S Hare	519	505	103	91	125	442	130	126	1,304	1,864	2,181	3,030
Non-Executive Directors												
D H Brydon	360	360	37	37	–	–	–	–	–	–	397	397
R Markland	31	75	–	–	–	–	–	–	–	–	31	75
N Berkett	60	60	–	–	–	–	–	–	–	–	60	60
D Hall	83	76	–	–	–	–	–	–	–	–	83	76
J Howell	77	77	–	–	–	–	–	–	–	–	77	77
I Kuznetsova	25	60	–	–	–	–	–	–	–	–	25	60
S Jiandani	35	–	–	–	–	–	–	–	–	–	35	–
C Keers	15	–	–	–	–	–	–	–	–	–	15	–

Notes:

- Details of salary progression since 2015 for the current Executive Directors are summarised in the Statement of implementation of remuneration policy in the following financial year on page 98. Current fees for the Chairman and non-Executive Directors are set out on page 99.
- 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 grossed-up 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 he has been required to spend in London attending to Sage matters. Donald Brydon receives a company car benefit. 2016 benefit values have been updated to reflect tax gross-ups which were not previously stated.
- 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 2017 award was determined is provided in the additional disclosures below.
- Pension emoluments for both Executive Directors were equal to 25% of base salary. Both elected to receive them as a cash allowance.
- The 2017 PSP value is based on the PSP award granted in 2015 which is due to vest in January 2018. Both Stephen Kelly's and Steve Hare's awards included in the single figure table have the same performance conditions. The value is based on the number of shares vesting in 2018 multiplied by the average price of a Sage share between 30 June and 29 September 2017 (the last trading day of the year), which was 689.6p, plus dividend equivalents accrued. 49% of the value can be attributed to the increase in share price between the grant and vesting dates.
Steve Hare's 2014 PSP for 2016 has been updated. The change in value is as a result of changes in the share price reported in 2016 in line with the methodology set out in the reporting regulations (709.2p) and the share prices actually achieved at vesting (643.0p and 681.1p), and a change in the anticipated dividend equivalents payable after the end of the reporting year from 23,168 to 20,602. Stephen Kelly did not have a 2014 PSP award.
- Total remuneration for Directors in 2017 was £6,241,246 compared to £5,498,000 in 2016 (updated).

Additional disclosures for single figure for total remuneration table

Annual bonus 2017

The bonus targets for FY17 were set by reference to the strategy for FY17, in particular the achievement of organic revenue growth taking into account the Company's annual budget and consensus in determining the payout curve. The actual target ranges for 2017 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
Organic revenue growth	80			Achievement of 6.6% for FY17 which, but for the non-achievement of the recurring revenue growth underpin, would have resulted in 46% of the maximum bonus becoming payable. The actual payout for this element was zero.
Strategic measures (see Directors' personal strategic objectives table below)	20			Stephen Kelly's achievement of strategic objectives for FY17 led to 19% of the maximum bonus becoming payable. Steve Hare's achievement of strategic objectives for FY17 led to 19% of the maximum bonus becoming payable.
Overall assessment				Stephen Kelly received a bonus equal to 24% of salary (19% 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 24% of salary (19% 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:

Organic revenue growth is defined on page 185. Payment of a bonus for organic revenue growth was subject to the achievement of two underpin conditions: Group recurring revenue growth and Group underlying operating margin. The margin underpin was met, but the recurring revenue growth underpin was not, resulting in no payout for the organic revenue growth measure.

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:

Stephen Kelly, CEO

Stephen Kelly was set goals on improving customer experience, building our cloud proposition, expanding our presence in the enterprise market, the mitigation of principal risks and achieving greater operational simplicity and efficiency. In determining the amount of bonus payable for personal strategic objectives, the Committee took into account:

- The improvement in Sage's Net Promoter Score by 39% year-on-year
- The 36% increase in Annual Contract Value (ACV) for Sage One and fourfold increase in average ACV for Sage Live, with revenues for Sage Live increasing by over 800%
- A revenue growth rate of 21% in the Enterprise market
- Reduction in the risk score against Sage's principal risks
- A reduction in the run rate of overall G&A expense by 360 bps to below 14% of revenue, demonstrating greater efficiency in the way Sage operates.

Overall, the Committee determined that Stephen Kelly's performance had been strong and that a bonus of 19% of maximum would be payable.

Steve Hare, CFO

Steve Hare was set goals on increasing operational efficiencies, making targeted acquisitions, improving Sage's control environment and achieving greater simplicity and efficiency. In determining the amount of bonus payable for personal strategic objectives, the Committee took into account:

- The successful establishment of finance service centres in Newcastle, Johannesburg and Atlanta, resulting in transaction processing from four countries being successfully transferred into the European Shared Service Centre and a 15% reduction in the cost of the finance function.
- The completion of two cloud-related acquisitions in Sage People and Intacct whilst achieving Sage's commitment to achieve 27% underlying operating margin and an acceleration in the performance of the acquired businesses under Sage ownership.
- Improvement in the control environment – approximately 100 key controls standardised as part of our Excellence in Controls (EIC) initiative.
- A reduction in the run rate of overall G&A expense by 360 bps to below 14% of revenue, demonstrating greater efficiency in the way Sage operates.

Overall, the Committee determined that Steve Hare's performance had been strong and that a bonus of 19% of maximum would be payable.

Disclosure of 2016 bonus targets

The target ranges for financial measures used to determine the 2016 bonus were not disclosed in last year's Annual Report & Accounts as this was considered by the Board to be commercially sensitive information. The Committee's current policy of retrospective disclosure to be made after a period of one year has been applied again this year. The table below therefore sets out the target ranges for the financial measures that were used to determine the 2016 bonus.

Directors' remuneration report continued

Directors' annual remuneration report continued

Bonus measure	% weighting	Threshold performance	Target performance	Stretch performance	Actual performance	% of maximum bonus payable
Recurring revenue growth ¹	80%	8% (24% of bonus payable)	10% (56% of bonus payable)	11% (80% of bonus payable)	9.8%	53%
Strategic measures	20%	The assessment of strategic measures was disclosed on page 90 of the 2016 Annual Report (Between 2.4% and 20% of bonus payable)				CEO: 16% CFO: 16%
Total						CEO 69% of maximum bonus (87% of salary) CFO 69% of maximum bonus (87% of salary)

Notes:

- As reported in page 82 of the 2016 Annual Report, Recurring Revenue growth included processing revenue, this is defined on page 170 of the 2016 Annual Report. Additionally, three underpins had to be achieved for any bonus relating to recurring revenue growth to pay out. All the underpins were met: Group organic revenue growth was 6.1% (satisfying the target of 6%), Group underlying operating margin was 27.2% (satisfying the target of 27%) and subscription growth was 34% (satisfying the target of 28%).

PSP awards

Awards granted under the PSP in 2015 (excluding Stephen Kelly's recruitment award, which vests in 2021) vest depending on performance against three equally weighted measures, measured over three years, from 1 October 2014 to 30 September 2017:

- 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% 20% of the award vests for the achievement of target, with 80% of the award vesting for the achievement of stretch	Between 8% and 10% (or above) 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 2017 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)	10.1%	20.4%
Relative TSR	94 th percentile	26.7%
Organic revenue growth (CAGR)	6.5%	19.0%
Total		66.1%

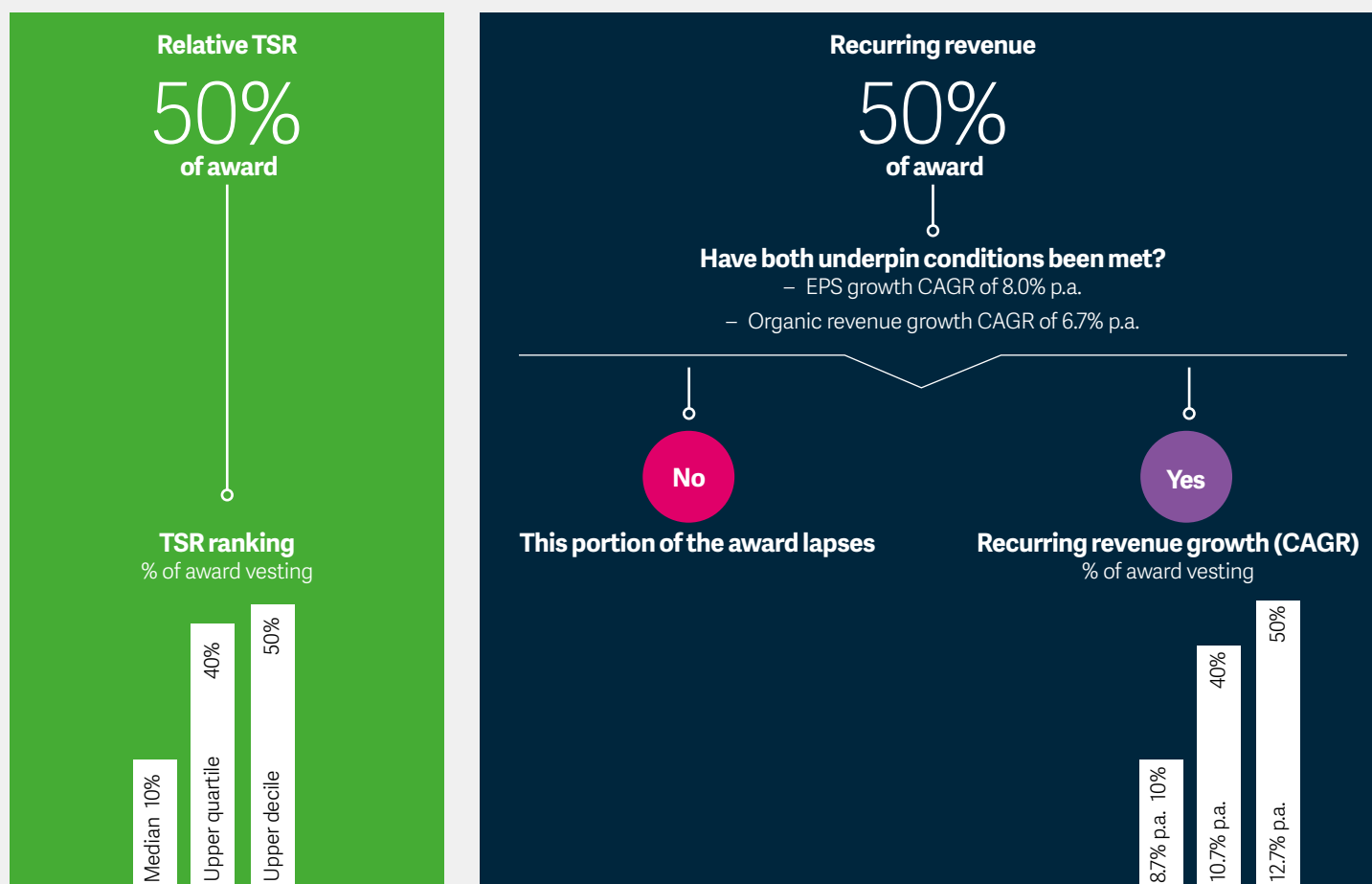
A change in accounting policy for revenue recognition was introduced in financial year 2015, the basis of which is explained on page 44 of our 2015 Annual Report. This change in policy, which occurred mid-way through the performance cycle, affects the calculation of both organic revenue and EPS. Organic 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 2015 assessed on the prior accounting basis plus growth for 2016 and 2017 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.

In assessing 2017 performance, the Committee has determined that the most appropriate basis for assessing performance against underlying EPS growth is to exclude part-year contributions from SPS, Sage People and Intacct in 2017 and, in the case of SPS, whole-year performance in the comparative base year of 2016. This ensures that management are neither penalised nor rewarded on the timing of these transactions completed during the financial year. The Committee believes that this approach ensures that management time transactions using sound judgement and not with a view to maximising their incentive outcomes. It will review the impact of future acquisitions and disposals on incentives on a case-by-case basis.

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.

PSP awards granted in FY17

Awards were granted under the PSP on 14 December 2016 at a market value of £6.265 to selected senior employees, including the Executive Directors, in the form of conditional share awards. In alignment with our business strategy for FY17, performance conditions for awards granted in FY17 are:



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

- 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 FY17 awards are consistent with our ambition for the three-year period FY16-18. The targets have been adjusted to reflect the updated definition of organic revenue which from FY18 includes Intacct and Fairsail (Sage People). The impact of the acquisitions has been pro-rated across the FY17 PSP to reflect the proportionate contribution of the acquired businesses over the performance period. The EPS underpin remains unchanged, which aligns to our commitment to maintain our margin following the acquisitions. The Committee is satisfied that the adjusted targets are not materially easier or more difficult to achieve. The same adjustment has been made proportionally to the FY16 PSP (granted March 2016), where the recurring revenue and organic revenue targets have been increased by 0.3% p.a.

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

- 50% of the awards being determined by relative TSR performance;
- 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 (8.0% p.a. EPS and 6.7% 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 (£) ¹	Face value (% of salary)	Threshold vesting (% of award)	End of performance period
Stephen Kelly	Performance shares	323,224	£2,025,000	250%	20%	30 September 2019
Steve Hare		208,300	£1,305,000	250%	20%	30 September 2019

Notes:

1. The face value of the awards has been calculated using the market value (middle market quotation) of a Sage share on 14 December 2016 of £6.265.

Directors' remuneration report continued

Directors' annual remuneration report continued

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. Sage has employees based all around the world, some of whom work in countries with comparatively higher inflation than the UK; therefore a comparison to Sage's UK-based Group employees is more appropriate than to all employees.

	CEO	All UK employees
Salary ¹	0%	7.2%
Taxable benefits ²	5.3%	-11.6%
Annual incentive	-72%	-19%

Notes:

1. The percentage change for UK colleagues shown is the 2016 annual pay review and promotions/market adjustments during 2017. This is consistent with the basis of the disclosure in previous reports.
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 2016.

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 eight years.

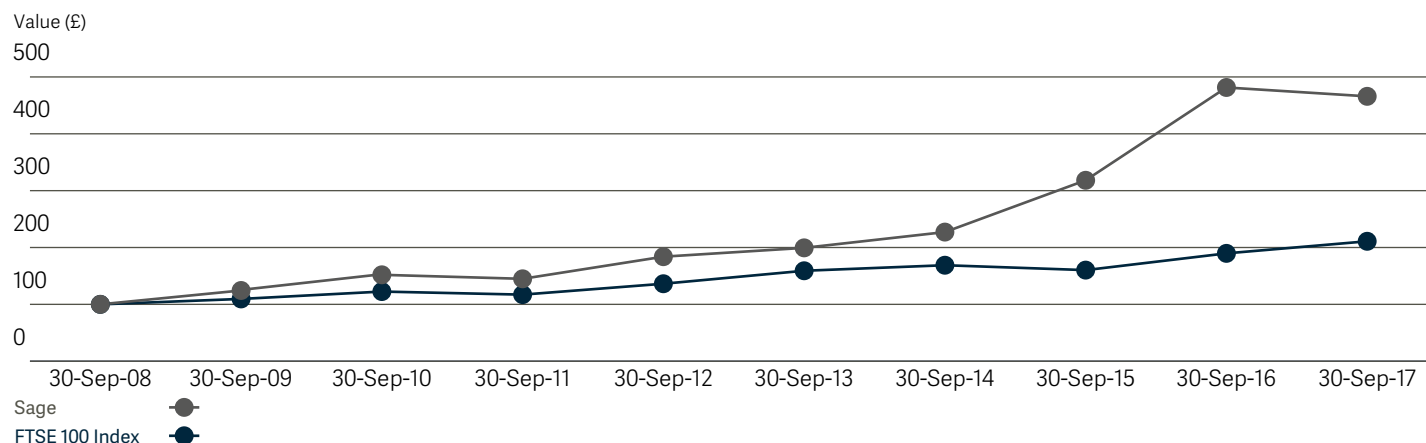
	CEO	2009	2010	2011	2012	2013	2014	2015	2016	2017
CEO single figure of remuneration (in £'000)	Stephen Kelly ¹	–	–	–	–	–	–	1,521	1,723	3,336
	Guy Berruyer ²	–	–	2,935	1,196	1,670	1,616	108	–	–
	Paul Walker ³	1,797	2,196	–	–	–	–	–	–	–
Annual bonus payout (as % maximum opportunity)	Stephen Kelly	–	–	–	–	–	–	67%	69%	19%
	Guy Berruyer	–	–	66%	21%	72%	55%	0%	–	–
	Paul Walker	38%	83%	–	–	–	–	–	–	–
PSP vesting (as % of maximum opportunity)	Stephen Kelly	–	–	–	–	–	–	–	–	66%
	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 nine 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 2017, 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 (audited information)

In the year ending 30 September 2017, no payments were made to past Directors, either in respect of loss of office or otherwise.

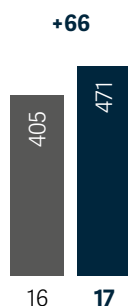
Relative importance of spend on pay

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 2016 and 2017.

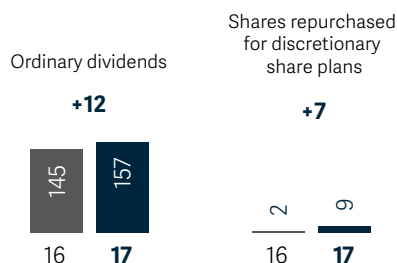
The information shown in this chart is based on the following:

- Underlying PBT – Underlying profit before income tax taken from the table on page 119, adding back discontinued operations on page 172. Underlying PBT has been chosen as a measure of our operational profitability
- Returns to shareholders – Total dividends taken from note 15.5 on page 168; share buyback taken from consolidated statement of changes in equity on page 122
- Total employee pay – Total staff costs from note 3.3 on page 135, including wages and salaries, social security costs, pension and share-based payments

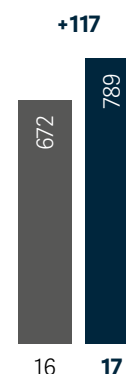
Underlying PBT (£m)



Returns to shareholders (£m)



Total employee pay (£m)



Directors' remuneration report continued

Directors' annual remuneration report continued

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 2018.

Base salary

An annual salary review was carried out by the Committee in November 2017. Following that review, the Committee approved the following:

	Salary 1 January 2018	Salary 1 January 2017	Salary 1 January 2016
Stephen Kelly	£810,000 (0% increase)	£810,000 (2.5% increase)	£790,000 (0% increase)
Steve Hare	£522,000 (0% increase)	£522,000 (2.5% increase)	£509,200 (3% increase)

Pension and benefits

As in FY17, 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 FY17. In addition, the Company will continue to cover the cost of Steve Hare's travel and accommodation for days on which he attends to Sage matters in the Company's London offices.

Annual bonus

Key features of the Executive Directors' annual bonus plan for 2018 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 three years under The Sage Group Deferred Bonus Plan
- Annual bonuses awarded in respect of performance in 2018 will be subject to potential withholding (malus) or recovery (clawback) if specified "trigger events" occur within three 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 2018 for Executive Directors will be determined as detailed below:

As a percentage of maximum bonus opportunity:

Measure	CEO	CFO
Organic revenue growth ¹	80%	80%
Strategic goals	20%	20%

Note:

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

The selection of measures and targets takes into account the Company's strategic priorities, its internal budgeting and consensus. The organic revenue growth measure is based on the updated definition of organic revenue set out on page 34. 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.

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 2017. 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 2020. A holding period to the PSPs granted for the financial year FY18 will apply for two years from the vesting date. No further performance conditions attach to the awards during the holding period.

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	<9% p.a.	0%
Target	9% p.a.	10%
Stretch	11% p.a.	40%
Exceptional	13% 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 ongoing 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 7% 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
- As noted earlier in the report, the recurring and organic revenue targets have been adjusted upwards to take account of the updated definition of organic measures

PSP awards granted in 2018 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 2018. 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. Non-executive fees will next be reviewed by the Remuneration Committee in 2018.

	2018 fees
Chairman of the Board all-inclusive fee	£360,000
Basic Non-Executive Director fee	£60,000
Senior Independent Director additional fee	£10,000 ¹
Audit and Risk Committee Chairman additional fee	£17,000
Remuneration Committee Chairman additional fee	£17,000

1. On appointment as Senior Independent Director, Drummond Hall elected to receive an additional fee of £10,000 to reflect the responsibilities and additional time commitment of the Senior Independent Director. The fee is lower than the previous fee of £15,000 and reflects the fact that he also receives a fee as Remuneration Committee Chairman.

Directors' remuneration report continued

Directors' annual remuneration report continued

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 2017, Stephen Kelly held shares worth 219% of salary, and Steve Hare held shares worth 227% of salary, including unvested deferred shares net of tax. The values for Executive Directors are derived from interests in shares valued using the average market price of a share between 30 June and 29 September 2017 (the last trading day of the financial year), which was 689.6p, and the executive's basic salary on 30 September 2017.

Interests in shares

The interests of each person who was a Director of the Company as at 30 September 2017 (together with interests held by his or her connected persons) were:

Director	Ordinary shares at 30 September 2017 number	Ordinary shares at 30 September 2016 number
D H Brydon	78,024	68,024 ¹
N Berkett	47,999	47,999
D Hall	10,000	10,000
S Hare	146,482	0
J Howell	31,000	31,000
S Kelly	237,346	212,346
C Keers	0	N/A
S Jiandani	0	N/A
Total	550,851	369,369

Notes:

1. Donald Brydon's shareholding at 30 September 2016 has been restated, as announced through the Regulatory News Service on 9 February 2017.
- 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 2017 and the date of this report.
 - Details of the Executive Directors' interests in outstanding share awards under the PSP, deferred shares and all-employee plans are set out below.

All-employee share options (audited information)

UK-based Executive Directors were entitled to participate in The Sage Group Savings-Related Share Option Plan (SRSOP), which is now closed for new invitations, and in addition to the new all-employee share plan, The Sage Save and Share Plan, on the same terms as other UK-based employees. See page 166 for more detail. In the year under review, Stephen Kelly and Steve Hare did not participate in this scheme as their existing contributions to the SRSOP are at the HMRC-approved contribution limit. 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 2016 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	Shares under option at 30 September 2017 number	Date exercisable
S Kelly	456p	6,578	–	–	–	6,578	1 August 2020 -31 January 2021
S Hare	317p	9,463	–	–	–	9,463	1 August 2019- 31 January 2020
Total		16,041	–	–	–	16,041	

Notes:

- No performance conditions apply to options granted under this Plan. For the 2015 SRSOP grant, the exercise price was set at 456.0p, a 20% discount to the average share price of 570.0p 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 29 September 2017 (the last trading day of the financial year) was 698.5p (mid-market average) and the lowest and highest market price during the year was 599.0p and 756.0p 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	Grant date	Under award 1 October 2016 number	Awarded during the year number	Vested during the year number	Lapsed during the year number	Under award 30 September 2017 number	Vesting date
S Kelly	14 December 2016		323,224	–	–	323,224	14 December 2019
	2 March 2016	327,909				327,909	2 March 2019
	12 January 2015	426,842	–	–	–	426,842	12 January 2018
	12 January 2015	213,421	–	–	–	213,421	12 January 2021
		968,172	323,224	–	–	1,291,396	
S Hare	14 December 2016	–	208,300	–	–	208,300	14 December 2019
	2 March 2016	211,356				211,356	2 March 2019
	12 January 2015	267,127	–	–	–	267,127	12 January 2018
	10 March 2014	286,088	–	(182,897)	(103,191)	–	4 August 2017
	20 January 2014	116,873	–	(74,717)	(42,156)	–	20 January 2017
		881,444	208,300	(257,614)	(145,347)	686,783	
Total		1,849,616	531,524	(257,614)	(145,347)	1,978,179	

Notes:

- No variations were made in the terms of the awards in the year.
- The market price of a share on 14 December 2016, the date of the awards made in the year ended 30 September 2017, was 626.5p.
- The performance conditions for awards granted in January 2015 are set out on page 94. The performance conditions applicable to awards that were granted on 2 March 2016 and 14 December 2016 are explained on page 95.
- For Stephen Kelly's award that vests 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 Steve Hare's awards that vest during 2017 are set out on page 91 of the 2016 Annual Report. The vesting date for Steve Hare's award that was due to vest on 10 March 2017 was delayed to 4 August 2017 due to the imposition of dealing restrictions.

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	Grant date	Under award at 1 October 2016 number	Awarded during the year number	Vested during the year number	Lapsed during the year number	Under award at 30 September 2017 number	Vesting date
S Hare	12 January 2015	11,047	–	–	–	11,047	12 January 2018
	9 December 2015	13,673		–	–	13,673	9 December 2018
	14 December 2016		23,528	–	–	23,528	14 December 2018
S Kelly			36,503	–	–	36,503	14 December 2018
Total		24,720	60,031	–	–	84,751	

Notes:

- Awards are not subject to further performance conditions once granted. The market price of a share on 14 December 2016, the date of the awards made in the year ended 30 September 2017, was 626.5p.
- 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 16 November 2017 (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	1.96%
10% of Group's share capital can be used for all share schemes	2.76%

Directors' remuneration report continued

Directors' annual remuneration report continued

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. Neither of the Executive Directors currently holds an appointment of this nature.

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 2017, 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	1 year 9 months	6 months from the Company or 1 month from individual
D H Brydon	6 July 2017	2 years 9 months	6 months from the Company and/or individual
J Howell	15 May 2016	1 year 8 months	6 months from the Company or 1 month from individual
D Hall	1 January 2017	2 years 3 months	1 month from the Company or 1 month from individual
S Jiandani	28 February 2017	2 years 5 months	1 month from the Company or 1 month from individual
C Keers	1 July 2017	2 years 9 months	1 month 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
- Cath Keers

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

External advisers

The Remuneration Committee continues to receive advice from Deloitte LLP, 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 £75,800.

The Committee is satisfied that the advice it has 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 policy at the 2016 AGM and report at the 2017 AGM:

	Votes for		Votes against		Votes cast	Votes withheld
	Number	%	Number	%		
Remuneration policy	767,613,442	97.43	20,268,897	2.57	787,882,339	2,910,738
Remuneration report	737,778,779	90.90	73,884,744	9.10	811,663,523	419,256



Drummond Hall

Chairman of the Remuneration Committee

21 November 2017

Directors' report

The Directors present their report together with the audited consolidated financial statements for the year ended 30 September 2017. 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 107.

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	17 – Chief Executive's review
Greenhouse gas emissions	48-49 – Environment section
Viability statement	58 – Principal risks

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 68 to 83, 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 163 within the notes to the Group financial statements.

Results and dividends

The results for the year are set out from page 119. Full details of the proposed final dividend payment for the year ended 30 September 2017 are set out on page 39. The Board is proposing a final dividend of 10.20p per share following the payment of an interim dividend of 5.22p per share on 2 June 2017. The proposed total dividend for the year is therefore 15.42p 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 62.

Viability statement

The full viability statement, and the associated explanations made in accordance with provision C.2.2 of the UK Corporate Governance Code can be found on page 58.

Research and development

During the year, we incurred a cost of £179m (2016: £144m) in respect of research and development. Please see page 134 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 100. 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 64 to 65.

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 41 to 43.

Substantial shareholdings

At 30 September 2017, 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
Standard Life Aberdeen	81,048,985	7.50%	Direct and indirect
BlackRock Inc	63,526,140	5.88%	Indirect
Lindsell Train Limited	56,347,354	5.21%	Direct
Aviva Investors	54,870,660	5.08%	Direct and indirect

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 163. The Company has a single class of share capital which is divided into ordinary shares of 1⁴/77p each.

Rights and obligations attaching to shares

Voting

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

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

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

Deadlines for voting rights

Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the Annual General Meeting to be held on 28 February 2018 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 (28 February 2017) to buy back up to 108,009,614 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, as amended (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 1,376,583 ordinary shares of 1⁴/77p at a weighted average price of 6.80p per share.

In the year under review no treasury shares were cancelled. Total share awards of 2,450,345 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 not 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 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 a US\$390m term loan credit facility agreement dated 25 July 2017 between, amongst others, Sage Treasury Company Limited and HSBC 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 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 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 shown in note 14 to the financial statements. Our approach to risk management generally and our principal risks can be found on pages 52 to 61 of the Strategic Report.

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' report continued

Directors' statement

The Directors as at the date of this report, whose names and functions are listed in the Board of Directors on pages 64 to 65, 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

21 November 2017

The Sage Group plc
Company number 2231246

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Independent auditor's report to the members of The Sage Group plc

Opinion

In our opinion:

- The Sage Group plc's Group financial statements and parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 September 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of The Sage Group plc which comprise:

Group	Parent company
Consolidated balance sheet as at 30 September 2017	Company balance sheet as at 30 September 2017
Consolidated income statement for the year then ended	Company statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Company accounting policies
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 7 to the financial statements
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 18 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on page 52 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 52 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 104 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 58 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> – Revenue recognition – Intacct acquisition – provisional valuation of acquired intangible assets (NEW in 2017) – Carrying value of goodwill – Classification of restructuring costs as non-recurring, as a result of the Group's business transformation
Audit scope	<ul style="list-style-type: none"> – We performed an audit of the complete financial information of six components and audit procedures on specific balances for a further five components. – The components where we performed full or specific audit procedures accounted for 98% of adjusted Profit before tax * for both continuing and discontinued operations and 89% of Revenue.
Materiality	<ul style="list-style-type: none"> – Overall Group materiality of £21.4m which represents 5% of adjusted Profit before tax* for both continuing and discontinued operations.

* Profit before tax for continuing and discontinued operations adjusted for non-recurring items as defined in the 'Our application of materiality' section of this report

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Revenue recognition Refer to the Audit and Risk Committee Report (page 78); and notes 2.1 and 3.1 of the Group financial statements The Group has reported continuing revenues of £1,715m (2016: £1,439m). We focused on the recognition of revenue as the timing of revenue recognition and its presentation in the income statement are subject to inherent complexities in the software industry. We identified three specific risks of fraud and error in respect of improper revenue recognition given the nature of the Group's products and services as follows: <ul style="list-style-type: none"> – Inappropriate cut-off and deferral of revenue; – Inappropriate accounting for complex one-off arrangements; changes to existing products and new products or services; and – Inappropriate allocation of revenue between the components of bundled products. There is no change in the risk profile in the current year.	At each full and specific scope audit location with significant revenue streams: <ul style="list-style-type: none"> – We performed walkthroughs of each significant class of revenue transactions and assessed the design effectiveness of key controls. For three components we tested the operating effectiveness of controls. – For products and services where the risks and rewards are transferred over a period of time, we tested a sample of transactions to ensure that the amount of revenue was accurately calculated based on the state of completion of the contract and recognised in the appropriate period. – Our procedures in relation to inappropriate accounting for complex one-off arrangements, changes to existing products and new products or services ensured that the policies adopted were appropriate and in accordance with the requirements of IFRS. – For bundled products, we tested on a sample basis, that (1) the calculation of the fair value attributed to each element of the bundle was reasonable, and (2) that the allocation of any discount was consistent with the relative fair value of each element of the bundle. – We performed other substantive, transactional testing and data analysis procedures to validate the recognition of revenue throughout the year. Where practicable, at component level we performed testing over full populations of transactions using data analysis. – We performed testing of journal entries to identify any instances of revenue being recorded via journals and, where relevant, to establish whether a service had been provided or a sale had occurred in the financial year to support the revenue recognised. We also considered the adequacy of the Group's disclosure of the accounting policies for revenue recognition in notes 1 and 3.1 respectively. At each full and specific scope audit location with significant revenue streams (eight components) we performed the audit procedures set out above which covered 89% of the Group's revenue. We also performed review procedures in seven locations, which covered a further 8% of the Group's revenue.	Based on the procedures performed, we did not identify any evidence of material misstatement in the revenue recognised in the year nor in amounts deferred at 30 September 2017.

Independent auditor's report to the members of The Sage Group plc continued

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Intacct acquisition - provisional valuation of acquired intangible assets (NEW in 2017)	<p>We walked through the controls over the valuation of the acquired intangible assets and understood management's process to comply with IFRS 3 Business Combinations and IFRS 13 Fair Value Measurement.</p>	<p>The provisional valuation of acquired intangible assets is appropriate.</p>
<p>Refer to the Audit and Risk Committee Report (page 79); and note 16.1 of the Group financial statements</p>	<p>With involvement of an EY business valuation specialist, we</p> <p>(1) assessed the competence, capabilities and objectivity of management's specialists; and</p> <p>(2) evaluated and concluded on the results of management's and its specialist's procedures to determine the preliminary fair value of the intangible assets acquired. This included:</p>	<p>The required IFRS 3 disclosures for business combinations, including the provisional nature of the fair value of the assets and liabilities acquired, are disclosed in note 16.1 of the consolidated financial statements.</p>
<p>On 3 August 2017, the Group acquired Intacct Corporation for £627m.</p>	<p>– evaluating the completeness and existence of intangible assets recognised;</p> <p>– assessment of the valuation methodologies applied;</p> <p>– assessment of the key assumptions made by management, such as customer churn, royalty rates and discount rates, compared to our independently calculated range;</p> <p>– benchmarking the assumptions used with historic Sage acquisitions and other transactions in the sector; and</p> <p>– performing sensitivity analysis to understand the extent to which changes in key assumptions may give rise to a materially different valuation for the intangible asset.</p>	
<p>We focused on this area given the Group has recognised intangible assets relating to customer relationships (£97m), technology (£44m) and Brand (£1m) as part of the provisional purchase price allocation. Significant judgement is involved in assessing the preliminary fair values of intangible assets. These valuations directly impact the amount of goodwill recognised on acquisition and are based on valuation techniques built, in part, on assumptions around the future performance of the business.</p>	<p>In addition, we assessed the prospective financial information utilised in the valuation models based on the viewpoint of a market participant as defined by IFRS 13 Fair Value Measurement. This included evaluating the historical accuracy of forecasting, current performance and adjustments made to pre acquisition/due diligence forecast numbers.</p>	
<p>The purchase price allocation exercise will be finalised in the year ending 30 September 2018.</p>	<p>We considered the appropriateness of the related disclosures in note 16.1 in the Group financial statements with the requirements of IFRS 3.</p> <p>Audit procedures on the provisional valuation of the acquired intangible assets were performed by the Primary audit team.</p>	

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
<p>Carrying value of goodwill</p> <p>Refer to the Audit and Risk Committee Report (page 78); and notes 1 and 6.1 of the Group financial statements</p> <p>We focused on this area due the size of the goodwill balance £2,023m (2016: £1,659m) and because the Directors' assessment of the 'value in use' of the Group's Cash Generating Units ("CGUs") involves judgement about the future performance of the business and the discount rates applied to future cash flow forecasts.</p> <p>In the year, goodwill of £523m was recognised in respect of Intacct and we have undertaken separate procedures in respect of this goodwill balance as part of our work on the provisional purchase price allocation.</p> <p>There is no change in the risk profile in the current year.</p>	<p>We challenged management's assumptions used in its models for assessing the recoverability of the carrying value of goodwill. We focused on the appropriateness of CGU identification, methodology applied to estimate recoverable values, discount rates, and forecast cash flows. Specifically:</p> <ul style="list-style-type: none"> – We have validated that the CGUs identified, including the combination of Malaysia and Singapore into a single Asia CGU, are the lowest level at which management monitors goodwill. – We tested the methodology applied in the value in use calculation as compared to the requirements of IAS 36, Impairment of Assets, and the mathematical accuracy of management's model. – We obtained an understanding of, and assessed the basis for, key underlying assumptions for the 2018 budget. – We have validated that the cash flow forecasts used in the valuation are consistent with information approved by the Board and have evaluated the appropriateness of the use of these forecasts in light of the historical accuracy of management's forecasts. – For the five CGUs with the largest goodwill balances or the lowest headroom, we challenged management on its cash flow forecasts and the implied growth rates for 2018 and beyond by considering evidence available to support these assumptions and their consistency with findings from other areas of our audit. – The discount rates and long-term growth rates applied within the model were assessed by an EY business valuation specialist, including comparison to economic and industry forecasts where appropriate. – For all CGUs, we performed sensitivity analyses by stress testing key assumptions in the model with downside scenarios to understand the parameters that, should they arise, could lead to a different conclusion in respect of the carrying value of goodwill. – In respect of goodwill relating to Intacct, we evaluated whether there are any indicators that the fair value of the business is lower than the consideration paid to acquire the business. We compared the post-acquisition performance of Intacct to expectations set by management at the time of the acquisition. <p>We considered the appropriateness of the related disclosures provided in note 6.1 in the Group financial statements.</p> <p>The entire goodwill balance was subject to full scope audit procedures by the Primary audit team with assistance from certain component audit teams on procedures over forecast financial information where relevant.</p>	<p>Based on the results of our work, we agree with management's conclusion that no impairment of goodwill is required in the current year. We agree with management that no reasonably possibly change in assumptions would result in a material impairment in any Cash Generating Unit and hence no additional sensitivity disclosures are required in note 6.1 of the Group financial statements.</p>

Independent auditor's report to the members of The Sage Group plc continued

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
<p>Classification of restructuring costs as non-recurring, as a result of the Group's business transformation</p> <p>Refer to the Audit and Risk Committee Report (page 79); and note 3.6 of the Group financial statements</p> <p>We focused on this area as costs of £73m have been classified as non-recurring on the basis that they relate to the Group's business transformation and consequently are excluded from the Group's underlying results. As such, the audit team focused its procedures on the following risks:</p> <ul style="list-style-type: none"> – Inappropriate classification of costs as non-recurring; – Inconsistent treatment of non-recurring items from year to year; and – Inappropriate quantification of non-recurring items and recognition of amounts in an incorrect accounting period. <p>There is no change in the risk profile in the current year.</p>	<ul style="list-style-type: none"> – We assessed whether the constituent costs are recorded in line with the Group's policy as summarised in note 3.6 and that the policy has been applied consistently with prior years. – We tested a sample of costs classified as non-recurring to verify that they are directly attributable to the business transformation and are recorded at the correct amount and in the appropriate period. – We considered the level of transparency of the disclosures provided in note 3.6 in the Group financial statements with reference to both the Financial Reporting Council's ('FRC') 2013 guidance to directors on the use of exceptional items and the key messages reported in the FRC's Corporate Reporting Thematic Review on Alternative Performance Measures (APMs) published in November 2017. <p>Component teams at eight locations performed audit procedures on people related reorganisation costs, external consultant spend and on certain net property exit costs. The Primary audit team performed audit procedures on the remaining business transformation costs.</p>	<p>Based on the procedures performed, we did not identify any evidence of material misstatement of business transformations costs. The classification of these costs as non-recurring was in accordance with the Group's disclosed accounting policy and reflects that they relate to a publically announced global business transformation, with the amounts and the two-year expense timeline reflective of the scale of the transformation activities, and have been consistently disclosed in the Group financial statements.</p>

In the prior year, the key audit matter included within our auditor's report in relation to non-recurring restructuring costs as a result of the Group's business transformation, also included a risk in relation to changes in finance systems and processes as a result of the commencement of the Group's finance transformation. This included the implementation of the Group's X3 ERP system for certain processes in the UK and South Africa and the establishment of Financial Shared Services Centres ("FSSC") in those locations. In the current year, the operations of the FSSCs continued to stabilise and the migration of France, Portugal and Belgium on to X3 and into the FSSC in the UK for certain processes was not assessed by the team to have the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as prior year external audit findings and recent Internal Audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 24 reporting components of the Group, we selected 11 components covering entities within the United Kingdom and Ireland, France, North America, Spain, Germany, Brazil and South Africa which represent the principal business units within the Group.

Of the 11 components selected, we performed an audit of the complete financial information of six components ("full scope components") which were selected based on their size or risk characteristics. For the remaining five components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. For the remaining 13 components, audit procedures were undertaken as set out in note 4 below to respond to any potential risks of material misstatement to the Group financial statements.

Reporting components	2017				2016		
	Number	% Group adjusted Profit before tax*	% Group Revenue	See note	Number	% Group adjusted Profit before tax	% Group Revenue
Full scope	6	68%	59%	1,2	6	68%	58%
Specific scope	5	30%	30%	2,3	6	31%	32%
Full and specific scope coverage	11	98%	89%		12	99%	90%
Remaining components	13	2%	11%	4	34	1%	10%
Total Reporting components	24	100%	100%		46	100%	100%

* Profit before tax for continuing and discontinued operations adjusted for non-recurring items as defined in the 'Our application of materiality' section of this report

Notes

1. Three of the six full scope components relate to the parent Company and other corporate entities whose activities include the Group's treasury management and consolidation adjustments. The Group audit risks in relation to both Intacct acquisition – provisional valuation of acquired intangible assets and the carrying value of goodwill were subject to audit procedures by the Primary audit team on the entire balances with assistance from certain component audit teams where relevant.
2. The Group audit risk in relation to revenue recognition was subject to full audit procedures at each of the full and specific scope locations with significant revenue streams.
3. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts selected for testing by the Primary audit team.
4. The remaining 13 components contributed a net 2% of adjusted Profit before tax* and the contribution of these components ranged from 4% to (5)% of the Group's adjusted Profit before tax*. We instructed a component team to undertake specified procedures over certain cash balances at one location. For seven components, including Australia, Singapore and Sage People, we performed review scope procedures. For the remaining components, the Primary audit team performed other procedures, including analytical review procedures and testing of consolidation journals, intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

Changes from the prior year

The change in the total number of reporting components from 46 to 24 reflects the integration of 25 legal entities, previously reported as separate components, into the Corporate Centre component. There is no change from prior year in the scope of the audit work performed. One specific scope reporting location in 2016 is now reported within the UK full scope reporting component.

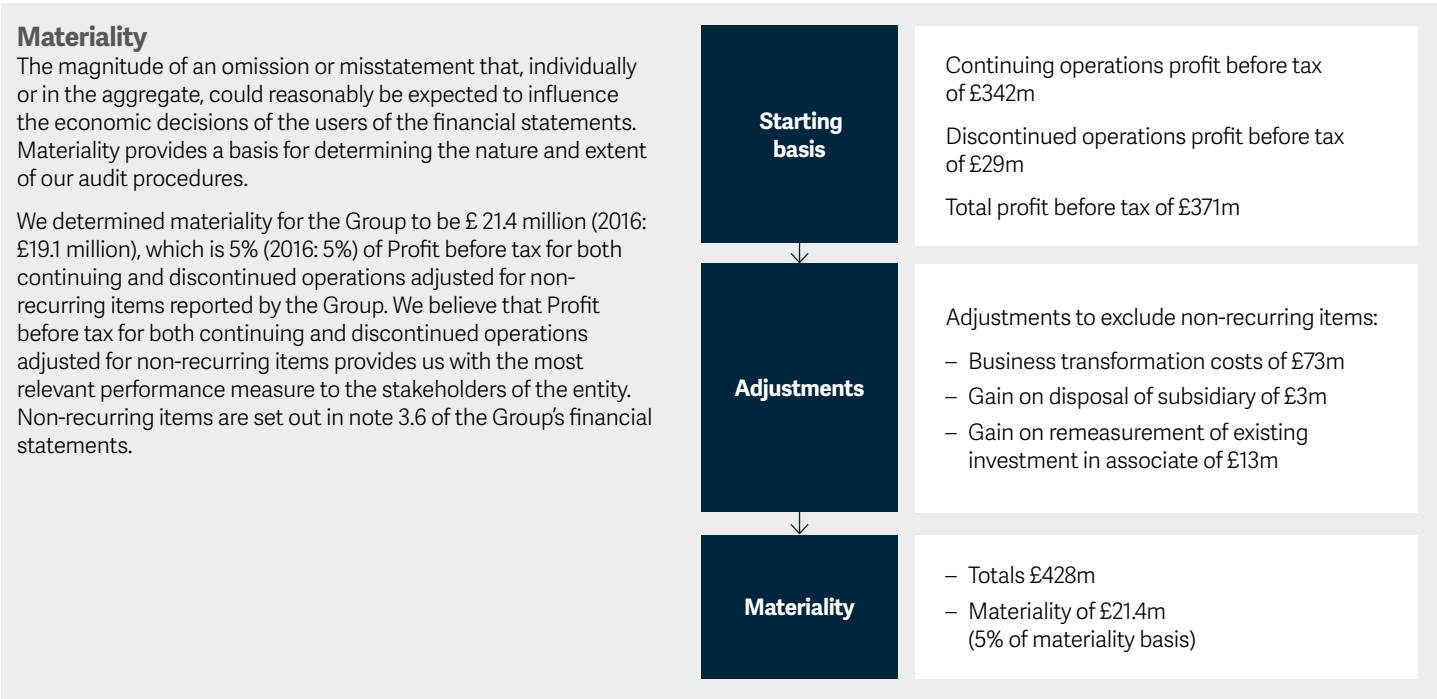
Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the Primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the six full scope components, audit procedures were performed on three of these directly by the Primary audit team and three by component audit teams. For the five specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The Primary audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor, or another group audit partner, would visit all full and selected specific scope audit locations. During the current year's audit cycle, visits were undertaken at least once by the Primary audit team to the component teams in the UK, France, Brazil, North America, and South Africa. These visits involved discussing the audit approach with the component team and any issues arising from their work, reviewing key audit working papers on the Group risk areas, and meeting with local management to discuss the component's business performance and matters relating to the local finance organisation including the internal financial control environment. EY San Francisco was the existing auditor of Intacct Corporation prior to its acquisition by Sage. The Primary audit team instructed our EY component team at that location to undertake specified audit procedures on the opening balance sheet at 3 August 2017 and review procedures over the two-month post acquisition trading performance of the business to year end. The Primary audit team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.



During the course of our audit, we reassessed initial materiality and the only change in the final materiality from our original assessment at planning was to reflect the actual reported performance of the Group in the year.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group’s overall control environment, our judgement was that performance materiality was 50% (2016: 50%) of our planning materiality, namely £10.7m (2016: £9.5m). Our performance materiality percentage has remained at 50% to reflect the risk associated with the Group-wide business transformation, and specifically the ongoing changes across the finance organisation that commenced during the prior year, and which included in 2017 for France, Portugal and Belgium the implementation of their respective X3 ERP system for certain processes and the stabilisation of the Financial Shared Services Centres established in both the UK and South Africa during 2016.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £1.1m to £6.0m (2016: £0.9m to £5.2m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit and Risk Committee that we would report to them all uncorrected audit differences in excess of £1.1m (2016: £1.0m), which is set at 5% of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report as set out on the Financial highlights page and on pages 2-108, other than the financial statements and our auditor’s report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable** set out on page 108 – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit and Risk Committee reporting** set out on page 76 – the section describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** set out on page 63 – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 107, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent auditor's report to the members of The Sage Group plc continued

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS, FRS 102, the Companies Act 2006 and UK Corporate Governance Code) and the relevant tax compliance regulations in the jurisdictions in which the Group operates.
- We understood how the Group is complying with those legal and regulatory frameworks by making enquiries of management, Internal Audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of Board minutes and papers provided to the Audit and Risk Committee.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur, by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud. We also considered performance targets and their propensity to influence on efforts made by management to manage earnings. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved: journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of Legal Counsel, Group management, Internal Audit, country management at all full and specific scope management; and focused testing, as referred to in the key audit matters section above. In addition, we completed procedures to conclude on the compliance of the disclosures in the Annual Report and Accounts with the requirements of the relevant accounting standards, UK legislation and the UK Corporate Governance Code 2016.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

Following the recommendation of the Audit and Risk Committee, we were appointed as auditor by the shareholders and signed an engagement letter on 19 October 2017. We were appointed by the Company at the AGM on 28 February 2017 to audit the financial statements for the year ended 30 September 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is three years, covering the years ended 30 September 2015, 30 September 2016 and 30 September 2017.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent Company and we remain independent of the Group and the Parent company in conducting the audit.

The audit opinion is consistent with the additional report to the Audit and Risk Committee.

Alison Duncan (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London
21 November 2017

Notes:

1. The maintenance and integrity of The Sage Group plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

For the year ended 30 September 2017

	Note	Underlying 2017 £m	Adjustments (note 3.6) 2017 £m	Statutory 2017 £m	Underlying as reported * 2016 Restated £m	Adjustments (note 3.6) 2016 Restated £m	Statutory 2016 Restated £m
Revenue	2.1, 3.1	1,720	(5)	1,715	1,439	–	1,439
Cost of sales		(114)	–	(114)	(91)	–	(91)
Gross profit		1,606	(5)	1,601	1,348	–	1,348
Selling and administrative expenses		(1,139)	(114)	(1,253)	(955)	(126)	(1,081)
Operating profit	2.2, 3.2, 3.3, 3.6	467	(119)	348	393	(126)	267
Share of loss of an associate	8	–	(1)	(1)	–	(1)	(1)
Gain on remeasurement of existing investment in an associate	3.6	–	13	13	–	–	–
Finance income	3.5	2	8	10	2	3	5
Finance costs	3.5	(27)	(1)	(28)	(23)	(6)	(29)
Profit before income tax		442	(100)	342	372	(130)	242
Income tax expense	4	(115)	30	(85)	(92)	38	(54)
Profit for the year – continuing operations		327	(70)	257	280	(92)	188
Profit on discontinued operations	16.3	18	25	43	20	–	20
Profit for the year		345	(45)	300	300	(92)	208
Profit attributable to:							
Owners of the parent		345	(45)	300	300	(92)	208
Earnings per share attributable to the owners of the parent (pence)							
From continuing operations							
– Basic	5	30.28p		23.86p	25.90p		17.43p
– Diluted	5	30.18p		23.78p	25.75p		17.33p
From continuing and discontinued operations							
– Basic	5	31.90p		27.80p	27.84p		19.28p
– Diluted	5	31.79p		27.71p	27.67p		19.16p

Note:

* Underlying as reported is at 2016 reported exchange rates.

Consolidated statement of comprehensive income

For the year ended 30 September 2017

	Note	2017 £m	2016 £m
Profit for the year		300	208
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss:			
Actuarial gain/(loss) on post-employment benefit obligations	11, 15.4	4	(2)
Deferred tax charge on actuarial gain/(loss) on post-employment benefit obligations	4, 15.4	(1)	–
		3	(2)
Items that may be reclassified to profit or loss:			
Deferred tax credit on foreign currency movements	4, 15.3	2	3
Exchange differences on translating foreign operations	15.3	(26)	117
Exchange differences recycled through income statement on sale of foreign operations	15.3, 16.3	(32)	–
		(56)	120
Other comprehensive (expense)/income for the year, net of tax		(53)	118
Total comprehensive income for the year		247	326
Total comprehensive income for the year attributable to:			
Owners of the parent		247	326

Consolidated balance sheet

As at 30 September 2017

	Note	2017 £m	2016 £m
Non-current assets			
Goodwill	6.1	2,023	1,659
Other intangible assets	6.2	274	109
Property, plant and equipment	7	133	123
Fixed asset investment	16.3	15	–
Investment in an associate	8	–	9
Other financial assets		2	3
Deferred income tax assets	12	61	58
		2,508	1,961
Current assets			
Inventories	9.1	3	2
Trade and other receivables	9.2	466	420
Current income tax asset		14	8
Cash and cash equivalents (excluding bank overdrafts)	13.3	231	264
Assets classified as held for sale	16.4	1	1
		715	695
Total assets		3,223	2,656
Current liabilities			
Trade and other payables	9.3	(337)	(350)
Current income tax liabilities		(18)	(21)
Borrowings	13.4	(55)	(43)
Provisions	10	(37)	(38)
Deferred income	3.1	(585)	(536)
Liabilities classified as held for sale	16.4	(1)	–
		(1,033)	(988)
Non-current liabilities			
Borrowings	13.4	(914)	(535)
Post-employment benefits	11	(22)	(25)
Deferred income tax liabilities	12	(46)	(13)
Provisions	10	(31)	(29)
Trade and other payables		(5)	(8)
Deferred income	3.1	(4)	(5)
		(1,022)	(615)
Total liabilities		(2,055)	(1,603)
Net assets		1,168	1,053
Equity attributable to owners of the parent			
Ordinary shares	15.1	12	12
Share premium		548	544
Other reserves	15.3	131	187
Retained earnings		477	310
Total equity		1,168	1,053

The consolidated financial statements on pages 119 to 176 were approved by the Board of Directors on 21 November 2017 and are signed on their behalf by:

S Hare

Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 30 September 2017

	Note	Attributable to owners of the parent				Total equity £m
		Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	
At 1 October 2016		12	544	187	310	1,053
Profit for the year		–	–	–	300	300
Other comprehensive income/(expense):						
Exchange differences on translating foreign operations	15.3	–	–	(26)	–	(26)
Exchange differences recycled through income statement on sale of foreign operations	15.3	–	–	(32)	–	(32)
Deferred tax credit on foreign currency movements	4, 15.3	–	–	2	–	2
Actuarial gain on post-employment benefit obligations	11, 15.4	–	–	–	4	4
Deferred tax charge on actuarial loss on post-employment obligations	4, 15.4	–	–	–	(1)	(1)
Total comprehensive income for the year ended 30 September 2017		–	–	(56)	303	247
Transactions with owners:						
Employee share option scheme:						
– Proceeds from shares issued		–	4	–	–	4
– Value of employee services, net of deferred tax	15.4	–	–	–	9	9
– Value of employee services on acquisition	16.1	–	–	–	21	21
Purchase of treasury shares	15.4	–	–	–	(9)	(9)
Dividends paid to owners of the parent	15.5	–	–	–	(157)	(157)
Total transactions with owners for the year ended 30 September 2017		–	4	–	(136)	(132)
At 30 September 2017		12	548	131	477	1,168

Consolidated statement of changes in equity

For the year ended 30 September 2016

	Note	Attributable to owners of the parent				Total equity £m
		Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	
At 1 October 2015		12	541	67	242	862
Profit for the year		–	–	–	208	208
Other comprehensive income/(expense):						
Exchange differences on translating foreign operations	15.3	–	–	117	–	117
Deferred tax credit on foreign currency movements	4, 15.3	–	–	3	–	3
Actuarial loss on post-employment benefit obligations	11, 15.4	–	–	–	(2)	(2)
Deferred tax credit on actuarial loss on post-employment obligations	4, 15.4	–	–	–	–	–
Total comprehensive income for the year ended 30 September 2016		–	–	120	206	326
Transactions with owners:						
Employee share option scheme:						
– Proceeds from shares issued		–	3	–	–	3
– Value of employee services, net of deferred tax	15.4	–	–	–	9	9
Purchase of treasury shares	15.4	–	–	–	(2)	(2)
Dividends paid to owners of the parent	15.5	–	–	–	(145)	(145)
Total transactions with owners for the year ended 30 September 2016		–	3	–	(138)	(135)
At 30 September 2016		12	544	187	310	1,053

Consolidated statement of cash flows

For the year ended 30 September 2017

	Note	2017 £m	2016 Restated £m
Cash flows from operating activities			
Cash generated from continuing operations	13.1	403	360
Interest paid		(24)	(21)
Income tax paid		(102)	(92)
Operating cash flows generated from discontinued operations	16.3	25	38
Net cash generated from operating activities		302	285
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash acquired	16.1	(693)	(6)
Proceeds on settlement of debt investment		7	–
Purchases of intangible assets	6.2	(22)	(8)
Purchases of property, plant and equipment	7	(30)	(23)
Purchase of investment in an associate		–	(10)
Interest received	3.5	2	2
Disposal of discontinued operations	16.3	158	–
Net cash used in investing activities		(578)	(45)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		4	3
Purchase of treasury shares		(9)	(2)
Finance lease principal payments		–	(1)
Proceeds from borrowings		662	69
Repayments of borrowings		(275)	(189)
Movements in cash held on behalf of customers		5	(4)
Borrowing costs		(1)	(2)
Dividends paid to owners of the parent	15.5	(157)	(145)
Financing cash flows generated from discontinued operations	16.3	4	(8)
Net cash generated from/(used in) financing activities		233	(279)
Net decrease in cash, cash equivalents and bank overdrafts (before exchange rate movement)		(43)	(39)
Effects of exchange rate movement	13.2	(4)	36
Net decrease in cash, cash equivalents and bank overdrafts		(47)	(3)
Cash, cash equivalents and bank overdrafts at 1 October	13.2	260	263
Cash, cash equivalents and bank overdrafts at 30 September	13.2	213	260

Basis of preparation and critical accounting estimates and judgements

1 Basis of preparation and critical accounting estimates and judgements

Accounting policies applicable across the financial statements are shown below. Accounting policies that are specific to a component of the financial statements have been incorporated into the relevant note.

Basis of preparation

The consolidated financial statements of The Sage Group plc have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). The consolidated financial statements have been prepared under the historical cost convention, except where adopted IFRS require an alternative treatment. The principal variations from the historical cost convention relate to derivative financial instruments which are measured at fair value through profit or loss. The financial statements of the Group comprise the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared at the end of the reporting period. The accounting policies have been consistently applied across the Group. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity, which is usually from date of acquisition.

The prior year consolidated income statement, consolidated statement of cash flows and their related notes have been restated for the presentation of discontinued operations. For further information on discontinued operations see note 16. In line with the requirements of IFRS 5 'Non-current assets held for sale and discontinued operations', the statement of financial position has not been restated.

New or amended accounting standards.

There are no IFRS, IAS amendments or IFRIC interpretations effective for the first time this financial year that have had a material impact on the Group.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report on pages 1 to 61.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future, for a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements, in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Foreign currencies

The consolidated financial statements are presented in sterling, which is the functional currency of the parent Company and the presentation currency for the consolidated financial statements.

Foreign currency transactions are recorded at the rates of exchange prevailing on the dates of the transactions. Foreign currency monetary items are translated at the rates prevailing at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlements of monetary items and on the retranslation of monetary items are included in profit or loss for the period, except for foreign currency movements on intercompany balances where settlement is not planned or likely in the foreseeable future, in which case they are recognised in other comprehensive income. Foreign exchange movements on external borrowings which are designated as a hedge of the net investment in its related subsidiaries are recognised in the translation reserve.

The assets and liabilities of the Group's subsidiaries outside of the UK are translated into sterling using period-end exchange rates. Income and expense items are translated at the average exchange rates for the period. Where differences arise between these rates, they are recognised in other comprehensive income and the translation reserve.

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in other comprehensive income are recycled in the income statement as part of the gain or loss on sale, with the exception of exchange differences recorded in equity prior to the transition to IFRS on 1 October 2004, in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards".

Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates and assumptions by management. It also requires management to exercise its judgement in the process of applying the accounting policies. We continually evaluate our estimates, assumptions and judgements based on available information. The areas involving a higher degree of judgement or complexity are described below.

The judgements and management's rationale in relation to these accounting estimates and judgements are assessed and where material in value or in risk, are discussed with the Audit and Risk Committee.

Revenue recognition

Approximately 40% of the Company's revenue is generated from sales to partners rather than to end users. The key judgement in accounting for the three principal ways in which our business partners are remunerated is determining whether the business partner is a customer of the Group in respect of the initial product sale. The key criteria in this determination is whether the business partner has paid for and taken on the risks and rewards of ownership of the software product from Sage. At this point the business partner is able to sell on the licence to the end user at a price of its determination and consequently bears the credit risk of the onward sale.

Where the business partner is a customer of Sage, there are two ways in which they can be remunerated. Firstly, there are discounts granted as a discount from the list price. These discounts are negotiated between the Company and the business partner prior to the sale and invoices are raised, and revenue booked is based on the discounted price. Secondly, there are further discounts given to business partners for subsequent renewals or increased sales to the end user. These discounts are recognised as a deduction from the incremental revenue earned.

Where the business partner is not a customer of Sage and their part in the sale has simply been in the form of a referral, they are remunerated in the form of a commission payment. These payments are treated as a cost within selling and administrative costs.

An additional area of judgement is the recognition and deferral of revenue on bundled products, for example the sale of a perpetual licence with an annual maintenance and support contract. When products are bundled together for the purpose of sale, the associated revenue, net of all applicable discounts, is allocated between the constituent parts of the bundle on a relative fair value basis. The Group has a systematic basis for allocating relative fair values in these situations, based upon published list prices.

Goodwill impairment

There are two key judgement areas in relation to goodwill impairment.

The first is the ongoing appropriateness of the cash-generating units ("CGUs") for the purpose of impairment testing. In the current year CGUs were assessed in the context of the Group's evolving business model, the Sage strategy and the shift to global product development. Management continues to monitor goodwill at a country or region level and product cash flows are still predominantly generated by the existing product base within each country and region. Therefore, it was determined that the existing CGUs based on geographical area of operation remain appropriate except for the CGUs for Singapore and Malaysia. The operational management structure for these two countries has changed with effect from 1 October 2016 so that they are now managed as a single business serving a number of Asian markets. As a result, Singapore and Malaysia have been combined into a single CGU (Asia) for this year's impairment assessment.

The other key judgement area relates to the assumptions applied in calculating the value in use of the CGUs being tested for impairment. The key assumptions applied in the calculation relate to the future performance expectations of the business – average medium-term revenue growth and long-term growth rate – as well as the discount rate to be applied in the calculation.

These key assumptions used in performing the impairment assessment are disclosed in note 6.1.

Tax provisions

The Group recognises certain provisions and accruals in respect of tax which involve a degree of estimation and uncertainty where the tax treatment cannot finally be determined until a resolution has been reached by the relevant tax authority. This approach resulted in providing £25m as at 30 September 2017 (2016: £19m).

The carrying amount is sensitive to the resolution of issues which is not always within the control of the Group and it is often dependent on the efficiency of the legal processes in the relevant taxing jurisdictions in which the Group operates. Issues can take many years to resolve and assumptions on the likely outcome have therefore been made by management.

The nature of the assumptions made by management when calculating the carrying amounts relates to the estimated tax which could be payable as a result of decisions with tax authorities in respect of transactions and events whose treatment for tax purposes is uncertain. In making the estimates, management's judgement was based on various factors, including:

- the status of recent and current tax audits and enquiries;
- the results of previous claims; and
- any changes to the relevant tax environments.

When making this assessment, we utilise our specialist in-house tax knowledge and experience of similar situations elsewhere to confirm these provisions. These judgements also take into consideration specialist tax advice provided by third party advisers on specific items.

Basis of preparation and critical accounting estimates and judgements continued

1 Basis of preparation and critical accounting estimates and judgements continued

Business combinations

When the Group completes a business combination, the consideration transferred for the acquisition and the identifiable assets and liabilities acquired are recognised at their fair values. The amount by which the consideration exceeds the net assets acquired is recognised as goodwill. The application of accounting policies to business combinations involves judgement and the use of estimates. During the year, the Group made two significant business combinations in which it acquired Sage Intacct (formerly Intacct Corporation) and Sage People (formerly Fairsail Limited). The aspects of these transactions that required particular judgement were the identification of acquired intangible assets that met the criteria for recognition in both transactions. Estimates were required in the measurement of the intangible assets recognised for both acquisitions and of deferred income for Sage Intacct. The Group engaged external experts to support these assessments. Management concluded that the intangible assets acquired that qualified for recognition separately from goodwill were customer relationships, technology and, additionally for Intacct, brands. The fair values of customer relationships were determined using the excess earnings method, technology and brands using the relief from royalty method, and deferred income using a bottom-up approach. These valuation techniques require a number of key assumptions including revenue forecasts and the application of an appropriate discount rate to state future cash flows at their present value.

The total fair value of intangible assets (excluding goodwill) acquired with Intacct and Sage People was £179m. Deferred income acquired with Intacct was measured at £18m. Full analyses of the consideration transferred, assets and liabilities acquired and goodwill recognised in business combinations are set out in note 16. The note also includes an explanation of the accounting policy applied. Amounts recognised for Intacct at 30 September 2017 are provisional due to the proximity of the acquisition date to the date of approval of the Annual Report, and will be finalised during the coming year.

Future accounting standards

The Directors also considered the impact on the Group of new and revised accounting standards, interpretations or amendments. The following revised and new accounting standards may have a material impact on the Group. They are currently issued but not effective for the Group for the year ended 30 September 2017:

- IFRS 9, “Financial Instruments”;
- IFRS 15, “Revenue from Contracts with Customers”; and
- IFRS 16, “Leases”.

IFRS 9 will be effective for the Group starting 1 October 2018 and will replace the current requirements of IAS 39 ‘Financial Instruments: Recognition and Measurement’. The main changes introduced by the new standard are new classification and measurement requirements for certain financial assets, a new expected loss model for the impairment of financial assets, revisions to the hedge accounting model and amendments to disclosures. The changes are generally to be applied retrospectively.

IFRS 15 will be effective for the Group starting 1 October 2018. The standard permits a choice of two possible transition methods for the initial application of the requirements of the new standard: (1) retrospectively to each prior reporting period presented in accordance with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), or (2) retrospectively with the cumulative effect of initially applying the standard recognised on the date of initial application, being 1 October 2018 for the Group (the “cumulative catch-up” approach). The Group currently has not selected the transition method for applying the new standard.

The Group is in the process of developing its future IFRS 15 revenue recognition policies and adjusting the relevant business processes to adopt these new policies. A project has been established across Sage’s main markets. This project covers the development of new revenue recognition policies as well as the identification of aspects of processes, data requirements and systems that need to be addressed in order to apply IFRS 15.

As part of this effort, several differences between current accounting policies and the future IFRS 15 based policies (as far as these have already been developed) have been identified. Based on the analyses performed so far, these differences include:

- IFRS 15 introduces a new concept of performance obligations. This will require changes to the way the transaction price is allocated to separately identifiable components of a bundle within a contract which can impact the timing of recognising revenue.
- A revised recognition pattern is expected for certain on-premise software subscription contracts, which combine the delivery of software and support service and the obligation to deliver, in the future, unspecified software upgrades. Under current policies, the Group recognises the entire price on a straight-line basis over the subscription term. In contrast, under IFRS 15, a portion of the transaction price will be recognised upon delivery of the initial software at the outset of the arrangement.
- IFRS 15 requires the establishment of standalone selling prices to be used as the basis for the apportionment of the transaction price to separate performance obligations. This is a new concept compared to current requirements and can impact timing of recognising revenue.
- The Group will have to assess whether to recognise revenue gross or net for business partner arrangements at the performance obligation level rather than at contract level.
- The Group is currently already capitalising costs to obtain a contract where revenue is recognised over time. The capitalisation amount is expected to increase under IFRS 15 due to a broader definition of what qualifies for capitalisation as costs to obtain a contract.

In addition to the effects on our consolidated income statement, the Group expects changes to the consolidated balance sheet (in particular, due to the recognition of contract assets/contract liabilities, the differentiation between contract assets and trade receivables, and an impact in retained earnings from the initial adoption of IFRS 15) and additional quantitative and qualitative disclosures in the notes to the financial statements. The quantitative impact of IFRS 15 on the Group's FY19 financial statements cannot currently be reasonably estimated, as the following have not yet been finalised:

- Decision on a transition method;
- Completion of the analysis of the volume of contracts that will be affected by the different policy changes upon adoption of IFRS 15;
- Establish standalone selling prices; or
- Estimation of the potential changes in business practices that may result from the adoption of the new policies.

The Group will continue to assess all the impacts that the application of IFRS 15 will have on its financial statements in the period of initial application, which will also significantly depend on its business and go-to-market strategy in the accounting year ending 30 September 2019 and beyond. The impacts, if material, will be disclosed, including statements on whether and how the Group plans to apply any of the practical expedients available in the standard.

IFRS 16 will change lease accounting mainly for lessees, and will replace the existing standard IAS 17. An asset for the right to use the leased item and a liability for future lease payments will be recognised for all leases, subject to limited exemptions for short-term leases and low-value lease assets. The costs of leases will be recognised in the income statement split between depreciation of the lease asset and a finance charge on the lease liability. This is similar to the existing accounting for finance leases, but substantively different to the existing accounting for operating leases under which no lease asset or lease liability is recognised and rentals payable are charged to the income statement on a straight-line basis. Note 3.4 details the Group's current operating lease commitments.

The Group plans to adopt these standards in line with their effective dates. IFRSs 9 and 15 will be adopted for the financial year commencing 1 October 2018, and IFRS 16 for the financial year commencing 1 October 2019. The Group is continuing its assessment of the impact that the application of these standards will have on the Group's financial statements, but it remains too early to determine how significant any effect on actual financial results and financial position might be.

Results for the year

2 Segment information

This note shows how Group revenue and Group operating profit are generated across the three reportable segments in which we operate, being Northern Europe, Central and Southern Europe and North America. The Group's operations in Africa and the Middle East, Asia (including Australia) and Latin America do not meet the quantitative thresholds for disclosure as reportable segments under IFRS 8, and so are presented together in the analyses and described as International. This is explained further below.

For each geographical region, revenue and operating profit are compared to prior year in order to understand the movements in the year. This comparison is provided for statutory, underlying and organic revenue and operating profit.

- Statutory results reflect the Group's results prepared in accordance with the requirements of IFRS.
- "Underlying" and "underlying as reported" are non-GAAP measures. Adjustments are made to statutory results to arrive at an underlying result which is in line with how the business is managed and measured on a day-to-day basis. Adjustments are made for items that are individually important in order to understand the financial performance. If included, these items could distort understanding of the performance for the year and the comparability between periods. Management applies judgement in determining which items should be excluded from underlying performance. See note 3.6 for details of these adjustments.
In addition, the prior year underlying values are translated at current year exchange rates, so that exchange rate impacts do not distort comparisons. Prior year underlying values at prior year exchange rates are "underlying as reported"; prior year and current year values at current year exchange rates are "underlying".
- Organic is a non-GAAP measure. The contributions of current and prior year acquisitions, disposals and assets held for sale of standalone businesses are removed so that results can be compared to the prior year on a like-for-like basis. Acquisitions and disposals which occurred close to the start of the opening comparative period where the contribution impact would be immaterial are not adjusted.

In addition, the following reconciliations are made in this note.

- Revenue per segment reconciled to the profit for the year as per the income statement.
- Statutory operating profit reconciled to underlying operating profit per segment (detailing the adjustments made).

Accounting policy

In accordance with IFRS 8, "Operating Segments", information for the Group's operating segments has been derived using the information used by the chief operating decision maker. The Group's Executive Committee has been identified as the chief operating decision maker in accordance with their designated responsibility for the allocation of resources to operating segments and assessing their performance, through the Quarterly Business Reviews chaired by the President and Chief Financial Officer. The Executive Committee uses organic and underlying data to monitor business performance. Operating segments are reported in a manner which is consistent with the operating segments produced for internal management reporting.

With effect from 1 October 2016, the Group was organised into seven key operating segments: Northern Europe, Central Europe, Southern Europe, North America, Africa and the Middle East, Asia (including Australia) and Latin America. The structure reflected changes made to introduce a flatter, more focused structure to allow the Group to get closer to its customers. Since August 2017, the newly acquired Intacct business has been managed separately as an additional operating segment, referred to as North America Intacct. Prior to these changes, the organisation structure reflected four operating segments (Europe, North America, Brazil and Africa and Australia, Middle East and Asia) and three reportable segments. For reporting under IFRS 8 for the year ended 30 September 2017, the Group has three reportable segments. These segments and their main operating territories or businesses are as follows:

- Northern Europe (UK and Ireland)
- Central and Southern Europe (Germany, Switzerland, Poland, France and Portugal)
- North America (the US, Canada and North America Intacct)

The remaining operating segments of Africa and the Middle East, Asia and Latin America do not meet the quantitative thresholds for presentation as separate reportable segments under IFRS 8, and so are presented together and described as International. They include the Group's operations in South Africa, UAE, Australia, Singapore, Malaysia and Brazil.

The reportable segments reflect the aggregation of the operating segments for Central Europe and Southern Europe, and also of those for North America (excluding Intacct) and North America Intacct. In each case, the aggregated operating segments are considered to share similar economic characteristics because they have similar long-term gross margins and operate in similar markets. Central Europe and Southern Europe both operate principally within the EU and the majority of their businesses are in countries within the euro area. North America (excluding Intacct) and North America Intacct share the same North American geographical market.

Segment information for the year ended 30 September 2016 has been restated to reflect the above organisation structure and discontinued operations as detailed in note 16.3. The UK is the home country of the parent.

Segment reporting

The tables overleaf show a segmental analysis of the results for continuing operations.

The revenue analysis in the table overleaf is based on the location of the customer which is not materially different from the location where the order is received and where the assets are located.

Revenue categories are defined in note 3.1.

Results for the year continued

2 Segment information continued

2.1 Revenue by segment

	Year ended 30 September 2017					Change		
	Statutory £m	Underlying adjustments £m	Underlying £m	Organic adjustments £m	Organic £m	Statutory	Underlying	Organic
Recurring revenue by segment								
Northern Europe	292	–	292	(5)	287	12.1%	11.5%	9.4%
Central and Southern Europe	450	–	450	(1)	449	18.2%	5.8%	6.0%
North America	388	5	393	(15)	378	25.9%	13.3%	9.2%
International	201	–	201	(1)	200	40.2%	14.8%	15.1%
Recurring revenue	1,331	5	1,336	(22)	1,314	21.8%	10.5%	9.0%
Software and software related services (“SSRS”) revenue by segment								
Northern Europe	39	–	39	–	39	(2.7%)	(4.0%)	(4.0%)
Central and Southern Europe	130	–	130	–	130	19.6%	7.0%	7.2%
North America	72	–	72	(1)	71	1.7%	(9.6%)	(10.6%)
International	60	–	60	(1)	59	15.2%	(4.1%)	(4.6%)
SSRS revenue	301	–	301	(2)	299	10.8%	(1.1%)	(1.4%)
Processing revenue by segment								
Northern Europe	37	–	37	–	37	5.5%	4.2%	4.2%
Central and Southern Europe	–	–	–	–	–	(100.0%)	(100.0%)	(100.0%)
North America	32	–	32	–	32	15.0%	2.3%	2.3%
International	14	–	14	–	14	31.3%	6.8%	6.8%
Processing revenue	83	–	83	–	83	10.7%	1.9%	1.9%
Total revenue by segment								
Northern Europe	368	–	368	(5)	363	9.6%	8.9%	7.3%
Central and Southern Europe	580	–	580	(1)	579	18.2%	5.8%	6.0%
North America	492	5	497	(16)	481	21.0%	8.6%	5.3%
International	275	–	275	(2)	273	33.4%	9.7%	9.7%
Total revenue	1,715	5	1,720	(24)	1,696	19.2%	7.8%	6.6%

	Year ended 30 September 2016				
	Statutory and underlying as reported £m	Impact of foreign exchange £m	Underlying £m	Organic adjustments £m	Organic £m
Recurring revenue by segment					
Northern Europe	261	1	262	–	262
Central and Southern Europe	381	45	426	(2)	424
North America	308	39	347	–	347
International	143	32	175	(1)	174
Recurring revenue	1,093	117	1,210	(3)	1,207
Software and software related services (“SSRS”) revenue by segment					
Northern Europe	40	1	41	–	41
Central and Southern Europe	109	13	122	(1)	121
North America	70	9	79	–	79
International	53	10	63	(1)	62
SSRS revenue	272	33	305	(2)	303
Processing revenue by segment					
Northern Europe	35	–	35	–	35
Central and Southern Europe	1	1	2	–	2
North America	27	4	31	–	31
International	11	2	13	–	13
Processing revenue	74	7	81	–	81
Total revenue by segment					
Northern Europe	336	2	338	–	338
Central and Southern Europe	491	59	550	(3)	547
North America	405	52	457	–	457
International	207	44	251	(2)	249
Total revenue	1,439	157	1,596	(5)	1,591

2.2 Operating profit by segment

	Year ended 30 September 2017					Change		
	Statutory £m	Underlying adjustments £m	Underlying £m	Organic adjustments £m	Organic £m	Statutory	Underlying	Organic
Operating profit by segment								
Northern Europe	135	25	160	5	165	26.2%	22.6%	25.8%
Central and Southern Europe	129	33	162	(1)	161	121.4%	14.8%	15.2%
North America	65	44	109	4	113	(14.2%)	(5.6%)	(2.1%)
International	19	17	36	–	36	(27.6%)	(19.4%)	(18.7%)
Total operating profit	348	119	467	8	475	30.3%	8.2%	10.3%

	Year ended 30 September 2016						
	Statutory £m	Underlying adjustments £m	Underlying as reported £m	Impact of foreign exchange £m	Underlying £m	Organic adjustments £m	Organic £m
Operating profit by segment							
Northern Europe	107	22	129	2	131	–	131
Central and Southern Europe	59	66	125	16	141	(1)	140
North America	75	27	102	14	116	–	116
International	26	11	37	7	44	–	44
Total operating profit	267	126	393	39	432	(1)	431

The results by segment from continuing operations were as follows:

Year ended 30 September 2017	Note	Northern Europe £m	Central and Southern Europe £m	North America £m	Total reportable segments £m	International £m	Group £m
Revenue		368	580	492	1,440	275	1,715
Segment statutory operating profit		135	129	65	329	19	348
Share of loss of an associate							(1)
Gain on remeasurement of existing investment in an associate	3.6						13
Finance income	3.5						10
Finance costs	3.5						(28)
Profit before income tax							342
Income tax expense	4						(85)
Profit for the year – continuing operations							257

Reconciliation of underlying operating profit to statutory operating profit

	Northern Europe £m	Central and Southern Europe £m	North America £m	Total reportable segments £m	International £m	Group £m
Underlying operating profit	160	162	109	431	36	467
Amortisation of acquired intangible assets (note 3.6)	(4)	(5)	(9)	(18)	(4)	(22)
Other acquisition-related items (note 3.6)	(6)	–	(21)	(27)	–	(27)
Non-recurring items (note 3.6)	(15)	(28)	(14)	(57)	(13)	(70)
Statutory operating profit	135	129	65	329	19	348

Results for the year continued

2 Segment information continued

2.2 Operating profit by segment continued

The results by segment from continuing operations were as follows:

Year ended 30 September 2016	Note	Northern Europe £m	Central and Southern Europe £m	North America £m	Total Reportable segments £m	International £m	Group £m
Revenue		336	491	405	1,232	207	1,439
Segment statutory operating profit		107	59	75	241	26	267
Share of loss of an associate							(1)
Finance income	3.5						5
Finance costs	3.5						(29)
Profit before income tax							242
Income tax expense	4						(54)
Profit for the year – continuing operations							188

Reconciliation of underlying operating profit to statutory operating profit

	Northern Europe £m	Central and Southern Europe £m	North America £m	Total reportable segments £m	International £m	Group £m
Underlying operating profit	129	125	102	356	37	393
Amortisation of acquired intangible assets (note 3.6)	(1)	(5)	(6)	(12)	(5)	(17)
Other acquisition-related items (note 3.6)	–	–	(1)	(1)	–	(1)
Non-recurring items (note 3.6)	(21)	(61)	(20)	(102)	(6)	(108)
Statutory operating profit	107	59	75	241	26	267

2.3 Analysis by geographic location

Management deems countries which generate more than 10% of total Group revenue to be material. Additional disclosures have been provided below to show the proportion of revenue from these countries.

Revenue by individually significant countries	2017 £m	2016 £m
UK	343	320
France	278	247
USA	414	344
Other individually immaterial countries	680	528
	1,715	1,439

Management deems countries which contribute more than 10% to total Group non-current assets to be material. Additional disclosures have been provided below to show the proportion of non-current assets from these countries.

Non-current assets presented below excludes deferred tax assets, post-employment benefit assets and financial instruments.

Non-current assets by geographical location	2017 £m	2016 £m
UK	387	272
France	244	239
USA	1,455	1,011
Other individually immaterial countries	359	378
	2,445	1,900

3 Profit before income tax

This note sets out the Group's profit before tax, by looking in more detail at the key operating costs, including a breakdown of the costs incurred as an employer, research and development costs, the cost of the external audit of the Group's financial statements and finance costs. This note also sets out the Group's revenue recognition policy.

In addition, this note analyses the future amounts payable under operating lease agreements, which the Group has entered into as at the year end. These commitments are not included as liabilities in the consolidated balance sheet.

This note also provides a breakdown of any material recurring and non-recurring costs that have been reported separately on the face of the income statement.

3.1 Revenue

Accounting policy

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received or receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

The Group reports revenue under three revenue categories and the basis of recognition for each category is described below:

Category and Examples	Accounting Treatment
Recurring revenue	Recurring revenue is revenue earned from customers for the provision of a good or service, where risks and rewards are transferred to the customer over the term of a contract, with the customer being unable to continue to benefit from the full functionality of the good or service without ongoing payments.
Subscription contracts	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').
Maintenance and support contracts	Subscription revenue and maintenance and support revenue are recognised on a straight-line basis over the term of the contract (including non-specified upgrades, when included). Revenue relating to future periods is classified as deferred income on the balance sheet to reflect the transfer of risk and reward.
Software and software-related services	Perpetual software licences and specified upgrades revenue are recognised when the significant risks and rewards of ownership relating to the licence have been transferred and it is probable that the economic benefits associated with the transaction will flow to the Group. This is when the goods have left the warehouse to be shipped to the customer or when electronic delivery has taken place.
Perpetual software licences	Other product revenue (which includes hardware and stationery) is recognised as the products are shipped to the customer.
Upgrades to perpetual licences	Other services revenue (which includes the sale of professional services and training) is recognised when delivered, or by reference to the stage of completion of the transaction at the end of the reporting period. This assessment is made by comparing the proportion of contract costs incurred to date to the total expected costs to completion.
Professional services	
Training	
Hardware and stationery	
Processing revenue	Processing revenue is revenue earned from customers for the processing of payments or where Sage colleagues process our customers' payroll.
Payment processing services	Processing revenue is recognised at the point that the service is rendered on a per transaction basis.
Payroll processing services	

When products are bundled together before being sold to the customer, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. The associated revenue is allocated between the constituent parts of the bundle on a relative fair value basis. When customers are offered discounts on bundled products and/or services, the combined discount is allocated to the constituent elements of the bundle, based upon publically available list prices.

Results for the year continued

3 Profit before income tax continued

3.2 Operating profit

Accounting policy

Cost of sales includes items such as third party royalties, transaction and credit card fees related to the provision of payment processing services and the cost of hardware and inventories. These also include the third party costs of providing training and professional services to customers. All other operating expenses incurred in the ordinary course of business are recorded in selling and administrative expenses.

The following items have been included in arriving at operating profit from continuing operations	Note	2017 £m	2016 £m
Staff costs		768	651
Cost of inventories recognised as an expense (included in cost of sales)	9.1	7	9
Depreciation of property, plant and equipment	7	22	22
Amortisation of intangible assets	6.2	36	28
Impairment of property, plant and equipment	7	–	6
Gain on disposal of subsidiary	3.6	(3)	–
Other operating lease rentals payable		24	28
M&A activity-related items	3.6	22	1

The Group within both continuing and discontinued operations incurred £179m (2016: £144m) of research and development expenditure in the year, of which £154m (2016: £129m) relates to total Group staff costs included above. See note 6.2 for the research and development accounting policy. The Group also incurred £73m (2016: £110m) of transformation costs. See note 3.6 for a detailed explanation of these costs.

Services provided by the Group's auditor and network firms

During the year, the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor at costs as detailed below:

	2017 £m	2016 £m
Fees payable to the Group's auditor for the audit of the Plc's companies and the consolidated accounts	2	1
Fees payable to the Group's auditor for the audit of the Company's subsidiaries	2	2
Fees payable to the Group's auditor for audit-related assurance services	–	–
Total audit and audit related services	4	3
Tax compliance services	–	–
Tax advisory services	–	–
Other non-audit services	–	–
Total fees	4	3

A summary of the Board's policy in respect of the procurement of non-audit services for the Group's auditor is set out on page 81.

3.3 Employees and Directors

Average monthly number of people employed (including Directors)	2017 number	2016 number
By segment:		
Northern Europe	2,934	2,766
Central and Southern Europe	4,429	4,595
North America	2,627	2,569
International	3,805	3,811
	13,795	13,741

Staff costs (including Directors on service contracts)	Note	2017 £m	2016 £m
Wages and salaries		674	572
Social security costs		93	80
Post-employment benefits	11	12	12
Share-based payments	15.2	10	8
		789	672

Average monthly number of people employed and staff costs are for the whole Group and therefore include both continuing and discontinued operations.

Key management compensation	2017 £m	2016 £m
Salaries and short-term employee benefits	5	7
Post-employment benefits	–	1
Share-based payments	3	3
	8	11

Key management personnel are deemed to be members of the Executive Committee as shown on page 66. The key management figures given above include the Executive Directors of the Group.

3.4 Operating lease commitments

Accounting policy

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

	2017 Property, vehicles, plant and equipment £m	2016 Property, vehicles, plant and equipment £m
Total future minimum lease payments under non-cancellable operating leases falling due for payment as follows:		
Within one year	28	34
Later than one year and less than five years	93	94
After five years	37	37
	158	165

The Group leases various offices and warehouses under non-cancellable operating lease agreements. These leases have various terms, escalation clauses and renewal rights. The Group also leases vehicles, plant and equipment under non-cancellable operating lease agreements.

Results for the year continued

3 Profit before income tax continued

3.5 Finance income and costs

Accounting policy

Finance income and costs are recognised using the effective interest method. Finance costs are recognised in the income statement simultaneously with the recognition of an increase in a liability or the reduction in an asset. Derivative financial instruments are measured at fair value through profit or loss. Foreign currency movements on intercompany balances are recognised in the profit and loss account unless settlement is not planned or likely in the foreseeable future, in which case they are recognised in other comprehensive income.

	2017 £m	2016 £m
Finance income:		
Interest income on short-term deposits	2	2
Foreign currency movements on intercompany balances	1	–
Fair value adjustments to debt-related financial instruments	7	3
Finance income	10	5
Finance costs:		
Finance costs on bank borrowings	(7)	(3)
Finance costs on US senior loan notes	(19)	(19)
Fair value adjustments to debt-related financial instruments	(1)	–
Amortisation of issue costs	(1)	(1)
Foreign currency movements on intercompany balances	–	(6)
Finance costs	(28)	(29)
Finance costs – net	(18)	(24)

3.6 Adjustments between underlying and statutory results

Accounting policy

The business is managed and measured on a day-to-day basis using underlying results. To arrive at underlying results, certain adjustments are made for items that are individually important and which could, if included, distort the understanding of the performance for the year and the comparability between periods.

Management applies judgement in determining which items should be excluded from underlying performance.

Recurring items

These are items which occur regularly but which management judge to have a distorting effect on the underlying results of the Group. These items relate mainly to fair value adjustments on financial instruments and merger and acquisition (“M&A”) related activity, although other types of recurring items may arise. M&A activity by its nature is irregular in its impact and includes amortisation, adjustments to acquired deferred income and acquisition and disposal-related costs, including integration costs relating to an acquired business and acquisition-related remuneration. Foreign currency movements on intercompany balances that are charged through the income statement are excluded from underlying so that exchange rate impacts do not distort comparisons. Recurring items are adjusted each year irrespective of materiality to ensure consistent treatment.

Non-recurring items

These are items which are non-recurring and are adjusted on the basis of either their size or their nature. These items can include, but are not restricted to, gains and losses on the disposal of assets, impairment charges and reversals, and restructuring-related costs. As these items are one-off or non-operational in nature, management considers that they would distort the Group’s underlying business performance.

	Recurring 2017 £m	Non-recurring 2017 £m	Total 2017 £m	Recurring 2016 £m	Non-recurring 2016 £m	Total 2016 £m
M&A activity-related items						
Amortisation of acquired intangibles	22	–	22	17	–	17
Gain on disposal of subsidiary	–	(3)	(3)	–	–	–
Adjustment to acquired deferred income	5	–	5	–	–	–
Other M&A activity-related items	22	–	22	1	–	1
Other items						
Litigation-related items	–	–	–	–	(2)	(2)
Business transformation costs	–	73	73	–	110	110
Total adjustments made to operating profit	49	70	119	18	108	126
Fair value adjustments	(6)	–	(6)	(3)	–	(3)
Gain on remeasurement of existing investment in an associate	–	(13)	(13)	–	–	–
Amortisation of acquired intangibles	1	–	1	1	–	1
Foreign currency movements on intercompany balances	(1)	–	(1)	6	–	6
Total adjustments made to profit before income tax	43	57	100	22	108	130

Recurring items

Acquired intangibles are assets which have previously been recognised as part of business combinations. These assets are predominantly brands, customer relationships and technology rights. Further details including specific accounting policies in relation to these assets can be found in note 6.2.

The adjustment to acquired deferred income represents the additional revenue that would have been recorded in the year had deferred income not been reduced as part of the purchase price allocation adjustment made for business combinations. A further £12m will arise in FY18.

Other M&A activity-related items relate to completed transaction costs and include advisory, legal, accounting, valuation and other professional or consulting services as well as acquisition-related remuneration and directly attributable integration costs. The main costs relate to the acquisitions in the year, see note 16.

The fair value adjustments comprises a £7m credit (2016: £nil) relating to a fair value adjustment of financial assets offset by a charge of £1m (2016: gain of £3m) in relation to an embedded derivative asset which relates to contractual terms agreed as part of the US private placement debt.

Amortisation of acquired intangibles below operating profit relates to the Group's share of the amortisation of intangible assets arising on the acquisition of an investment in an associate accounted for under the equity method.

Foreign currency movements on intercompany balances of £1m (2016: charge of £6m) occurs due to retranslation of intercompany balances other than those where settlement is not planned or likely in the foreseeable future. The balance arises in the current year due to fluctuation in exchange rates, predominately the movement in Euro and US Dollar compared to sterling.

Non-recurring items

Net charges in respect of non-recurring items amounted to £57m (2016: £108m).

Charges of £73m have been incurred in the current year as a result of the implementation of the business transformation. This is comprised of people-related reorganisation charges of £32m (2016: £51m), net property exit costs of £14m (2016: £40m) and other directly attributable costs, mainly relating to consultancy, contractor and asset write downs, of £27m (2016: £19m).

The people-related reorganisation charges comprise severance costs of £29m (2016: £44m) with the remaining cost largely arising from retention payments, transition and overlap costs whilst implementing the Group's new operating model. The property exit costs consist of net lease exit costs following consolidation of office space used and impairment and accelerated depreciation of leasehold improvement assets and other related assets that are no longer in use due to the property exits. The other costs include expenditure that is directly attributable to the business transformation, including advisory, legal, accounting, valuation and other professional or consulting services.

These charges are one-off in nature and directly linked to the business transformation undertaken in the current and prior year. No further related non-recurring costs are expected to arise in FY18 and subsequent financial years in relation to the business transformation.

Total cash paid in relation to the business transformation strategy totalled £72m (2016: £58m) in the year.

The gain on disposal of subsidiary relates to the sale of Syska, see note 16.

The gain on remeasurement of existing investment in an associate relates to the acquisition of Fairsail, see note 16.

See note 4 for the tax impact of these adjustments.

Results for the year continued

4 Income tax expense

This note analyses the tax expense for this financial year which includes both current and deferred tax. Current tax expense represents the amount payable on this year's taxable profits and any adjustments relating to prior years. Deferred tax is an accounting adjustment to provide for tax that is expected to arise in the future due to differences between the carrying values of assets and liabilities and their respective tax bases.

This note outlines the tax accounting policies, analyses the current and deferred tax expenses in the year and presents a reconciliation between profit before tax in the income statement multiplied by the UK rate of corporation tax and the tax expense for the year.

Accounting policy

The taxation expense for the year represents the sum of current tax payable and deferred tax. The expense is recognised in the income statement and statement of comprehensive income according to the accounting treatment of the related transaction.

Current tax payable or receivable is based on the taxable income for the period and any adjustment in respect of prior periods. Current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax arises due to certain temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases (note 12).

Analysis of expense in the year	Note	2017 £m	2016 £m
Current income tax			
– Current tax on profit for the year		98	77
– Adjustment in respect of prior years		(8)	(16)
Current income tax on continuing operations		90	61
Current income tax on discontinued operations		13	13
		103	74
Deferred tax			
– Origination and reversal of temporary differences		(7)	(12)
– Adjustment in respect of prior years		2	5
Deferred tax	12	(5)	(7)
The current year tax expense is split into the following:			
Underlying tax expense		115	92
Tax credit on adjustments between the underlying and statutory operating profit		(30)	(38)
Income tax expense on continuing operations		85	54
Income tax expense on discontinued operations		13	13
Income tax expense reported in income statement		98	67

The majority of the current tax adjustment in respect of prior years of £8m (2016: £16m) reflects the resolution of a number of historical tax matters, including settlements with a number of tax authorities and true-ups to prior year estimates.

	2017 £m	2016 £m
Tax on items credited to other comprehensive income		
Deferred tax charge on actuarial loss on post-employment benefit obligations	1	–
Deferred tax credit on foreign exchange movements	(2)	(3)
Total tax on items credited to other comprehensive income	(1)	(3)

Deferred tax charge relating to share options of £1m (2016: credit of £1m) has been recognised directly in equity.

The tax for the year is higher (2016: higher) than the rate of UK corporation tax applicable to the Group of 19.5% (2016: 20%). The differences are explained below:

	2017 £m	2016 £m
Profit before income tax from continuing operations	342	242
Profit before income tax from discontinued operations	56	33
Total profit before income tax	398	275
Statutory profit before income tax multiplied by the rate of UK corporation tax of 19.5% (2016: 20%)	78	55
Tax effects of:		
Adjustments in respect of prior years	(6)	(11)
Adjustments in respect of foreign tax rates	38	23
Non-taxable US accounting gain on disposal	(11)	–
US tax gain on disposal	2	–
Non-deductible expenses and permanent items	3	(1)
Non-taxable gain on re-measurement of existing investments in an associate	(2)	–
Withholding tax	4	1
Foreign tax credit	(6)	(3)
Local business tax	3	3
Innovation tax credit	(2)	(1)
Recognition of tax losses	(3)	–
Recognition of amortisation claims	–	1
At the effective income tax rate of 25% (2016: 24%)	98	67
Income tax expense reported in the income statement	85	54
Income tax attributable to discontinued operations	13	13
	98	67

The effective tax rate on statutory profit before tax was 25% (2016: 24%), whilst the effective tax rate on underlying profit before tax on continuing operations was 26% (2016: 25%). The difference between the statutory effective tax rate and the underlying tax rate relates to non-recurring items which are deductible in countries with a tax rate higher than the UK.

The effective tax rate is higher than the UK corporation tax rate applicable to the Group due to the geographic profile of the Group. In addition, there is an obligation to account for local business taxes in the corporate tax expense. These additional tax expenses are offset by innovation tax credits for registered patents and research and development activities which are a government incentive in a number of operating territories.

The European Commission has announced that an investigation will be opened in to the UK's controlled foreign company ("CFC") rules. The CFC rules levy a charge on foreign entities controlled by the UK that are subject to a lower rate of tax, however there is currently an exemption available for 75% of this charge if the activities being undertaken by the CFC relate to financing. The EC are investigating whether this exemption is in breach of EU State Aid rules. The detailed arguments of the EC are not yet available and it is unlikely that a final decision on this matter will be available within the next year. No provision for this potential liability has been provided in these financial statements as it is not clear what, if any, the ultimate financial result will be.

5 Earnings per share

This note shows how earnings per share ("EPS") is calculated. EPS is the amount of post-tax profit attributable to each ordinary share. Diluted EPS shows what the impact would be if all potentially dilutive ordinary shares in respect of exercisable share options were exercised and treated as ordinary shares at the year end.

This note also provides a reconciliation between the statutory profit figure, which ties to the consolidated income statement on page 119, and the Group's internal measure of performance, underlying profit. See note 3.6 for details of the adjustments made between statutory and underlying profit, and note 4 for the tax impact on these adjustments.

Results for the year continued

5 Earnings per share continued

Accounting policy

Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the parent by the weighted average number of ordinary shares in issue during the year, excluding those held as treasury shares, which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares, exercisable at the end of the year. The Group has one class of dilutive potential ordinary shares. They are share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

	Underlying 2017	Underlying as reported 2016	Underlying 2016	Statutory 2017	Statutory 2016
Reconciliations of the earnings and weighted average number of shares					
Earnings attributable to owners of the parent – Continuing operations (£m)					
Profit for the year	327	280	308	257	188
Number of shares (millions)					
Weighted average number of shares	1,080	1,077	1,077	1,080	1,077
Dilutive effects of shares	4	6	6	4	6
	1,084	1,083	1,083	1,084	1,083
Earnings per share attributable to owners of the parent – Continuing operations					
Basic earnings per share (pence)	30.28	25.90	28.59	23.86	17.43
Diluted earnings per share (pence)	30.18	25.75	28.42	23.78	17.33
Reconciliations of the earnings and weighted average number of shares					
Earnings attributable to owners of the parent – Continuing and discontinued operations (£m)					
Profit for the year	345	300	332	300	208
Number of shares (millions)					
Weighted average number of shares	1,080	1,077	1,077	1,080	1,077
Dilutive effects of shares	4	6	6	4	6
	1,084	1,083	1,083	1,084	1,083
Earnings per share attributable to owners of the parent – Continuing and discontinued operations					
Basic earnings per share (pence)	31.90	27.84	30.82	27.80	19.28
Diluted earnings per share (pence)	31.79	27.67	30.64	27.71	19.16
Reconciliations of the earnings and weighted average number of shares					
Earnings attributable to owners of the parent – Discontinued operations (£m)				Statutory 2017	Statutory 2016
Profit for the year				43	20
Number of shares (millions)					
Weighted average number of shares				1,080	1,077
Dilutive effects of shares				4	6
				1,084	1,083
Earnings per share attributable to owners of the parent – Discontinued operations					
Basic earnings per share (pence)				3.94	1.85
Diluted earnings per share (pence)				3.93	1.83

	2017 £m	2016 £m
Reconciliation of earnings – Continuing operations		
Earnings – Statutory profit for the year attributable to owners of the parent	257	188
Adjustments:		
– Amortisation of acquired intangible assets and adjustment to acquired deferred income	28	18
– Fair value adjustments to debt-related financial instruments	(6)	(3)
– Gain on disposal of subsidiary	(3)	–
– Foreign currency movements on intercompany balances	(1)	6
– Other M&A activity-related items	22	1
– Transformation costs and litigation-related items	73	108
– Gain on remeasurement of existing investment in an associate	(13)	–
– Taxation on adjustments	(30)	(38)
Net adjustments	70	92
Earnings – underlying profit for the year (before exchange movement)	327	280
Exchange movement	–	37
Taxation on exchange movement	–	(9)
Net exchange movement	–	28
Earnings – underlying profit for the year (after exchange movement) attributable to owners of the parent	327	308
	2017 £m	2016 £m
Reconciliation of earnings – Continuing and discontinued operations		
Earnings – Statutory profit for the year attributable to owners of the parent	300	208
Adjustments:		
– Amortisation of acquired intangible assets and adjustment to acquired deferred income	28	18
– Fair value adjustments to debt-related financial instruments	(6)	(3)
– Gain on disposal of subsidiaries	(30)	–
– Foreign currency movements on intercompany balances	(1)	6
– Other M&A-related items	22	1
– Transformation costs and litigation-related items	73	108
– Gain on remeasurement of existing investment in an associate	(13)	–
– Taxation on adjustments	(28)	(38)
Net adjustments	45	92
Earnings – underlying profit for the year (before exchange movement)	345	300
Exchange movement	–	43
Taxation on exchange movement	–	(11)
Net exchange movement	–	32
Earnings – underlying profit for the year (after exchange movement) attributable to owners of the parent	345	332

Exchange movement relates to the retranslation of prior year results to current year exchange rates as shown in the table on page 39 within the financial review.

Operating assets and liabilities

6 Intangible assets

This note provides details of the non-physical assets used by the Group to generate revenues and profits. These assets include items such as goodwill, and other intangible assets such as brands, customer relationships, computer software, in-process R&D and technology which have predominantly been acquired as part of business combinations. These assets are initially measured at fair value, which is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

Goodwill represents the excess of the amount paid to acquire a business over the fair value of the identifiable net assets of that business at the acquisition date.

This section also explains the accounting policies applied and the specific judgements and estimates made by the Directors in arriving at the carrying value of these assets.

6.1 Goodwill

Accounting policy

Goodwill arising from the acquisition of a subsidiary represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's total identifiable net assets acquired. Goodwill is carried at cost less accumulated impairment losses.

Goodwill previously written off directly to reserves under UK GAAP prior to 1 October 1998 has not been reinstated and is not recycled to the income statement on the disposal of the business to which it relates.

Goodwill is tested for impairment annually and when circumstances indicate that it may be impaired. Impairment is determined by assessing the recoverable amount of each CGU to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised.

Goodwill is allocated to CGUs expected to benefit from the synergies of the combination and the allocation represents the lowest level at which goodwill is monitored.

	Note	2017 £m	2016 £m
Cost at 1 October		1,773	1,526
– Additions	16.1	593	–
– Disposals	16.3	(189)	–
– Exchange movement		(41)	247
At 30 September		2,136	1,773
Impairment at 1 October		114	80
– Exchange movement		(1)	34
At 30 September		113	114
Net book amount at 30 September		2,023	1,659

Goodwill additions relate to the acquisitions of Intacct Corporation (£523m) and Sage People Limited (formerly Fairsail Limited) (£70m). See note 16.1 for further details.

Goodwill disposed related to North American Payments business. See note 16.3 for details.

Cash Generating Units

The following table shows the allocation of the carrying value of goodwill at the end of the reporting period by CGU:

	2017 £m	2016 £m
France	222	218
UK & Ireland	251	181
Spain	128	125
Sage Pay Europe	26	25
Germany	38	38
Switzerland	39	40
Poland	7	7
Portugal	6	6
North America		
– Sage Business Solutions Division (SBS)	717	741
– Sage Intacct	516	–
– Sage Payment Solutions Division (SPS)	–	193
South Africa	30	43
Australia	25	23
Asia	18	19
	2,023	1,659

Singapore (2016: £5m) and Malaysia (2016: £14m) are now a single CGU referred to as “Asia” as these businesses are now operationally managed together serving a number of Asian markets. This is the level at which goodwill is monitored.

Annual goodwill impairment tests

The recoverable amount of a CGU is determined as the higher of its fair value less costs of disposal and its value in use. In determining value in use, estimated future cash flows are discounted to their present value. The Group performed its annual test for impairment on 30 June 2017. In all cases, the 2018 budget and the approved Group plan for the three years following the current financial year form the basis for the cash flow projections for a CGU. Beyond the three-year plan these projections are extrapolated using an estimated long-term growth rate. The key assumptions in the value in use calculations are the average medium-term revenue growth rates and the long-term growth rates of net operating cash flows.

- The average medium-term revenue growth rates represent the compound annual revenue growth for the first five (2016: five) years. The average medium-term revenue growth rate applied to CGUs reflects the specific rates for each territory.
- Long-term growth rates of net operating cash flows are assumed to be equal to the long-term growth rate in the gross domestic product of the country in which the CGUs operations are undertaken reflecting the specific rates for each territory.

Range of rates used across the different CGUs

	2017	2016
– Average medium-term revenue growth rates*	4%-13%	1%-14%
– Long-term growth rates to net operating cash flows	1%-4%	1.0%-3.5%

Note:

* Average medium-term revenue growth rate is calculated on value in use projections that exclude intercompany revenue.

Operating assets and liabilities continued

6 Intangible assets continued

6.1 Goodwill continued

In accordance with IAS 36, key assumptions for the value in use calculations are disclosed for those CGUs where significant goodwill is held. These are deemed by management to be CGUs holding more than 10% of total goodwill. The discount rate, average medium-term revenue growth rate and long-term growth rate assumptions used for the value in use calculation for the significant goodwill CGUs covered by the annual impairment test are shown below:

	Local discount rate (post-tax)	Approximate local discount rate (pre-tax) equivalent	Long-term growth rate	Average medium-term revenue growth rate*
2017				
– UKI	8.6%	10.0%	2.1%	6.8%
– France	8.1%	10.8%	1.7%	5.5%
– North America – SBS	9.2%	14.4%	1.9%	6.4%
	Local discount rate (post tax)	Approximate local discount rate (pre-tax) equivalent	Long-term growth rate	Average medium-term revenue growth rate*
2016				
– UKI	8.8%	10.3%	2.1%	6.1%
– France	8.0%	11.4%	1.8%	6.3%
– North America – SBS	9.0%	14.1%	1.9%	7.4%
– North America – SPS	9.0%	14.3%	1.9%	1.3%

Note:

* Average medium-term revenue growth rate is calculated on value in use projections that exclude intercompany revenue.

Discount rate

The Group uses a discount rate based on a local Weighted Average Cost of Capital ("WACC") for each CGU, applying local government yield bonds and tax rates to each CGU on a geographical basis. The discount rate applied to a CGU represents a post-tax rate that reflects the market assessment of the time value of money at the end of the Q3 2017 and the risks specific to the CGU. The post-tax discount rates applied to CGUs were in the range of 6.91% (2016: 6.96%) to 15.34% (2016: 14.67%), reflecting the specific rates for each territory.

Sensitivity analysis

A sensitivity analysis was performed for each of the significant CGUs and management concluded that no reasonably possible change in any of the key assumptions would cause the carrying value of any CGU to exceed its recoverable amount.

Impairment charge

The Group performed its annual test for impairment on 30 June 2017. The recoverable amount exceeded the carrying value for each CGU.

Sage Intacct

Subsequent to the annual impairment test on 30 June 2017, the Group acquired 100% of the share capital of Intacct Corporation resulting in significant goodwill of £516m on 30 September 2017. Management assessed whether there would be any triggering event or indicator that could lead to an impairment of the goodwill acquired through the Intacct Corporation acquisition and concluded that there were no indicators that the fair value of Sage Intacct is lower than the amount paid by Sage. See note 16.1 for details.

6.2 Other intangibles

Accounting policy

Intangible assets arising on business combinations are recognised initially at cost, which is their fair value at the date of acquisition. Subsequently they are carried at cost less accumulated amortisation and impairment charges. The main intangible assets recognised are brands, technology, in-process R&D, computer software and customer relationships.

Amortisation is charged to the income statement on a straight-line basis over their estimated useful lives.

The estimated useful lives are as follows:

Brand names	– 1 to 20 years
Technology/In process R&D (“IPR&D”)	– 3 to 7 years
Customer relationships	– 4 to 15 years
Computer software	– 2 to 7 years

Other intangible assets that are acquired by the Group are stated at cost, which is the asset's purchase price and any directly attributable costs of preparing the asset for its intended use, less accumulated amortisation and impairment losses if applicable. Software assets are amortised on a straight-line basis over their estimated useful lives, which do not exceed seven years.

The carrying value of intangibles is reviewed for impairment whenever events indicate that the carrying value may not be recoverable.

Internally-generated software development costs qualify for capitalisation when the Group can demonstrate all of the following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Its intention to complete the intangible asset and use or sell it;
- Its ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The existence of a market or, if it is to be used internally, the usefulness of the intangible asset;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- Its ability to measure reliably the expenditure attributable to the intangible asset during development.

Generally, commercial viability of new products is not proven until all high-risk development issues have been resolved through testing pre-launch versions of the product. As a result, technical feasibility is proven only after completion of the detailed design phase and formal approval, which occurs just before the products are ready to go to market. Accordingly, development costs have not been capitalised. However, the Group continues to assess the eligibility of development costs for capitalisation on a project-by-project basis.

Costs which are incurred after the general release of internally-generated software or costs which are incurred in order to enhance existing products are expensed in the period in which they are incurred and included within research and development expense in the financial statements.

	Brands £m	Technology £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
Cost at 1 October 2016	41	127	4	93	147	412
– Additions	–	–	–	22	–	22
– Acquisitions	1	78	–	–	106	185
– Disposal of subsidiaries	–	(8)	–	(1)	(66)	(75)
– Disposals	–	–	–	(7)	–	(7)
– Exchange movement	–	(2)	–	(1)	–	(3)
At 30 September 2017	42	195	4	106	187	534
Accumulated amortisation at 1 October 2016	31	96	4	62	110	303
– Charge for the year	2	14	–	13	7	36
– Disposal of subsidiaries	–	(8)	–	(1)	(65)	(74)
– Disposals	–	–	–	(6)	–	(6)
– Exchange movement	–	–	–	(1)	2	1
At 30 September 2017	33	102	4	67	54	260
Net book amount at 30 September 2017	9	93	–	39	133	274

Operating assets and liabilities continued

6 Intangible assets continued

6.2 Other intangibles continued

	Brands £m	Technology £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
Cost at 1 October 2015	34	106	6	71	120	337
– Additions	–	1	–	7	–	8
– Acquisitions	–	–	–	–	6	6
– Disposals	–	–	(2)	(1)	–	(3)
– Exchange movement	7	20	–	16	21	64
At 30 September 2016	41	127	4	93	147	412
Accumulated amortisation at 1 October 2015	24	73	6	40	90	233
– Charge for the year	2	9	–	12	6	29
– Disposals	–	–	(2)	–	–	(2)
– Exchange movement	5	14	–	10	14	43
At 30 September 2016	31	96	4	62	110	303
Net book amount at 30 September 2016	10	31	–	31	37	109

All amortisation charges in the year within both continuing and discontinued operations, prior to transfer to discontinued operations, have been charged through selling and administrative expenses.

7 Property, plant and equipment

This note details the physical assets used by the Group to operate the business and generate revenues and profits. Assets are shown at their purchase price less depreciation, which is an expense that is charged over the useful life of these assets to reflect annual usage and wear and tear, and impairment.

Accounting policy

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation on property, plant and equipment is provided on a straight-line basis to write down an asset to its residual value over its useful life as follows:

Freehold buildings	– 50 years
Long leasehold buildings and improvements	– over period of lease
Plant and equipment	– 2 to 7 years
Motor vehicles	– 4 years
Office equipment	– 2 to 7 years

Freehold land is not depreciated.

The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

An item of property, plant and equipment is reviewed for impairment whenever events indicate that its carrying value may not be recoverable.

	Land and buildings £m	Plant and equipment £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 October 2016	93	157	56	306
– Additions	–	19	11	30
– Acquisitions	–	5	1	6
– Disposals	–	(57)	(9)	(66)
– Disposal of subsidiaries	–	(3)	(1)	(4)
– Exchange movement	–	(1)	–	(1)
At 30 September 2017	93	120	58	271
Accumulated depreciation at 1 October 2016	16	128	39	183
– Charge for the year	1	14	7	22
– Disposals	–	(56)	(8)	(64)
– Disposal of subsidiaries	–	(3)	–	(3)
At 30 September 2017	17	83	38	138
Net book amount at 30 September 2017	76	37	20	133

	Land and buildings £m	Plant and equipment £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 October 2015	91	144	54	289
– Additions	–	16	7	23
– Disposals	–	(17)	(12)	(29)
– Exchange movement	2	14	7	23
At 30 September 2016	93	157	56	306
Accumulated depreciation at 1 October 2015	14	113	39	166
– Charge for the year	1	16	5	22
– Impairment	–	5	1	6
– Disposals	–	(17)	(12)	(29)
– Exchange movement	1	11	6	18
At 30 September 2016	16	128	39	183
Net book amount at 30 September 2016	77	29	17	123

Assets held under finance leases with a net book value of £nil (2016: £1m) are included in the above tables.

Depreciation expenses relating to both continuing and discontinued operations of £22m (2016: £22m), prior to transfer to discontinued operations, and impairment of £nil (2016: £6m) have been charged through selling and administrative expenses (note 3.2).

8 Investment in an associate

This note presents information about the Group's investment in its associate, which is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control of those policies. The Group determines whether it has significant influence based on the voting and any other rights it holds as a result of its investment and also any contractual arrangements in place. Normally, if the Group holds over 20% of the voting rights of an entity without having control or joint control of that entity, the investment will be treated as an associate unless it can be clearly demonstrated that this is not the case.

Accounting policy

The Group's investment in its associate is accounted for using the equity method. Under the equity method, the investment is initially measured at cost. Subsequently, the carrying amount is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately. The income statement reflects the Group's share of the associate's profit or loss after tax and any non-controlling interests in the subsidiaries of the associate. Any change in the Group's share of the associate's other comprehensive income is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any such changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate. The aggregate of the Group's share of profit or loss of the associate is shown on the face of the income statement outside operating profit. The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group. After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment. At each reporting date, the Group determines whether there is objective evidence that the investment is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss in the income statement.

At 30 September 2017, the Group had no investments in associates. At 30 September 2016, the Group's investment in an associate comprised 100% of the C Ordinary Shares of Fairsail Limited (Fairsail). On 17 March 2017, the Group acquired in a business combination the remaining share capital of Fairsail, which subsequently changed its name to Sage People Limited. Details of the acquisition transaction, including the gain recognised on the remeasurement to fair value of the Group's existing investment at the acquisition date, are set out in note 16.1. The Group's share of its associate's total comprehensive income for the period 1 October 2016 to 17 March 2017 was a loss of £1m (2016: £1m loss), comprising losses from continuing operations. The carrying amount of the Group's investment at 30 September 2016 was £9m.

9 Working capital

This note provides the amounts invested by the Group in working capital balances at the end of the financial year. Working capital is made up of inventories, trade and other receivables and trade and other payables.

Inventories mainly consist of warehouse stock of Sage products, awaiting shipment to business partners or distributors. Trade and other receivables are made up of amounts owed to the Group by customers and amounts that we pay to our suppliers in advance. Trade receivables are shown net of an allowance for bad and doubtful debts. Our trade and other payables are amounts we owe to our suppliers that have been invoiced to us or accrued by us. They also include taxes and social security amounts due in relation to our role as an employer.

This note also gives some additional detail on the age and recoverability of our trade receivables, which provides an understanding of the credit risk faced by the Group as a part of everyday trading. Credit risk is further disclosed in the Directors' Report.

9.1 Inventories

Accounting policy

Inventories are stated at the lower of cost and net realisable value after making allowances for slow moving or obsolete items.

Cost includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Cost is calculated using the first-in-first-out method.

	2017 £m	2016 £m
Materials	1	1
Finished goods	2	1
	3	2

The Group consumed £7m (2016: £9m) of inventories, included in cost of sales, during the year. There was no material write-down of inventories during the current or prior year.

9.2 Trade and other receivables

Accounting policy

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

	2017 £m	2016 £m
Amounts falling due within one year:		
Trade receivables	415	363
Less: provision for impairment of receivables	(21)	(21)
Trade receivables – net	394	342
Other receivables	24	42
Prepayments and accrued income	48	36
	466	420

The Group's credit risk on trade and other receivables is primarily attributable to trade receivables. The Group has no significant concentrations of credit risk since the risk is spread over a large number of unrelated counterparties.

The Group considers the credit quality of trade and other receivables by geographical location. The Group considers that the carrying value of the trade and other receivables that is disclosed below gives a fair presentation of the credit quality of the assets.

	2017 £m	2016 £m
Trade and other receivables (excluding prepayments and accrued income) by geographical location:		
Northern Europe	126	114
Central and Southern Europe	168	149
North America	55	64
International	69	57
	418	384

Operating assets and liabilities continued

9 Working capital continued

9.2 Trade and other receivables continued

	2017 £m	2016 £m
Movements on the Group provision for impairment of trade receivables were as follows:		
At 1 October	21	18
Increase in provision for receivables impairment	14	8
Receivables written off during the year as uncollectable	(7)	(6)
Unused amounts reversed	(6)	(1)
Exchange movement	(1)	2
At 30 September	21	21

In determining the recoverability of a trade receivable, the Group considers the ageing of each receivable and any change in the circumstances of the individual receivables. The Directors believe that there is no further provision required in excess of the provision for impairment of receivables.

The creation and releases of the provision for impaired receivables have been included in selling and administrative expenses in the income statement. Amounts charged to the provision are generally written off when there is no expectation of recovering additional cash.

At 30 September 2017, trade receivables of £30m (2016: £33m) were either partially or fully impaired.

	2017 £m	2016 £m
The ageing of these receivables was as follows:		
Not due	–	–
Less than six months past due	7	14
More than six months past due	23	19
	30	33

Trade receivables which were past their due date but not impaired at 30 September 2017 were £73m (2016: £53m).

	2017 £m	2016 £m
The ageing of these receivables was as follows:		
Less than six months past due	54	46
More than six months past due	19	7
	73	53

The maximum exposure to credit risk at the end of the reporting period is the fair value of each class of receivables mentioned above. The Group held no collateral as security. The Directors estimate that the carrying value of trade receivables approximated their fair value.

9.3 Trade and other payables

Accounting policy

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

	2017 £m	2016 £m
Trade and other payables can be analysed as follows:		
Trade payables	38	35
Other tax and social security payable	48	43
Other payables	28	37
Cash held on behalf of customers (see note 13.3)	75	84
Accruals	148	151
	337	350

10 Provisions

This note provides details of the provisions recognised by the Group, where a liability exists of uncertain timing or amount. The main estimates in this area relate to legal exposure, employee severance, onerous leases and dilapidation charges.

This section also explains the accounting policies applied and the specific judgements and estimates made by the Directors in arriving at the value of these liabilities.

Accounting policy

A provision is recognised only when all three of the following conditions are met:

- The Group has a present obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the present value of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, i.e. the present value of the amount that the Group would rationally pay to settle the obligation at the balance sheet date or to transfer it to a third party.

	Restructuring £m	Legal £m	Building £m	Other £m	Total £m
At 1 October 2016	19	12	33	3	67
– Additional provision in the year	11	4	7	1	23
– Provision utilised in the year	(9)	(2)	(7)	(1)	(19)
– Unused amounts reversed	–	(4)	–	(1)	(5)
– Exchange movement	–	–	1	1	2
At 30 September 2017	21	10	34	3	68

	Restructuring £m	Legal £m	Building £m	Other £m	Total £m
Maturity profile					
< 1 year	19	6	10	2	37
1 – 2 years	2	1	7	–	4
2 – 5 years	–	3	11	1	21
> 5 years	–	–	6	–	6
At 30 September 2017	21	10	34	3	68

Restructuring provisions are for the estimated costs of Group restructuring activities, associated with the business transformation and relate mainly to employee severance. These provisions will be utilised as obligations are settled which is generally expected to be within one year.

Legal provisions have been made in relation to ongoing disputes with third parties and other claims against the Group. The ageing of legal provisions is assessed regularly, based upon internal and external legal advice, as required.

Building provisions relate to dilapidation charges and onerous lease commitments. The timing of the cash flows associated with building provisions is dependent on the timing of lease agreement termination.

Other provisions comprise mainly those for the costs of warranty cover provided by the Group in respect of products sold to third parties. The timing of the cash flows associated with warranty provisions is spread over the period of warranty with the majority of the claims expected in the first year.

11 Post-employment benefits

This note explains the accounting policies governing the Group's pension schemes, analyses the deficit on the defined benefit pension scheme and shows how it has been calculated.

The majority of the Group's employees are members of defined contribution pension schemes. Additionally, the Group operates two small defined benefit schemes in France and Switzerland.

For defined contribution schemes, the Group pays contributions into separate funds on behalf of the employee and has no further obligations to employees. The risks associated with this type of plan are assumed by the member. Contributions paid by the Group in respect of the current period are included within the income statement.

The defined benefit scheme is a pension arrangement under which participating members receive a pension benefit at retirement determined by the scheme rules, salary and length of pensionable service. The income statement charge for the defined benefit scheme is the current/past service cost and the net interest cost which is the change in the net defined benefit liability that arises from the passage of time. The Group underwrites both financial and demographic risks associated with this type of plan.

Accounting policy

Obligations under defined contribution schemes are recognised as an operating cost in the income statement as incurred.

The Group also operates a small defined benefit pension scheme in Switzerland and other post-employment benefit schemes in France. The assets of these schemes are held separately from the assets of the Group. Under French legislation, the Group is required to make one-off payments to employees in France who reach retirement age while still in employment. The costs of providing benefits under these schemes are determined using the projected unit credit actuarial valuation method.

The current service cost and gains and losses on settlements and curtailments are included in selling and administrative expenses in the income statement. Past service costs should be recognised on the earlier of the date of the plan amendment and the date the Group recognises restructuring-related costs. Interest on the pension plan assets and the imputed interest on pension plan liabilities are included within selling and administrative expenses in the income statement.

Changes in the post-employment benefit obligation due to experience and changes in actuarial assumptions are included in the statement of comprehensive income in full in the period in which they arise.

The liability recognised in the balance sheet in respect of the defined benefit pension scheme is the present value of the defined benefit obligation and future administration costs at the end of the reporting period, less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximate to the terms of the related pension liability.

The calculation of the defined benefit obligation of a defined benefit plan requires estimation of future events, for example salary and pension increases, inflation and mortality rates. In the event that future experience does not bear out the estimates made in previous years, an adjustment will be made to the plan's defined benefit obligation in future periods which could have a material effect on the Group.

A sensitivity analysis has been performed on the significant assumptions. The significant assumptions are deemed to be the discount rate and salary increases, as these are most likely to have a material impact on the defined benefit obligations. The analysis has been performed by the independent actuaries.

Pension costs included in the consolidated income statement	Note	2017 £m	2016 £m
Defined contribution schemes		10	10
Defined benefit plans		2	2
	3.3	12	12

Defined benefit plans

The most recent actuarial valuations of the post-employment benefit plans were performed by KPMG (France) and PwC (Switzerland) during the year for the year ended 30 September 2017.

Weighted average principal assumptions made by the actuaries	2017 %	2016 %
Rate of increase in pensionable salaries	2.0	2.0
Discount rate	0.9	0.4
Inflation assumption	2.0	2.0

Mortality rate assumptions made by the actuaries	2017 years	2016 years
Average life expectancy for 65-year-old male	21	21
Average life expectancy for 65-year-old female	24	24
Average life expectancy for 45-year-old male	40	40
Average life expectancy for 45-year-old female	44	44

Amounts recognised in the balance sheet	2017 £m	2016 £m
Present value of funded obligations	(43)	(46)
Fair value of plan assets	21	21
Net liability recognised in the balance sheet	(22)	(25)

Major categories of plan assets as a percentage of total plan assets	£m	2017 %	£m	2016 %
Bonds (quoted)	7	34	8	40
Equities (quoted)	7	33	5	24
Other (unquoted)	7	33	7	36
	21	100	20	100

Expected contributions to post-employment benefit plans for the year ending 30 September 2018 are £1m (2016: expected contributions year ending 30 September 2017: £1m).

Amounts recognised in the income statement	2017 £m	2016 £m
Net interest costs on obligation	–	–
Current service cost	(2)	(2)
Total included within staff costs – all within selling and administrative expenses	(2)	(2)

Changes in the present value of the defined benefit obligation	2017 £m	2016 £m
At 1 October	(46)	(37)
Exchange movement	2	(6)
Service cost	(2)	(2)
Plan participant contributions	(1)	(1)
Interest cost	–	–
Benefits paid	2	2
Actuarial gain – demographic assumptions	–	1
Actuarial gain/(loss) – financial assumptions	2	(4)
Actuarial gain – experience	–	1
At 30 September	(43)	(46)

Operating assets and liabilities continued

11 Post-employment benefits continued

Changes in the fair value of plan assets	2017 £m	2016 £m
At 1 October	21	18
Exchange movement	(2)	3
Interest income	–	–
Employer's contributions	1	1
Plan participant contributions	1	1
Benefits paid	(2)	(2)
Actuarial gain on plan assets	2	–
At 30 September	21	21

Analysis of the movement in the balance sheet liability	2017 £m	2016 £m
At 1 October	(25)	(19)
Exchange movement	–	(3)
Total expense as recognised in the income statement	(2)	(2)
Contributions paid	1	1
Actuarial gain/(loss)	4	(2)
At 30 September	(22)	(25)

Sensitivity analysis on significant actuarial assumptions		2017 £m	2016 £m
Discount rate applied to scheme obligations	+/- 0.5% pa	2	3
Salary increases	+/- 0.5% pa	1	1

12 Deferred income tax

Deferred income tax is an accounting adjustment to provide for tax that is expected to arise in the future due to differences in the carrying value of assets and liabilities and their respective tax bases. In this note we outline the accounting policies, movements in the year on the deferred tax account and the net deferred tax asset or liability at the year end.

A deferred tax asset represents a tax reduction that is expected to arise in a future period.

A deferred tax liability represents taxes which will become payable in a future period as a result of a current or an earlier transaction.

Accounting policy

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

Tax assets and liabilities are offset when there is a legally enforceable right and there is an intention to settle the balances net.

The movement on the deferred tax account is as shown below:	2017 £m	2016 £m
At 1 October	45	27
Income statement credit	5	7
Acquisition of subsidiaries	(29)	–
Disposal of subsidiaries	(6)	–
Exchange movement	2	6
Other comprehensive income/equity movement in deferred tax	(2)	5
At 30 September	15	45

The proposed US tax reform bill was released on 2 November 2017. Amongst other detailed provisions, if enacted in its current form, the bill would reduce the US Federal tax rate to 20% (from its current rate of 35%), introduce interest restrictions as well as eliminating certain innovation incentives. As this has not yet been enacted, the potential impact of the changes have not been reflected in the FY17 deferred tax balances.

On 27 September 2017, the French Finance Bill 2018 was released which announced a graduated reduction of the corporate income tax rate to 25% by 2022, resulting in an effective rate of 25.8% including the social surcharge. This Finance Bill was not substantively enacted at the balance sheet date and accordingly French tax balances expected to unwind from 2018 onwards have not been remeasured. The impact of this amendment is expected to be small.

Deferred tax assets have been recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered. Each of these assets are reviewed to ensure there is sufficient evidence to support their recognition.

In particular, there are tax losses carried forward in respect of Brazilian entities generating a potential net tax asset of £23m. An element of this asset has been recognised in the financial statements (£12m) with the remainder of the asset being unrecognised (£11m). Whilst the relevant entities have suffered a loss in the current period, there is sufficient supporting evidence of future profitability which is available to allow for the recognition of this asset. This evidence includes detailed financial projections for each individual entity as adjusted for tax sensitive items.

As noted above, a potential deferred tax asset on losses of £11m (2016: £15m) has not been recognised as it is not expected that these losses will be recovered in the foreseeable future. As well as these Brazilian losses, there are other unrecognised deferred tax assets of £6m which are not expected to be recovered in the foreseeable future.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12, "Income Taxes" during the year are shown below. The offsetting of these balances is shown within the reclassification line of the notes below. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Deferred tax assets and liabilities categorised as "other deferred tax" of £34m (2016: £49m) includes various balances in relation to accounting provisions/accruals (asset £38m) (2016: £37m), goodwill amortisation (liability £30m) (2016: £18m), deferred revenue (asset £16m) (2016: £19m) and other sundry amounts (asset £10m) (2016: £11m).

Operating assets and liabilities continued

12 Deferred income tax continued

All underlying temporary differences arising from investments in subsidiaries and associates have been appropriately recognised where it is probable the temporary difference will reverse in the foreseeable future.

	Intangible assets £m	Tax losses £m	Other £m	Total £m
Deferred tax assets				
At 1 October 2016	(8)	5	61	58
Income statement credit	2	6	(3)	5
Reclassification to deferred tax liability	1	–	(4)	(3)
Other comprehensive income/equity movement in deferred tax	–	–	–	–
Exchange movement	–	1	–	1
At 30 September 2017	(5)	12	54	61
Deferred tax liabilities				
At 1 October 2016	(19)	18	(12)	(13)
Income statement credit/(debit)	6	(5)	(1)	–
Reclassification from deferred tax asset	(1)	–	4	3
Acquisition/disposal	(53)	28	(10)	(35)
Other comprehensive income/equity movement in deferred tax	–	–	(2)	(2)
Exchange movement	2	(2)	1	1
At 30 September 2017	(65)	39	(20)	(46)
Net deferred tax asset at 30 September 2017	(70)	51	34	15

	Intangible assets £m	Tax losses £m	Other £m	Total £m
Deferred tax assets				
At 1 October 2015	(4)	3	35	34
Income statement credit	4	1	7	12
Reclassification to deferred tax liability	(7)	–	5	(2)
Other comprehensive income/equity movement in deferred tax	–	–	5	5
Exchange movement	(1)	1	9	9
At 30 September 2016	(8)	5	61	58
Deferred tax liabilities				
At 1 October 2015	(13)	18	(13)	(8)
Income statement credit/(debit)	4	(4)	(5)	(5)
Reclassification from deferred tax asset	(7)	1	8	2
Exchange movement	(3)	3	(2)	(2)
At 30 September 2016	(19)	18	(12)	(13)
Net deferred tax (liability)/asset at 30 September 2016	(27)	23	49	45

Net debt and capital structure

13 Cash flow and net debt

This note analyses our operational cash generation, shows the movement in our net debt in the year, and explains what is included within our cash balances and borrowings at the year end.

Cash generated from operations is the starting point of our cash flow statement on page 123. This section outlines the adjustments for any non-cash accounting items to reconcile our accounting profit for the year to the amount of cash we generated from our operations.

Net debt represents the amount of cash held less borrowings, overdrafts, finance lease payments due and cash held on behalf of customers.

Borrowings are mostly made up of fixed-term external debt which the Group has taken out in order to finance acquisitions in the past.

13.1 Cash flow generated from continuing operations

	2017 £m	2016 £m
Reconciliation of profit for the year to cash generated from continuing operations		
Profit for the year	257	188
Adjustments for:		
– Income tax	85	54
– Finance income	(10)	(5)
– Finance costs	28	29
– Share of loss of an associate	1	1
– Amortisation and impairment of intangible assets	36	28
– Depreciation and impairment of property, plant and equipment	22	28
– R&D tax credits	(1)	(1)
– Equity-settled share-based transactions	11	8
– Gain on re-measurement of existing investment in an associate	(13)	–
– Gain on disposal of subsidiary	(3)	–
– Exchange movement	1	–
Changes in working capital (excluding effects of acquisitions and disposals of subsidiaries):		
– Increase in inventories	(1)	–
– Increase in trade and other receivables	(46)	(51)
– Increase in trade and other payables	4	45
– Increase in deferred income	32	36
Cash generated from continuing operations	403	360

13.2 Net debt

	2017 £m	2016 £m
Reconciliation of net cash flow to movement in net debt (inclusive of finance leases)		
Decrease in cash in the year (pre-exchange movements)	(20)	(23)
Cash (outflow)/inflow from movement in loans, finance leases and cash held on behalf of customers	(396)	133
Change in net debt resulting from cash flows	(416)	110
Acquisitions	(9)	(17)
Disposals	(3)	–
Non-cash movements	–	(1)
Exchange movement	13	(65)
Movement in net debt in the year	(415)	27
Net debt at 1 October	(398)	(425)
Net debt at 30 September	(813)	(398)

Net debt and capital structure continued

13 Cash flow and net debt continued

13.2 Net debt continued

	At 1 October 2016 £m	Cash flow £m	Acquisitions £m	Disposal of subsidiaries £m	Non-cash movements £m	Exchange movement £m	At 30 September 2017 £m
Analysis of change in net debt (inclusive of finance leases)							
Cash and cash equivalents	264	(6)	–	(23)	–	(4)	231
Bank overdrafts	(4)	(14)	–	–	–	–	(18)
Cash, cash equivalents and bank overdrafts	260	(20)	–	(23)	–	(4)	213
Loans due within one year	(39)	48	(9)	–	(37)	–	(37)
Loans due after more than one year	(535)	(435)	–	–	37	19	(914)
Cash held on behalf of customers	(84)	(9)	–	20	–	(2)	(75)
Total	(398)	(416)	(9)	(3)	–	13	(813)

Included in cash above is £75m (2016: £84m) relating to cash held on behalf of customers. This arises as a consequence of providing payment transaction processing and electronic fund transfer services. The balance represents cash in transit from third parties to Sage customers. Accordingly, a liability for the same amount is included in trade and other payables on the balance sheet and is classified within net debt.

13.3 Cash and cash equivalents (excluding bank overdrafts)

Accounting policy

For the purpose of preparation of the consolidated statement of cash flows and the consolidated balance sheet, cash and cash equivalents include cash at bank and in hand and short-term deposits with an original maturity period of three months or less. Bank overdrafts that are an integral part of a subsidiary's cash management are included in cash and cash equivalents where they have a legal right of set-off and there is an intention to settle net, against positive cash balances, otherwise bank overdrafts are classified as borrowings.

	2017 £m	2016 £m
Cash at bank and in hand	143	126
Cash held on behalf of customers	75	84
Short-term bank deposits	13	54
	231	264

In line with contractual obligations or Company practice, cash held on behalf of customers is held in separate bank accounts by the Group until such time as these amounts are paid.

The credit risk on liquid funds is considered to be low, as the Board-approved Group treasury policy limits the value that can be invested with each approved counterparty to minimise the risk of loss. The Group policy is to place cash and cash equivalents with counterparties which are well established banks with high credit ratings where available. In some jurisdictions there is limited availability of such counterparties.

At 30 September 2017, 79% (2016: 81%) of the cash and cash equivalents balance was deposited with financial institutions rated at least A3 by Moody's Investors Service. The investment instruments utilised are money market funds, money market term deposits and bank deposits.

The Group's maximum exposure to credit risk in relation to cash and cash equivalents is their carrying amount in the balance sheet.

13.4 Borrowings

Accounting policy

Assets held under finance leases are initially recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of borrowing on an effective interest basis.

	2017 £m	2016 £m
Current		
Bank overdrafts	18	4
US senior loan notes – unsecured	37	39
	55	43
	2017 £m	2016 £m
Non-current		
Bank loans – unsecured	429	–
US senior loan notes – unsecured	485	535
	914	535

Included in loans above is £951m (2016: £574m) of unsecured loans (after unamortised issue costs). These borrowings were utilised for acquisitions and managing the Group's minimum leverage target of 1x net debt to EBITDA.

In the table above, bank loans and loan notes are stated net of unamortised issue costs of £2m (2016: £2m). Unsecured bank loans attract an average interest rate of 1.5%.

	Year issued	Interest coupon	Maturity	Loan value	
				2017 £m	2016 £m
Borrowings					
US private placement					
– USD 50m loan note	2010	5.15%	11-Mar-17	–	39
– USD 50m loan note	2013	2.60%	20-May-18	37	39
– USD 150m loan note	2013	3.08%	20-May-20	112	115
– USD 150m loan note	2013	3.71%	20-May-23	112	115
– USD 50m loan note	2013	3.86%	20-May-25	37	39
– EUR 55m loan note	2015	1.89%	26-Jan-22	48	47
– EUR 30m loan note	2015	2.07%	26-Jan-23	26	26
– USD 200m loan note	2015	3.73%	26-Jan-25	150	154

There were £318m drawings (2016: nil) under the multi-currency revolving credit facility of £603m (2016: £614m) expiring on 26 June 2019, which consists both of US\$551.0m (£411m, 2016: £425m) and of €218.0m (£192m, 2016: £189m) tranches.

Net debt and capital structure continued

14 Financial instruments

This note shows details of the fair value and carrying value of short and long-term borrowings, trade and other payables, trade and other receivables, short-term bank deposits and cash at bank and in hand. These items are all classified as “financial instruments” under accounting standards. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In order to assist users of these financial statements in making an assessment of any risks relating to financial instruments, this note also shows the ageing of these items and analyses their sensitivity to changes in key inputs, such as interest rates and foreign exchange rates. An explanation of the Group’s exposure to and management of capital, liquidity, credit, interest rate and foreign currency risk is set out in the financial risk management section at the end of this note.

Accounting policy

Financial assets and financial liabilities are recognised in the Group’s balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the rights to receive cash flows from the asset have expired, or when the Group has transferred those rights and either has also transferred substantially all the risks and rewards of the asset or has neither transferred nor retained substantially all the risks and rewards of the asset but no longer has control of the asset.

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

14.1 Fair values of financial instruments

The carrying amounts of the following financial assets and liabilities approximate to their fair values: trade and other payables excluding tax and social security, trade and other receivables excluding prepayments and accrued income, short-term bank deposits and cash at bank and in hand. The fair value of borrowings differs from their carrying amounts due to their bearing interest at fixed rates which are currently higher than floating rates.

The fair value of borrowings is determined by reference to interest rate movements on the US \$ private placement market and therefore can be considered as a level 2 fair value as defined within IFRS 13.

	Note	2017		2016	
		Book value £m	Fair value £m	Book value £m	Fair value £m
Long-term borrowing	13.4	(914)	(924)	(535)	(559)
Short-term borrowing	13.4	(55)	(56)	(43)	(44)

The carrying amounts of trade receivables (note 9.2) and cash and cash equivalents (note 13.3) represents the Group’s maximum exposure to credit risk.

The Group has a fixed asset investment in an unquoted equity instrument which is classified as an available-for-sale financial asset. The fair value of the instrument is considered to be equivalent to its nominal value as it currently pays a market rate of interest. This is a level 3 fair value as defined within IFRS 13. This investment was acquired during the year as part of the consideration received on the disposal of the Group’s North American Payments business. Further information is given in note 16.3.

14.2 Maturity of financial liabilities

The maturity profile of the undiscounted contractual amount of the Group’s financial liabilities at 30 September was as follows:

	2017		
	Borrowings £m	Trade and other payables excluding other tax and social security £m	Total £m
In less than one year	81	291	372
In more than one year but not more than two years	453	2	455
In more than two years but not more than five years	200	3	203
In more than five years	344	–	344
	1,078	296	1,374

14.2 Maturity of financial liabilities continued

	2016		
	Borrowings £m	Trade and other payables excluding other tax and social security £m	Total £m
In less than one year	63	307	370
In more than one year but not more than two years	58	4	62
In more than two years but not more than five years	161	3	164
In more than five years	415	1	416
	697	315	1,012

The maturity profile of provisions is disclosed in note 10.

14.3 Borrowing facilities

The Group has the following undrawn committed borrowing facilities available at 30 September in respect of which all conditions precedent had been met at that date:

	2017 £m	2016 £m
Expiring in more than two years but not more than five years	285	614

The facilities have been arranged to help finance the expansion of the Group's activities. All these facilities incur commitment fees at market rates. In addition, the Group maintains overdraft and uncommitted facilities to provide short-term flexibility and has also utilised the US private placement market.

14.4 Market risk sensitivity analysis

Financial instruments affected by market risks include borrowings and deposits.

The following analysis, required by IFRS 7, "Financial Instruments: Disclosures", is intended to illustrate the sensitivity to changes in market variables, being sterling, US Dollar and Euro interest rates, and sterling/US Dollar and sterling/Euro exchange rates.

The sensitivity analysis assumes reasonable movements in foreign exchange and interest rates before the effect of tax. The Group considers a reasonable interest rate movement in LIBOR to be 1%, based on interest rate history. Similarly, sensitivity to movements in sterling/US Dollar and sterling/Euro exchange rates of 10% are shown, reflecting changes of reasonable proportion in the context of movement in those currency pairs over the last year.

Using the above assumptions, the following table shows the illustrative effect on the consolidated income statement and equity.

	2017		2016	
	Income (losses)/gains £m	Equity (losses)/gains £m	Income (losses)/gains £m	Equity (losses)/gains £m
1% increase in market interest rates	(1)	(1)	(1)	(1)
1% decrease in market interest rates	1	1	–	–
10% strengthening of sterling versus the US Dollar	(3)	(53)	(7)	(38)
10% strengthening of sterling versus the Euro	(10)	(37)	(6)	(31)
10% weakening of sterling versus the US Dollar	4	59	7	42
10% weakening of sterling versus the Euro	11	41	7	34

14.5 The minimum lease payments under finance leases

	2017 £m	2016 £m
The minimum lease payments under finance leases fall due as follows:		
In less than one year	–	1
In more than one year but not more than five years	–	–
	–	1
Future finance charges on finance leases	–	–
Present value of finance lease liabilities	–	1

14 Financial instruments continued

14.6 Hedge accounting

Accounting policy

A proportion of the Group's external US Dollar denominated borrowings, and the total of its Euro-denominated borrowings, are designated as a hedge of the net investment in its subsidiaries in the US and Eurozone. The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation which is determined to be an effective hedge is recognised in other comprehensive income. The ineffective portion is recognised immediately in profit or loss. On disposal of the net investment, the foreign exchange gains and losses on the hedging instrument are recycled to the income statement from equity.

The fair values of the Group's external US Dollar and Euro-denominated borrowings designated as a hedge at 30 September 2017 were USD 562m and EUR 128m (2016: USD 650m and EUR 85m). These borrowings were used to hedge the Group's exposure to the USD and EUR foreign exchange risk on its investments in subsidiaries in the US and Eurozone.

On disposal of the North American Payments business, see note 16.3, there was an exchange difference related to hedge instruments recycled through the income statement in portion to the disposed net investment.

14.7 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 Group's borrowings comprise principally US private placement loan notes which are at fixed interest rates, and the bank revolving credit facility, which is subject to floating interest rates. At 30 September 2017, the Group had £231m (2016: £264m) 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 2017, the Group's borrowings comprised US private placement loan notes of £522m (2016: £574m), which have an average fixed interest rate of 3.26% (2016: 3.40%); and unsecured bank loans of £429m (2016: £nil), comprising mainly the bank revolving credit facility, which have an average fixed interest rate of 1.5%.

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 Euro denominated borrowings and a proportion of its US Dollar 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 2017 and 30 September 2016, these exposures were immaterial to the Group.

15 Equity

This note analyses the movements recorded through shareholders' equity that are not explained elsewhere in the financial statements, being changes in the amount which shareholders have invested in the Group.

The Group utilises share award schemes as part of its employee remuneration package. Share option schemes for our employees include The Sage Group Performance Share Plan for Directors and senior executives and The Sage Group Savings-related Share Option Plan (the "SAYE Plan") for all qualifying employees. The Group incurs costs in respect of these schemes in the income statement, which is set out below along with a detailed description of each scheme and the number of options outstanding.

This note also shows the dividends paid in the year and any dividends that are to be proposed and paid post-year end. Dividends are paid as an amount per ordinary share held.

15.1 Ordinary shares

Accounting policy

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the owners of the Company until the shares are cancelled or reissued.

	2017 shares	2017 £m	2016 shares	2016 £m
Issued and fully paid ordinary shares of 1⁴/77 pence each				
At 1 October	1,119,480,363	12	1,118,298,748	12
Shares issued	1,157,758	–	1,181,615	–
At 30 September	1,120,638,121	12	1,119,480,363	12

Issues of ordinary shares

Under Executive Share Option Scheme, 199,466 1⁴/77 p ordinary shares were issued during the year for aggregate proceeds of £1m.

Under the Savings-related Share Option Scheme, 914,327 1⁴/77 p ordinary shares were issued during the year for aggregate proceeds of £3m.

15.2 Share-based payments

Accounting policy

Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest allowing for the effect of non market-based vesting conditions.

Fair value is measured using the Black-Scholes or the Monte Carlo pricing models, based on observable market prices. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

All outstanding Sage Performance Share Plans ("PSPs") are subject to some non-market performance conditions. These are organic revenue and EPS growth. The element of the income statement charge relating to market performance conditions is fixed at the grant date.

At the end of the reporting period, the Group revises its estimates for the number of options expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The total charge for the year relating to employee share-based payment plans was £11m (2016: £8m), all of which related to equity-settled share-based payment transactions.

Scheme	2017 £m	2016 £m
Performance Share Plan	6	7
Restricted Share Plan	2	1
Share options	3	–
Total	11	8

15 Equity continued

15.2 Share-based payments continued

The Sage Group Performance Share Plan

Annual grants of performance shares will normally be made to executive directors and senior executives across the Group after the preliminary declaration of the annual results. Under the Performance Share Plan 3,198,162 (2016: 3,410,056) awards were made during the year.

Awards prior to 2016

These performance shares are subject to a service condition and three performance conditions. Performance conditions are weighted one-third on the achievement of an EPS target, and one-third on the achievement of an organic revenue growth target. The remaining one-third is based on a TSR target.

The EPS vesting percentage is based on compound EPS growth. Where compound EPS growth is between 6% and 12%, the EPS vesting percentage will be calculated on a straight-line pro-rata basis between 6.7% and 26.7%, and where compound EPS growth is between 12% and 15%, the EPS vesting percentage will be calculated on a straight-line pro-rata basis between 26.7% and 33.3%.

The organic revenue growth target is based on the Company's compound annual organic revenue growth. Where growth is between 4% and 8% the organic revenue growth vesting percentage will be calculated on a straight-line pro-rata basis between 6.7% and 26.7%, and where the Company's compound organic revenue growth is between 8% and 10%, the organic revenue growth vesting percentage will be calculated on a straight-line pro-rata basis between 26.7% and 33.3%. In order for the organic revenue growth target proportion to vest, the underlying operating profit margin in the financial year of vesting must not be less than that of the underlying operating profit margin for the financial year in which the award is granted.

The final third of the award is the performance target relating to TSR which measures share price performance against a designated comparator group. Where the Company's TSR is between median and upper quartile, the TSR vesting percentage will be calculated on a straight-line pro-rata basis between 6.7% and 26.7% and where the Company's TSR is between upper quartile and upper decile, the TSR vesting percentage will be calculated on a straight-line pro-rata basis between 26.7% and 33.3%. The TSR vesting percentage may only exceed 26.7% ("stretch" level) if performance against either the EPS target or the organic revenue growth target is also at "stretch" level.

The comparator group for awards granted prior to 2016 is the companies comprised in the FTSE 100 Index at the start of the performance period, excluding financial services and extraction companies.

Awards were valued using the Monte Carlo option pricing model. The market-based performance condition were included in the fair value calculations, which were based on observable market prices at grant date. All options granted under performance share awards have an exercise price of nil.

Awards from 2016 onwards

These performance shares are subject to a service condition and two performance conditions. Performance conditions are weighted one half on the achievement of a revenue growth target and one half on the achievement of a TSR target. The revenue growth target is subject to two underpin performance conditions relating to EPS growth and organic revenue growth.

The revenue growth target is based on the Company's compound annual recurring revenue growth. Where the Company's annual recurring revenue growth is between 8% and 10% or 10% and 12%, the extent to which the Revenue Performance Condition is satisfied will be calculated on a straight-line pro rata basis between 10% and 40% or between 40% and 50% respectively. Notwithstanding the extent to which the Revenue Performance Condition has been satisfied, the Revenue Tranche will not be released and will lapse on the Board's determination that (i) the compound growth of the Company's underlying EPS over the Performance Period is less than 8% per annum; or (ii) the compound growth of the Company's organic revenue over the Performance Period is less than 6% per annum.

The performance target relating to TSR measures share price performance against a designated comparator group. Where the Company's TSR is between median and upper quartile, the TSR vesting percentage will be calculated on a straight-line pro-rata basis between 10% and 40% and where the Company's TSR is between upper quartile and upper decile, the TSR vesting percentage will be calculated on a straight-line pro-rata basis between 40% and 50%.

The comparator group for awards granted from 2016 onwards is the companies comprised in the FTSE 100 Index at the start of the performance period, excluding financial services and extraction companies.

Awards were valued using the Monte Carlo option pricing model. Performance conditions were included in the fair value calculations, which were based on observable market prices at grant date. All options granted under performance share awards have an exercise price of nil. The fair value per award granted and the assumptions used in the calculation are as follows:

Grant date	December 2016	August 2017	September 2017
Share price at grant date	£6.36	£6.86	£7.17
Number of employees	84	14	6
Shares under award	2,823,124	272,350	102,688
Vesting period (years)	3	2	2
Expected volatility	21.6%	21.0%	20.9%
Award life (years)	3	2	2
Expected life (years)	3	2	2
Risk-free rate	0.27%	0.24%	0.41%
Fair value per award	£4.17	£4.38	£4.64

Grant date	March 2016	June 2016	September 2016
Share price at grant date	£6.04	£6.04	£7.47
Number of employees	94	9	11
Shares under award	2,980,575	175,487	253,994
Vesting period (years)	3	3	2
Expected volatility	21.2%	21.3%	21.3%
Award life (years)	3	3	2
Expected life (years)	3	3	2
Risk-free rate	0.47%	0.32%	0.06%
Fair value per award	£4.28	£4.28	£5.23

The expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed award life.

A reconciliation of award movements over the year is shown below:

	2017		2016	
	Number '000s	Weighted average exercise price £	Number '000s	Weighted average exercise price £
Outstanding at 1 October	10,035	–	13,063	–
Awarded	3,198	–	3,410	–
Forfeited	(3,775)	–	(3,996)	–
Exercised	(1,831)	–	(2,442)	–
Outstanding at 30 September	7,627	–	10,035	–
Exercisable at 30 September	–	–	–	–

	2017		2016	
	Weighted average remaining life years		Weighted average remaining life years	
Range of exercise prices	Expected	Contractual	Expected	Contractual
N/A	1.3	1.3	1.2	1.2

Net debt and capital structure continued

15 Equity continued

15.2 Share-based payments continued

The Sage Group Restricted Share Plan

The Group's Restricted Share Plan is a long-term incentive plan used in limited circumstances and usually on a one-off basis, under which contingent share awards, other than the award made in December 2013, are usually made only with service conditions. Executive Directors are not permitted to participate in the plan and shares are purchased in the market to satisfy vesting awards. During the year 847,491 (2016: 91,653) awards were made. These awards only have service conditions and their fair values are equal to the share price on the date of grant, ranging from 630-717p.

A reconciliation of award movements over the year is shown below:

	2017		2016	
	Number '000s	Weighted average exercise price £	Number '000s	Weighted average exercise price £
Outstanding at 1 October	537	–	1,168	–
Awarded	847	–	92	–
Forfeited	(215)	–	(389)	–
Exercised	(429)	–	(334)	–
Outstanding at 30 September	740	–	537	–
Exercisable at 30 September	–	–	–	–

	2017		2016	
	Weighted average remaining life years		Weighted average remaining life years	
Range of exercise prices	Expected	Contractual	Expected	Contractual
N/A	1.2	1.2	1.7	1.7

Share options

Share options comprise The Sage Global Save and Share Plan (the "Save and Share Plan") and acquisition options.

The Save and Share Plan is a savings-related share option scheme for employees. For grants made in 2017, the Save and Share Plan was extended so that it was available to employees in the majority of countries in which the Group operates. Previously the Plan had been restricted to UK employees. The UK plan is an HMRC-approved savings-related share option scheme, and similar arrangements apply in other countries where they are available. The fair value of the options is expensed over the service period of three, five or seven years on the assumption that 5% of options will lapse over the service period as employees leave the Group.

In the year, 2,209,518 (2016: none) options were granted under the terms of the Save and Share Plan.

As part of certain acquisitions, the Group awards certain employees with options proportional to previously held options in the company acquired. This amounted to 6,580,801 options being granted in the year with exercise prices ranging from 22-681p. These awards only have service conditions with the fair value portion of the options relating to pre-acquisition services being included as part of the purchase consideration and the remaining fair value of options being expensed over the service period ranging from 1-48 months.

A reconciliation of award movements over the year is shown below:

	2017		2016	
	Number '000s	Weighted average exercise price £	Number '000s	Weighted average exercise price £
Outstanding at 1 October	–	–	–	–
Awarded	6,581	1.85	–	–
Forfeited	(33)	1.39	–	–
Exercised	(6)	1.33	–	–
Outstanding at 30 September	6,542	1.85	–	–
Exercisable at 30 September	379	1.87	–	–

	2017		2016	
	Weighted average remaining life years		Weighted average remaining life years	
Range of exercise prices	Expected	Contractual	Expected	Contractual
22-681p	1.1	7.9	–	–

15.3 Other reserves

	Translation reserve £m	Merger reserve £m	Total other reserves £m
At 1 October 2015	6	61	67
Exchange differences on translating foreign operations	117	–	117
Deferred tax credit on foreign currency movements	3	–	3
At 30 September 2016	126	61	187
Exchange differences on translating foreign operations	(26)	–	(26)
Exchange differences recycled through income statement on sale of foreign operations	(32)	–	(32)
Deferred tax credit on foreign currency movements	2	–	2
At 30 September 2017	70	61	131

Translation reserve

The translation reserve represents the accumulated exchange differences arising since the transition to IFRS from the following sources:

- The impact of the translation of subsidiaries with a functional currency other than sterling; and
- Exchange differences arising on hedging instruments that are designated hedges of a net investment in foreign operations, net of tax where applicable.

Exchange differences arising prior to the IFRS transition were offset against retained earnings.

Merger reserve

Merger reserve brought forward relates to the merger reserve which was present under UK GAAP and frozen on transition to IFRS.

15.4 Retained earnings

Retained earnings	2017 £m	2016 £m
At 1 October	310	242
Profit for the year	300	208
Actuarial gain/(loss) on post-employment benefit obligations (note 11)	4	(2)
Deferred tax charge on actuarial loss on post-employment obligations	(1)	–
Value of employee services net of deferred tax	9	9
Value of employee services on acquisition	21	–
Purchase of treasury shares	(9)	(2)
Dividends paid to owners of the parent (note 15.5)	(157)	(145)
Total	477	310

Net debt and capital structure continued

15 Equity continued

15.4 Retained earnings continued

Treasury shares

Purchase of treasury shares

Shares purchased under the Group's buyback programme are not cancelled but are retained in issue and represent a deduction from equity attributable to owners of the parent. During the year the Group purchased nil shares (2016: nil) and gifted 1,019,166 shares (2016: nil) to the Employee Share Trust.

At 30 September 2017 the Group held 38,503,265 (2016: 39,522,431) of treasury shares.

Employee Share Trust

The Group holds treasury shares in a trust which was set up for the benefit of Group employees. The Trust purchases the Company's shares in the market or is gifted these by the Company for use in connection with the Group's share-based payments arrangements. The Trust holds 961,715 ordinary shares in the Company (2016: 1,016,311) at a cost of £6m (2016: £nil) and a nominal value of £nil (2016: £nil).

During the year, the Trust agreed to satisfy the vesting of certain share awards, utilising a total of 2,450,345 (2016: 3,006,938) shares held in the Trust. Furthermore, the Trust received additional funds of £9m (2016: £2m) which were used to purchase 1,376,583 (2016: 385,000) shares in the market.

The costs of funding and administering the scheme are charged to the profit and loss account of the Company in the period to which they relate. The market value of the shares at 30 September 2017 was £7m (2016: £8m).

15.5 Dividends

Accounting policy

Dividends are recognised through equity when approved by the Company's shareholders or on payment, whichever is earlier.

	2017 £m	2016 £m
Final dividend paid for the year ended 30 September 2016 of 9.35p per share (2016: final dividend paid for the year ended 30 September 2015 of 8.65p per share)	101 –	– 93
Interim dividend paid for the year ended 30 September 2017 of 5.22p per share (2016: interim dividend paid for the year ended 30 September 2016 of 4.80p per share)	56 –	– 52
	157	145

In addition, the Directors are proposing a final dividend in respect of the financial year ended 30 September 2017 of 10.20p per share which will absorb an estimated £110m of shareholders' funds. It will be paid on 2 March 2018 to shareholders who are on the register of members on 9 February 2018. These financial statements do not reflect this dividend payable.

16 Acquisitions and disposals

The following note outlines acquisitions and disposals during the year and the accompanying accounting policies. Each acquisition or disposal during the year is discussed and the effects on the results of the Group are highlighted. Additional disclosures are presented for disposals and planned disposals that qualify as businesses held for sale or for presentation as discontinued operations.

Accounting policy

Acquisitions:

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, "Business Combinations" are recognised at their fair values at the acquisition date.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in the income statement. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's total identifiable net assets acquired. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the difference is recognised directly in the consolidated income statement. Any subsequent adjustment to reflect changes in consideration arising from contingent consideration amendments is recognised in the consolidated income statement.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Acquisition-related items such as legal or professional fees are expensed to the income statement as incurred.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. The difference between fair value of any consideration paid and the relevant shares acquired of the carrying value of net assets of the subsidiary is recorded in equity.

Where the Group enters into put and call arrangements over shares held by a non-controlling interest, the Group continues to recognise the non-controlling interest until the ownership risks and rewards of those shares transfer to the Group.

Businesses held for sale and discontinued operations:

The Group classifies the assets and liabilities of a business as held for sale if their carrying amounts will be recovered principally through a sale of the business rather than through continuing use. These assets and liabilities are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for classification as held for sale are met only when the sale is highly probable and the business is available for immediate sale in its present condition. Actions required to complete the sale must indicate that it is unlikely that significant changes will be made to the plan or that the decision to sell will be withdrawn. Management must be committed to the sale and completion must be expected within one year from the date of the classification. Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the consolidated balance sheet.

A business qualifies as a discontinued operation if it is a component of the Group that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations; and
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations.

Discontinued operations are excluded from the results of continuing operations in both the current and prior years and are presented as a single amount in the consolidated income statement as profit or loss on discontinued operations.

Other notes continued

16 Acquisitions and disposals continued

16.1 Acquisitions

Acquisitions made during the current year

Intacct Corporation

On 3 August 2017, the Group acquired 100% of the share capital of Intacct Corporation (Intacct) for total consideration of £627m. Intacct is a leading provider of cloud Financial Management Solutions in North America and is incorporated in the USA. Acquiring Intacct strengthens the Group's position as a leading cloud provider to customers throughout their development from start-up to global enterprise and in the short term provides a further platform for growth, with medium-term aspirations for geographical expansion. The combination of Sage and Intacct's existing product portfolio, brand, resources and partners, will put the Group in prime position to establish itself as the leading provider of cloud Financial Management Solutions in North America in its chosen segments.

Summary of acquisition	£m
Purchase consideration	
Cash	607
Cost of replacement share-based payments	20
	627
Provisional fair value of identifiable net assets	104
Goodwill	523

Cost of replacement share-based payments consists of contingent share awards granted to employees of the acquired business under the Sage Group Restricted Share Plan in place of their existing unvested share option arrangements. The amount treated as consideration is the fair value of awards attributable to pre-acquisition service.

Provisional fair value of identifiable net assets acquired	£m
Intangible assets	142
Property, plant and equipment	5
Cash	2
Trade and other receivables	14
Other financial assets	1
Trade and other payables	(10)
Deferred income	(18)
Borrowings	(9)
Deferred tax liability	(23)
Provisional fair value of identifiable net assets acquired	104
Goodwill	523
Total consideration	627

Provisional fair values have been determined as the initial accounting for acquired intangible assets and goodwill is incomplete because of the short period between the acquisition date and the approval of the Annual Report. Goodwill is expected to reflect benefits from the assembled workforce and growth opportunities through customer acquisition and cross-sell to the combined customer base. No goodwill is expected to be deductible for tax purposes.

The outflow of cash and cash equivalents on the acquisition is as follows:	£m
Cash consideration	607
Cash and cash equivalents acquired	(2)
Net cash outflow	605

As part of the purchase an additional £5m has been paid in relation to future services.

Costs of £9m directly relating to the completion of the business combination have been included in selling and administrative expenses in the consolidated income statement as other M&A activity-related items and relate to advisory, legal and other professional services.

Arrangements have been put in place for retention payments to remunerate employees of Intacct for future services. The costs of these arrangements will be recognised in future periods over the retention period. The amount recognised to date of £4m is included in selling and administrative expenses in the consolidated income statement as other M&A activity-related items.

The consolidated income statement includes revenue of £8m and a loss after tax of £6m reported by Intacct for the period since the acquisition date. The revenue of the Group for the year ended 30 September 2017 would have increased by £78m and the profit would have reduced by £17m if Intacct had been included in the Group for the whole of the year.

Sage People Limited (formerly Fairsail Limited)

On 17 March 2017, the Group obtained control of Fairsail Limited (Fairsail) by acquiring the remaining share capital for a cash consideration of £89m and cost of replacement share-based payments of £1m. This brought the Group's ownership interest to 100%. Subsequent to the acquisition, Fairsail changed its name to Sage People Limited. Sage People Limited is a leading Human Capital Management (HCM) cloud provider to mid-sized, multinational companies. It is a private entity incorporated in the UK and not listed on any public exchange. The Group became a minority shareholder in 2016 and subsequently launched a shared product, Sage People. Taking full ownership will build on the success of that product, and the resulting combined portfolio provides growth opportunities, particularly through new customer acquisition internationally, and cross-sell to the combined customer base.

Summary of acquisition	£m
Purchase consideration	
Cash	89
Cost of replacement share-based payments	1
Fair value of previously held interest	20
	110
Fair value of identifiable net assets acquired	(40)
Goodwill	70

Cost of replacement share-based payments consists of contingent share awards granted to employees of the acquired business under the Sage Group Restricted Share Plan in place of their existing unvested share option arrangements. The amount treated as consideration is the fair value of awards attributable to pre-acquisition service. The Group recognised a gain of £13m on the remeasurement to fair value of its existing investment in an associate. This gain is included on a separate line in the consolidated income statement.

Fair value of identifiable net assets acquired	£m
Intangible assets	37
Cash	10
Trade and other debtors	3
Trade and other payables	(2)
Deferred income	(3)
Deferred tax liability	(5)
Fair value of identifiable net assets acquired	40
Goodwill	70
Total consideration	110

When the Group reported its results for the six months ended 31 March 2017, provisional fair values were used for accounting for the acquisition. Subsequently, the accounting has been finalised, resulting in an increase in the fair value of identifiable net assets acquired of £33m, with a corresponding decrease in the amount of goodwill. The increase in net assets acquired relates to the recognition of intangible assets of £37m, a deferred tax liability of £5m and a decrease in the liability for deferred income of £1m. Goodwill reflects benefits from the assembled workforce and growth opportunities through customer acquisition and cross-sell to the combined customer base. No goodwill is expected to be deductible for tax purposes.

The outflow of cash and cash equivalents on the acquisition is as follows:	£m
Cash consideration	89
Cash and cash equivalents acquired	(10)
Net cash outflow	79

Costs totalling less than £1m directly relating to the completion of the business combination have been included in selling and administrative expenses in the consolidated income statement as other M&A activity-related items and relate to advisory, legal and other professional services.

Immediately prior to the acquisition, the Group had recognised prepaid licences of £1m for products purchased from the acquired business by the Group prior to the acquisition. At the acquisition date, the Group recognised a loss equal to the carrying amount of the prepaid licences. The loss is included in selling and administrative expenses in the consolidated income statement as other M&A activity-related items.

Arrangements have been put in place for retention and performance-related payments to remunerate employees of the acquired business for future services. The costs of these arrangements will be recognised over the retention and performance periods. The amount recognised during the year is £2m.

In the period since the acquisition date, the acquired business has reported revenue of £7m and a loss of £5m. The revenue of the Group for the year ended 30 September 2017 would have increased by £12m and the profit would have reduced by £7m if the acquired business had been included in the Group for the whole of the year.

16 Acquisitions and disposals continued

16.1 Acquisitions continued

Startup Compass Inc.

On 3 April 2017, the Group acquired 100% of the equity capital of Startup Compass Inc. (Compass), the provider of a highly innovative analytics and benchmarking platform, for cash consideration of £5m, of which £4m has been paid and £1m is deferred for up to two years. The value of net assets acquired was £5m, comprising intangible technology assets of £6m and a deferred tax liability of £1m. No goodwill was recognised. When the Group reported its results for the six months ended 31 March 2017, provisional fair values were used in the disclosure of the transaction as an event after the balance sheet date. The finalisation of the accounting has resulted in an increase in the fair value of identifiable net assets acquired of £5m attributable to intangible assets and deferred tax liabilities (£6m and £1m respectively), with a corresponding decrease in the amount of goodwill.

The intangible assets acquired as part of the above acquisitions is analysed as follows:

	Brands £m	Technology £m	Customer relationships £m	Total £m
Intacct Corporation (provisional)	1	44	97	142
Sage People Limited (formerly Fairsail Limited)	–	28	9	37
Startup Compass Inc.	–	6	–	6
Total other intangible assets from the acquisition of subsidiaries (note 6.2)	1	78	106	185

16.2 Costs relating to business combinations in the year

Costs directly relating to completion of the business combinations in the year of £10m (2016: £1m) have been included in selling and administrative expenses in the consolidated income statement. These acquisition-related items relate to completed transactions and include advisory, legal, accounting, valuation and other professional or consulting services.

16.3 Disposals and discontinued operations

Disposals made during the current year

Discontinued operation: North American Payments business

On 1 August 2017, the Group completed the sale of the subsidiaries that formed its North American Payments business (Sage Payment Solutions, or SPS) to GTCR, LLC (GTCR), a leading private equity firm, for total proceeds of £196m, generating a gain on disposal of £25m. The assets and liabilities of SPS were presented as held for sale in the Group's interim financial statements for the six months ended 31 March 2017, and the business has been presented as a discontinued operation as it is considered to represent a separate major line of business for the Group given the nature of its business and its contribution to the Group's revenues. Profit from discontinued operations for the period from 1 October 2016 to disposal on 1 August 2017 and for the year ended 30 September 2016 is analysed as follows:

	Underlying 2017 £m	Adjustments 2017 £m	Statutory 2017 £m	Underlying as reported 2016 £m	Adjustments 2016 £m	Statutory 2016 £m
Revenue	119	–	119	130	–	130
Cost of sales	(11)	–	(11)	(12)	–	(12)
Gross profit	108	–	108	118	–	118
Selling and administrative expenses	(79)	–	(79)	(84)	–	(84)
Operating profit	29	–	29	34	–	34
Finance income	–	–	–	–	–	–
Finance costs	–	–	–	(1)	–	(1)
Profit before income tax	29	–	29	33	–	33
Income tax expense	(11)	–	(11)	(13)	–	(13)
Profit after income tax	18	–	18	20	–	20
Gain on disposal of discontinued operations	–	27	27	–	–	–
Tax on disposal	–	(2)	(2)	–	–	–
Profit on discontinued operations	18	25	43	20	–	20

Cash flow from discontinued operations is analysed as follows:

Cash flows from:	2017 £m	2016 £m
Operating activities	25	38
Net proceeds on disposal of business	158	–
Financing activities	4	(8)
	187	30

The assets and liabilities sold, and the gain on disposal, are analysed as follows:

	2017 £m
Assets	
Goodwill	189
Other intangible assets	1
Property, plant and equipment	1
Trade and other receivables	41
Cash and cash equivalents (excluding bank overdrafts)	23
Deferred tax assets	6
Total assets	261
Liabilities	
Trade and other payables	(66)
Other liabilities	(1)
Total liabilities	(67)
Net assets	194
Gain on disposal	
Cash consideration received	181
Preferred equity consideration	15
Gross consideration	196
Transaction costs	(7)
Net consideration	189
Net assets disposed (as above)	(194)
Cumulative foreign exchange differences reclassified from other comprehensive income to the income statement	32
Gain on disposal of discontinued operations	27

Preferred equity consideration comprises a senior preferred equity instrument in GTCR-Ultra Holdings, LLC, SPS's indirect parent entity that is majority-owned by GTCR. The instrument will be held by Sage until paid in full (\$20m face value plus any accrued interest thereon), or redeemed by GTCR either voluntarily in its discretion or mandatorily on a change of control of GTCR-Ultra Holdings LLC. This is presented in the balance sheet as a fixed asset investment within non-current assets.

Other disposal

On 6 April 2017, the Group sold its subsidiary Syska GmbH (Syska) for £2m. Net liabilities divested were £1m, resulting in a gain on disposal of £3m. The assets and liabilities of Syska were presented as held for sale in the Group's interim financial statements for the six months ended 31 March 2017. Prior to disposal, the business formed part of the Group's Central and Southern Europe reporting segment.

This business is not accounted for as a discontinued operation.

16.4 Assets and liabilities held for sale

The assets and liabilities held for sale relate to the Group's subsidiary Sage XRT Brasil Ltda. The sale is expected to be finalised during the first part of the year ending 30 September 2018. The business forms part of the Group's International reporting segment. Assets held for sale comprise trade and other receivables of £1m (2016: £1m) and liabilities held for sale comprise trade and other payables of £1m (2016: £nil).

17 Related party transactions

This note provides information about transactions between the Group and its related parties. A group's related parties include any entities over which it has control, joint control or significant influence, and any persons who are members of its key management personnel.

The Group's related parties are its subsidiary undertakings, its associated undertaking and its key management personnel, which comprises the Group's Executive Committee members. The Group has taken advantage of the exemption available under IAS 24, "Related Party Disclosures", not to disclose details of transactions with its subsidiary undertakings. Compensation paid to the Executive Committee is disclosed in note 3.3.

No related party transactions occurred during the year.

Supplier transactions occurred during the prior year between Sage South Africa (Pty) Ltd, one of the Group's subsidiary companies, and Ivan Epstein, President, International and Executive Committee member. These transactions related to the lease of four properties in which Ivan Epstein has a minority and indirect shareholding. During the prior year £4m relating to these transactions was charged through selling and administrative expenses. There were no outstanding amounts payable for the year ended 2016.

Other notes continued

17 Related party transactions continued

Supplier transactions occurred during the prior year between Sage SP, S.L., one of the Group's subsidiary companies, and Álvaro Ramírez, who held the role of President, Europe and Executive Committee member during the year. These transactions related to the lease of a property in which Álvaro Ramírez has a minority shareholding. During the prior year £1m relating to these transactions was charged through selling and administrative expenses. There were no outstanding amounts payable for the year ended 2016.

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

18 Group undertakings

While we present consolidated results in these financial statements, our structure is such that there are a number of different operating and holding companies that contribute significantly to the overall result.

Our subsidiaries are located around the world and each contributes to the profits, assets and cash flow of the Group.

The entities listed below and on the following page are subsidiaries of the Company or Group. The Group percentage of equity capital and voting rights is 100% for all subsidiaries listed with all shares held being classed as ordinary. The results for all of the subsidiaries have been consolidated within these financial statements.

Name	Registered address	Country	Name	Registered address	Country
ACCPAC UK Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage (UK) Ltd	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Apex Software International Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland	Sage Alchemex (Pty) Ltd	23A Flanders Drive, Mount Edgecombe, Durban, 4321	South Africa
Apex Software Systems Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland	Sage Australia Holdings Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy Chatswood 2067 Australia	Australia
Best Software Germany	Berner Str. 23, D-60437, Frankfurt, Germany	Germany	Sage Bäurer AG	Platz 10, Root D4, CH-6039, Switzerland	Switzerland
Computer Resources (Research) Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland	Sage bäurer GmbH	Josefstraße 10, 78166 Donauerschingen	Germany
Computer Resources (Software) Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland	Sage Brasil 3 Empreendimentos E Participações Ltda	Rua Antônio Nagib Ibrahim, 350, part A, Água Branca, São Paulo, São Paulo, Postal Code 05036-060	Brazil
Computer Resources (Supplies) Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland	Sage Brasil Software S.A.	Rodovia Luiz de Queiroz, without number, Nova Americana, Km 127,5, Americana, São Paulo Postal Code 13466-170	Brazil
Computer Resources Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland	Sage Brazilian Investment One Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Creative Purpose Sdn Bhd	Suite B13A-4, Tower B, Level 13A, Northpoint Offices, Mid Valley City, No. 1 Medan Syed Putra Utara, 59200 Kuala Lumpur	Malaysia	Sage Brazilian Investment Two Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
eWare GmbH	Behringstraße 24, 90482 Nürnberg, Germany	Germany	Sage Business Solutions Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy Chatswood 2067 Australia	Australia
Handisoft Software Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy Chatswood 2067 Australia	Australia	Sage CRM Solutions GmbH	Emil-von-Behring-Straße 8-14, 60439 Frankfurt am Main	Germany
Intacct Development Romania SRL	21 Decembrie 1989 Blvd, no 77, The Office building, C section, 1 st floor, 400604 Cluj-Napoca, Romania	Romania	Sage CRM Solutions Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Intacct Software Pvt Limited	3 rd Floor, Esteem Arcade, 26/1, Race Course Road, Bangalore, 560 001	India	Sage Enterprise Solutions Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
IntelligentApps Holdings Limited	Providence House, East Hill Street, Nassau, Bahamas	Bahamas	Sage Euro Hedgeco 1	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Interact UK Holdings Limited*	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage Euro Hedgeco 2	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom

Name	Registered address	Country	Name	Registered address	Country
IOB Informações Objetivas Publicações Jurídicas Ltda.	Rua Nagib Ibrahim, 350, Água Branca, São Paulo, Postal Code 05036-060	Brazil	Sage Far East Investments Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
KCS Global Holdings Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage Global Services (Ireland) Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland
KHK Software AG	Platz 10, Root D4, CH-6039, Switzerland	Switzerland	Sage Global Services Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Multisoft Financial Systems Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage Global Services US, Inc	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363	United States
PAI Services, LLC	305 Fellowship Road, Suite 300 Mt. Laurel, New Jersey 08054	United States	Sage GmbH	Stella-Klein-Löw-Weg 15, 1020 Wien	Austria
Pastel Software (Europe) Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland	Sage GmbH	Emil-von-Behring-Straße 8-14, 60439 Frankfurt am Main	Germany
Pastel Software (Ireland) Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland	Sage Hibernia Investments No.1 Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Protx Group Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage Hibernia Investments No.2 Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Protx Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage Hibernia Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland
Sage Hibernia Services Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland	Sage Software East Africa Limited	1st Floor Reliance Centre , Woodvale , Westlands , Lr. 1870/lx/96,114 & 115, Nairobi	Kenya
Sage Holding Company Limited*	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage Software Holdings, Inc.	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363	United States
Sage Holding France SAS	Atrium Defense, Paris la Defense, 10 Place de Belgique, 92250, Le Garenne Colombes, Paris	France	Sage Software (India) Private Limited	N-34, Lower Ground Floor, Block M, Rampuri, Kalkaji, New Delhi 110019, India	India
Sage Holdings Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage Software International, Inc.	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363	United States
Sage Intacct, Inc.	300 Park Avenue, Suite 1400, San Jose, CA, 95110	United States	Sage Software Ltd	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Sage Irish Finance Company Unlimited Company	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland	Sage Software Middle East FZ-LLC	116 - 120, Floor: 01, Building: 11, Dubai, UAE	United Arab Emirates
Sage Irish Investments LLP	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage Software Namibia (Pty) Ltd	34 Nelson Mandela Avenue, Ardeco Building, 1st Floor, Klein Windhoek, Namibia	Namibia
Sage Irish Investments One Limited*	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage Software Nigeria Limited	Plot 252E Muri Okunola Street, Victoria Island, Lagos.	Nigeria
Sage Irish Investments Two Limited*	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage Software North America	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363	United States
Sage Management & Services GmbH	Emil-von-Behring-Straße 8-14, 60439 Frankfurt am Main	Germany	Sage Software Sdn Bhd	Suite B13A-4, Tower B, Level 13A, Northpoint Offices, Mid Valley City, No. 1 Medan Syed Putra Utara, 59200 Kuala Lumpur	Malaysia
Sage One Pty Limited	Level 11, The Zenith Tower B, 821 Pacific Hwy Chatswood 2067 Australia	Australia	Sage Software, Inc	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363	United States
Sage Online Holdings Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage South Africa (Pty) Ltd*	102 Western Service Road, Gallo Manor Ext 6, Gallo Manor, 2191, South Africa	South Africa
Sage Overseas Limited (Branch Registration)	Atrium Defense, Paris la Defense, 10 Place de Belgique, 92250, Le Garenne Colombes, Paris	France	Sage sp. z o.o	Aleje Jerozolimskie 132, 02-305 Warsaw, Poland	Poland
Sage Overseas Limited Sucursal	Paseo Castellana 53, Madrid	Spain	Sage Spain, S.L.	C/ Labastida, 10-12 28034, Madrid, Spain	Spain

Other notes continued

18 Group undertakings continued

Name	Registered address	Country	Name	Registered address	Country
Sage Overseas Limited.	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage Technologies Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland
Sage Pay (Dublin) Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland	Sage Treasury Company Limited*	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Sage Pay (GB) Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage Treasury Ireland Unlimited Company	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland
Sage Pay (Pty) Ltd	Netcash Square, 64 Parklands Main Road, Cape Town, 7441, South Africa	South Africa	Sage US LLP	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Sage Pay Europe Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sage USD Hedgeco 1	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Sage Pay GmbH	Emil-von-Behring-Straße 8-14, 60439 Frankfurt am Main	Germany	Sage USD Hedgeco 2	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Sage Pay Ireland Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland	Sage Whitley Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Sage Pay S.L.U.	C/ Labastida, 10-12 28034, Madrid, Spain	Spain	Sage XRT Brasil Ltda	Rua Leopoldo Couto Magalhães Junior, 146, 10th, floor, Itaim Bibi, São Paulo, São Paulo, Postal, Code 04542-000	Brazil
Sage Payments (UK) Ltd.	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Sagesoft	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Sage People Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Snowdrop Systems Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Sage People, Inc.	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363	United States	Snowdrop Systems Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy Chatswood 2067 Australia	Australia
Sage Portugal – Software, S.A.	Edifício Olympus II, Av. Dom Afonso Henriques 1462, 4450, Matosinhos, Portugal	Portugal	Softline Australia Holdings Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy Chatswood 2067 Australia	Australia
Sage S.A.	Rue Natalis 2, 4020 Liège, Belgium	Belgium	Softline Holdings USA, Inc.	6561 Irvine Centre Drive, Irvine, California, 92618	United States
Sage SAS	Atrium Defense, Paris la Defense, 10 Place de Belgique, 92250, Le Garenne Colombes, Paris	France	Softline Software Holdings Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland
Sage Schweiz AG	Platz 10, Root D4, CH-6039, Switzerland	Switzerland	Softline Software Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland
Sage Services GmbH	Karl-Heine-Straße 109-111, 04229, Leipzig	Germany	Softline Software USA, LLC	6561 Irvine Centre Drive, Irvine, California, 92618	United States
Sage Singapore Holdings Pte. Ltd.	8 Commonwealth Lane, #04-01 Grande Building, Singapore 149555	Singapore	Softline Software, Inc.	6561 Irvine Centre Drive, Irvine, California, 92618	United States
Sage Software	Tour Crystal 1, Niveau 9, Bd Sidi Mohammed Ben Abdellah, Casablanca, 20030, Morocco	Morocco	Syntax Sistemas S.A.	Rua Antonio Nagib Ibrahim, 350, part B, PostalCode 05036-60, in the city of São Paulo, State of São Paulo	Brazil
Sage Software Asia Pte. Limited	8 Commonwealth Lane, #04-01 Grande Building, Singapore 149555	Singapore	TAS Software Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland
Sage Software Australia Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy Chatswood 2067 Australia	Australia	TAS Software Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Sage Software Botswana (Proprietary) Limited	Plot 50371 Fairground Office, Park, Gaborone	Botswana	Tetra Limited*	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Sage Software Canada Holdings Ltd.	300 Bay Street, Suite 400, Toronto, Ontario M5H 2R2	Canada	Tonwomp Unlimited Company	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland
Sage Software Canada Ltd.	333 Bay Street, Suite 400, Toronto, Ontario M5H 2R2	Canada	Ulysoft	Immeuble Mélina, rez de chausse, rue Lac Windermere, Berge du Lac, 1053	Tunisia

* Direct subsidiary

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Company balance sheet

At 30 September 2017

	Note	2017 £m	2016 £m
Fixed assets: investments	2	3,088	3,088
Current assets			
Cash at bank and in hand	3	1	1
Debtors – amounts due greater than one year £353m (2016: £349m)	4	968	796
		969	797
Creditors: amounts falling due within one year			
Trade and other payables	5	(1,088)	(1,015)
Net current liabilities		(119)	(218)
Total assets less current liabilities		2,969	2,870
Net assets		2,969	2,870
Capital and reserves			
Called up share capital	7.1	12	12
Share premium account		548	544
Other reserves	7.2	(107)	(101)
Profit and loss account		2,516	2,415
Total shareholders' funds		2,969	2,870

The Company's profit for the year was £229m (2016: £136m).

The financial statements on pages 178 to 184 were approved by the Board of Directors on 21 November 2017 and are signed on their behalf by:

S Hare
Chief Financial Officer

Company statement of changes in equity

	Attributable to owners of the parent				
	Called up share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total equity £m
At 1 October 2016	12	544	(101)	2,415	2,870
Profit for the year	–	–	–	229	229
Total comprehensive income for the year ended 30 September 2017	–	–	–	229	229
Transactions with owners:					
Employee share option scheme:					
– Proceeds from shares issued	–	4	–	–	4
– Value of employee services, net of deferred tax	–	–	–	11	11
– Value of employee services on acquisition	–	–	–	21	21
Utilisation of treasury shares	–	–	3	(3)	–
Purchase of treasury shares	–	–	(9)	–	(9)
Dividends paid to owners of the parent	–	–	–	(157)	(157)
Total transactions with owners for the year ended 30 September 2017	–	4	(6)	(128)	(130)
At 30 September 2017	12	548	(107)	2,516	2,969

	Attributable to owners of the parent				
	Called up share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total equity £m
At 1 October 2015	12	541	(102)	2,419	2,870
Profit for the year	–	–	–	136	136
Total comprehensive income for the year ended 30 September 2016	–	–	–	136	136
Transactions with owners:					
Employee share option scheme:					
– Proceeds from shares issued	–	3	–	–	3
– Value of employee services, net of deferred tax	–	–	–	8	8
Utilisation of treasury shares	–	–	3	(3)	–
Purchase of treasury shares	–	–	(2)	–	(2)
Dividends paid to owners of the parent	–	–	–	(145)	(145)
Total transactions with owners for the year ended 30 September 2016	–	3	1	(140)	(136)
At 30 September 2016	12	544	(101)	2,415	2,870

Company accounting policies

Company accounting policies

Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 (FRS 102) "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Basis of accounting

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006. A summary of the more important Company accounting policies, which have been consistently applied, is set out below. These accounting policies have been consistently applied to all periods presented.

The Company is deemed a qualifying entity under FRS102, and so may take advantage of the reduced disclosures permitted under the standard. As a result, the following disclosures have not been provided:

- a statement of cash flows and related disclosures under Section 7 Statement of Cash Flows and Section 3 Financial Statement Presentation paragraph 3.17(d);
- disclosures about financial instruments under Section 11 Basic Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c) and Section 12 Other Financial Instruments Issues paragraphs 12.26 (in relation to those cross-referenced paragraphs from which a disclosure exemption is available), 12.27, 12.29(a), 12.29(b), and 12.29A; this exemption is permitted as equivalent disclosures are included in the consolidated financial statements of The Sage Group plc;
- disclosures about share-based payments under Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23; this exemption is permitted as the Company is an ultimate parent, the share-based payment arrangements concern its own equity instruments, its separate financial statements are presented alongside the consolidated financial statements of The Sage Group plc and equivalent disclosures are included in those consolidated financial statements; and
- key management personnel compensation in total under Section 33 Related Party Disclosures paragraph 33.7.

Foreign currencies

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange prevailing at the balance sheet date. Transactions in foreign currencies are converted into sterling at the rate prevailing at the dates of the transactions. All differences on exchange are taken to the profit and loss account.

Investments

Fixed asset investments are stated at cost less provision for any diminution in value. Any impairment is charged to the profit and loss account as it arises.

Parent Company profit and loss account

No profit and loss account is presented for the Company as permitted by section 408 of the Companies Act 2006.

Details of the average number of people employed by the parent Company and the staff costs incurred by the Company are as follows.

Average monthly number of people employed (including directors)	2017 number	2016 number
By segment:		
Northern Europe	305	194
<hr/>		
Staff costs (including directors on service contracts)	2017 £m	2016 £m
Wages and salaries	10	9
Social security costs	1	1
Post-employment benefits	–	–
Share-based payments	3	3
	14	13

Staff costs are net of recharges to other Group companies.

Auditors' remuneration

The audit fees payable in relation to the audit of the financial statements of the Company are £30,000 (2016: £30,000).

Directors' remuneration

Details of the remuneration of Executive and Non-Executive Directors and their interest in shares and options of the Company are given in the audited part of the Directors' Remuneration Report on pages 84 to 103.

Share-based payments

The Company issues equity-settled share-based payments to certain employees and employees of its subsidiaries. Equity-settled share-based payments granted to employees of the Company are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the shares that will eventually vest allowing for the effect of non market-based vesting conditions.

Fair value is measured using the Black-Scholes or the Monte Carlo pricing models. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Company also provides certain employees and employees of its subsidiaries with the ability to purchase the Company's ordinary shares at a discount to the current market value at the date of the grant. For awards made to its own employees, the Company records an expense, based on its estimate of the discount related to shares expected to vest, on a straight-line basis over the vesting period.

At the end of each reporting period, the entity revises its estimates for the number of options expected to vest. It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to equity.

For awards made to subsidiary employees, the fair value of awards made is recognised by the Company as an addition to the cost of investment in the employing subsidiary. Intergroup recharges to the employing subsidiary, up to the fair value of awards made to employees of that subsidiary, subsequently reverse the increase to the cost of investment.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Financial instruments

The accounting policy of the Company for financial instruments is the same as that shown in the Group accounting policies. The Company is taking the exemption for financial instruments disclosure, because disclosures are provided under IFRS 7 'Financial Instruments: Disclosures' in note 14 to the Group financial statements.

Dividends

Dividends are recognised through equity when approved by the Company's shareholders or on payment, whichever is earlier.

Notes to the Company financial statements

1 Dividends

	2017 £m	2016 £m
Final dividend paid for the year ended 30 September 2016 of 9.35p per share (2016: final dividend paid for the year ended 30 September 2015 of 8.65p per share)	101 –	– 93
Interim dividend paid for the year ended 30 September 2017 of 5.22p per share (2016: interim dividend paid for the year ended 30 September 2016 of 4.80p per share)	56 –	– 52
	157	145

In addition, the Directors are proposing a final dividend in respect of the financial year ended 30 September 2017 of 10.20p per share which will absorb an estimated £110m of shareholders' funds. It will be paid on 2 March 2018 to shareholders who are on the register of members on 9 February 2018. These financial statements do not reflect this dividend payable. The distributable reserves of The Sage Group plc at 30 September 2017 amounted to £2,283m (2016: £2,188m). The Company's distributable reserves support 13 times this annual dividend.

2 Fixed assets: investments

Equity interests in subsidiary undertakings are as follows:

	£m
Cost	
At 1 October 2016	3,224
At 30 September 2017	3,224
Provision for diminution in value	
At 1 October 2016	136
At 30 September 2017	136
Net book value	
At 30 September 2017	3,088
At 30 September 2016	3,088

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

Subsidiary undertakings, included in the Group financial statements for the year ended 30 September 2017, are shown in note 18 of the Group financial statements. All of these subsidiary undertakings are wholly-owned. All subsidiaries are engaged in the development, distribution and support of business management software and related products and services for small and medium-sized businesses.

All operating subsidiaries' results are included in the Group financial statements. The accounting reference date of all subsidiaries is 30 September, except for Brazilian subsidiaries which have an accounting reference date of 31 December due to Brazilian statutory requirements.

3 Cash at bank and in hand

	2017 £m	2016 £m
Cash at bank and in hand	1	1

4 Debtors

	2017 £m	2016 £m
Prepayments and accrued income	1	1
Amounts owed by Group undertakings	967	795
	968	796

Of amounts owed by Group undertakings £353m (2016: £349m) is due greater than one year, on which interest is charged at 4.2% and is repayable in full on 21 October 2023 but may be repaid, in whole or in part in advance of this date at the option of the borrower.

5 Creditors: amounts falling due within one year

	2017 £m	2016 £m
Bank loans and overdrafts	–	3
Amounts owed to Group undertakings	1,077	969
Accruals and deferred income	11	4
US senior bank loans – unsecured	–	39
	1,088	1,015

Included in loans above is £nil (2016: £39m) of unsecured external loans (after unamortised issue costs).

The Company has US\$nil (2016: US\$50.0m) (£nil, 2016: £39m) of US senior loan notes, which were issued into the US private placement market in 2010. These notes matured in 2017 and carried interest coupons of 5.15% (2016: 5.15%).

Amounts owed to Group undertakings are unsecured and attract a rate of interest of between 0.0% and 8.3% (2016: 0.0% and 8.3%).

6 Obligations under operating leases

	2017 Property, vehicles, plant and equipment £m	2016 Property, vehicles, plant and equipment £m
Total future minimum lease payments under non-cancellable operating leases falling due for payment as follows:		
Within one year	1	1
Later than one year and less than five years	7	1
After five years	5	–
	13	2

The Company leases various offices under non-cancellable operating lease agreements. These leases have various terms, escalation clauses and renewal rights.

Notes to the Company financial statements continued

7 Equity

7.1 Called up share capital

Issued and fully paid ordinary share of 1 ⁴ /77 pence each	2017 shares	2017 £m	2016 shares	2016 £m
At 1 October	1,119,480,363	12	1,118,298,748	12
Proceeds from shares issued	1,157,758	–	1,181,615	–
At 30 September	1,120,638,121	12	1,119,480,363	12

7.2 Other reserves

	Treasury shares £m	Merger reserve £m	Capital redemption reserve £m	Total other reserves £m
At 1 October 2016	(164)	61	2	(101)
Utilisation of treasury shares	3	–	–	3
Purchase of treasury shares	(9)	–	–	(9)
At 30 September 2017	(170)	61	2	(107)

	Treasury shares £m	Merger reserve £m	Capital redemption reserve £m	Total other reserves £m
At 1 October 2015	(165)	61	2	(102)
Utilisation of treasury shares	3	–	–	3
Purchase of treasury shares	(2)	–	–	(2)
At 30 September 2016	(164)	61	2	(101)

Treasury shares

Purchase of treasury shares

Shares purchased under the Group's buyback programme are not cancelled but are retained in issue and represent a deduction from equity attributable to owners of the parent. During the year the Company purchased nil shares (2016: nil) and gifted 1,019,166 shares (2016: nil) to the Employee Share Trust.

At 30 September 2017 the Group held 38,503,265 (2016: 39,522,431) of treasury shares.

Employee Share Trust

The Company holds treasury shares in a trust which was set up for the benefit of Group employees. The Trust purchases the Company's shares in the market or is gifted them by the Company for use in connection with the Group's share-based payments arrangements. The Trust holds 961,715 ordinary shares in the Company (2016: 1,016,311) at a cost of £6m (2016: £nil) and a nominal value of £nil (2016: £nil).

During the year, the Trust agreed to satisfy the vesting of certain share awards, utilising a total of 2,450,345 (2016: 3,006,938) shares held in the Trust. Furthermore, the Trust received additional funds of £9m (2016: £2m) which were used to purchase 1,376,583 (2016: 385,000) shares in the market.

The costs of funding and administering the scheme are charged to the profit and loss account of the Company in the period to which they relate. The market value of the shares at 30 September 2017 was £7m (2016: £8m).

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 measures allow management and investors to compare performance without the potentially distorting effects of foreign exchange movements, one-off items or non-operational items.
Underlying operating profit excludes:	
Recurring items:	By including part-period contributions from acquisitions, discontinued operations, disposals and assets held for sale of standalone businesses in the current and/or prior periods, the impact of M&A decisions on earnings per share growth can be evaluated.
– Amortisation of acquired intangible assets and purchase price adjustments made to reduce deferred income arising on acquisitions;	
– M&A activity-related items;	
– Fair value adjustments on non-debt-related financial instruments and foreign currency movements on intercompany debt balances; and	
– Non-recurring items that management judge are one-off or non-operational.	
Underlying profit before tax excludes:	
– All the items above; and	
– Imputed interest; and	
– Fair value adjustments on debt-related financial instruments.	
Underlying profit after tax and earnings per share excludes:	
– All the items above net of tax.	
Organic	
In addition to the adjustments made for underlying measures, organic measures exclude the contribution from acquisitions, discontinued operations, disposals and assets 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.
Underlying adjusted EPS	
The underlying adjusted EPS excludes the impact of acquisitions and disposals.	The underlying adjusted EPS measure allows management and investors to compare performance without the distorting effects arising from acquisitions and disposals.
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 ongoing 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.	
Annual contract value ("ACV")	
Annual contract value is the value of bookings that will be generated over the ensuing year under a given contract or contracts.	
Annual recurring revenue ("ARR")	
Annual recurring revenue is the value of all components of recurring revenue, annualised for the ensuing year.	

Glossary continued

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

FY16

Financial year ending 30 September 2016

FY17

Financial year ending 30 September 2017

FY18

Financial year ending 30 September 2018

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

Dividend payments

Final payable – year ended 30 September 2017

2 March 2018

Interim payable – period ending 31 March 2018

1 June 2018

Results announcements

Interim results – period ending 31 March 2018

2 May 2018

Final results – year ending 30 September 2018

21 November 2018

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.



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

Stay up to date at www.sage.com

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Company number 2231246



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