sage

sage.com

2018 ANNUAL REPORT & ACCOUNTS

INSIDE…

CUSTOMER SUCCESS
+ COLLEAGUE SUCCESS
+ INNOVATION

UNLEASHING THE POWER OF SUBSCRIPTION

We are unleashing the power of subscription through...

Customer success

Creating enduring subscription relationships and having a customer-centric approach in everything we do

p. 26

Colleague success

Engaging every colleague at Sage and together creating an environment that values the individual, fosters collaboration and rewards all colleagues

p. 30

Innovation

Strengthening our Sage Business Cloud offering and investing in emerging technologies whilst continuing to simplify the business

p. 34

On the cover

Esther Garcia, founder of online fashion retailer Buylevard and Sage 50cloud customer

Be sure to take a look at this report on our website, sage.com/investors

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.

Contents

STRATEGIC REPORT

GOVERNANCE REPORT

The Board of Sage is committed to the highest possible standards of corporate governance. Within this section you can read more about the following:

FINANCIAL STATEMENTS

Further information available within this report

Further information available online at sage.com/investors

2018: THE YEAR IN NUMBERS

Organic revenue growth

6.8%[1]

FY17: 7.8%

Statutory revenue growth

7.6%

FY17: 19.2%

Organic operating margin

27.8%

FY17: 28.0%[2]

Statutory operating profit margin

23.1%

FY17: 20.3%

Recurring revenue

£1,441m

FY17: £1,351m

Underlying cash conversion

96%

FY17: 95%

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 the glossary to the financial statements.

Reconciliations of statutory revenue and operating profit to their underlying and organic equivalents are in the Financial Review starting on page 54.

1 6.6% including asset held for sale (note 16 of the financial statements).
2 As reported.

FROM THE EDITOR

Our purpose is to transform the way people think and work... so their organisations can thrive.

To serve that purpose, our vision is to become a great SaaS business for customers and colleagues alike.

To achieve this vision we are....

UNLEASHING THE POWER OF SUBSCRIPTION

When Sage was founded back in 1981 by three friends studying at Newcastle University, accountancy software was in its infancy and consumer behaviour was very different. Technology has evolved significantly since then, driving shifts towards cloud technology, powered by subscription.

Subscription isn't a new concept; we've been paying for satellite TV, gym memberships and car insurance on subscription for many years – but it's only now that businesses are becoming attuned to the value proposition of consuming their financial software as a service (SaaS), on subscription.

The power of a subscription relationship provides the foundation for Sage and its customers to grow and prosper alongside one another. Embracing a closer relationship on subscription, Sage understands its customers better and can add more value to their business, meaning customers stay longer, buy more and feel happier doing so.

In order to build a successful SaaS business on subscription, Sage is focusing on the following key ingredients which you can read more about throughout this report:

1. Ensuring colleagues prioritise **customer success** by putting customers at the heart of every thing we do;

2. **Colleague success:** Building a high-performing culture which values the individual and promotes collaboration;

3. Investing in the best technology and continuously focusing on **innovation**.

We invite you to read on as we reflect back on FY18 and look forward to FY19, outlining the next steps in Sage's journey to becoming a great SaaS business for customers and colleagues alike.

Driving value

Read my statement within the Corporate governance report for insight into the activities of the Board for 2018 and how we engage and communicate with our various stakeholders.

p.74

Looking back at FY18

In the past year the Sage Group has made further progress in its evolution towards a cloud and subscription-led business. 46% of Group revenue is now on subscription and the Group currently has cloud annualised recurring revenue (ARR) of £434m, growing at a rate of 51%.

The strategy to move customers from desktop to a cloud connected solution has been particularly successful, with a third of Sage 50 customers now on a cloud connected contract. Cloud connected ARR is now £280m and grew at 66%, and we continue to see this strategy as a major growth driver into FY19.

Attracting customers to a cloud native solution also continues to gain traction with cloud native ARR of £153m, which grew at 30%. Important to this success have been the acquisitions of Sage Intacct and Sage People made in FY17, which continue to demonstrate the considerable momentum shown on acquisition.

Sage Enterprise Management, for larger businesses, continues to be a successful tool to acquire new customers, growing at 11%, with over 70 larger contracts signed in the year, each with a value of over £100,000 per contract.

However, progress in FY18 has not been as rapid as anticipated. In H1 18 in some areas of the business, there remained inconsistent operational execution and too much emphasis on perpetual licence sales instead of a focus on high-quality recurring revenue growth. As a result, Group organic revenue growth was less than the anticipated 8% outlined at the start of the year. The continued evolution of the business depends on refining systems and processes and on consistent execution. It also requires increasing focus on subscription and recurring revenue in the transition to a SaaS business.

> **“Value creation for our shareholders will be seen from an acceleration in new customer acquisition, on subscription, in the cloud”**

Stephen Kelly stepped down as a Director and Chief Executive Officer (CEO) on 31 August 2018. The Board thanks Stephen Kelly for his considerable contribution to the Group.

The Board is pleased that Steve Hare has accepted its invitation to lead the Company as its new CEO. He has the right skills and knowledge to ensure that the Company embeds increased prioritisation and more effective execution to accelerate the strategy. He was appointed CEO on 2 November 2018; the Board will announce a successor to Steve Hare as Chief Financial Officer (CFO) in due course.

The only other change to the composition of the Board in FY18 took place at the start of the year when Blair Crump joined the Board as an Executive Director to strengthen its go-to-market knowledge and customer understanding.

During FY18, Board members took the opportunity to meet with colleagues, customers, partners and accountants in Newcastle, London, Reading, Atlanta, San Jose and Seattle, as well as participating in a Sage Foundation day with our charity partner, Circle Collective. During the Board’s formal meeting time, we have focused heavily on how culture will help us deliver on our strategic ambitions.

The year ahead

As we look to FY19, creating a great SaaS business remains our vision and priority. To be successful, Sage must continue to embrace an ever-closer relationship with its customers, putting them at the heart of every conversation and enabling customer success on Sage software and in their own business. In doing so Sage will leverage the skills of the cloud-native Sage Intacct business. Sage must also focus on colleague success by building a high-performing culture where colleagues are happy and motivated. Additionally, in order to build a business centred on subscription and the cloud, Sage must also continue to focus on innovation, providing the best technology for its customers.

Sage Intacct is an excellent example of where these characteristics are already embedded within the business. The Group plans to internationalise Sage Intacct beyond the USA, starting with its English-speaking geographies, from FY19 onwards. This move is a significant step forward in Sage’s strategy to drive new customer acquisition and migrate existing customers to the cloud, and will leverage Sage Intacct’s highly effective business model as a key component of Sage’s SaaS engine.

The Board believes that the greatest value creation for our shareholders will be seen from an acceleration in new customer acquisition and migrating existing customers to subscription and the cloud. To this end, Sage will make an increased investment of around £60m in innovation, tools and systems to support colleagues and customers. Nevertheless, the Group remains strongly cash generative with free cash flow of 19% of revenue at FY18 and a 7% increase in full year dividend of 16.5p.

Thank you

I would like to thank the Board and all our colleagues for all their hard work during the year, with particular thanks to Steve Hare for stepping up as interim COO in addition to his other duties prior to his appointment as CEO. The Group lost no momentum during this interim period. We look forward to FY19 and the strides Sage will make as it continues its evolution towards being a great SaaS business.

Donald Brydon
Chairman

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More and more of our customers are opting for the experience of consuming our services on subscription, providing mutual benefits for our customers and for Sage.

For customers

- The latest upgrades, deployed through the cloud
- Increased quality of service through better understanding of the customer's business
- Bespoke packages for business needs, providing enhanced value
- Lower initial capital outlay and predictability of cash flows

For Sage

- Deeper understanding of customers' needs
- Increased retention rates
- More opportunities for growth through up-sell and cross-sell
- Higher lifetime value of customer

Increase in Net Promoter Score (NPS) in FY18

6.1 points

Software subscription penetration

46%

Renewal by volume on cloud connected solutions around

90%

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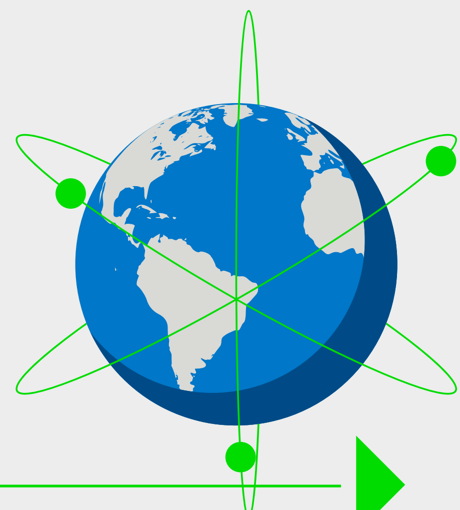
Discover how we are unleashing the power of subscription to target the market opportunity



1 THE RIGHT MARKET

Operating globally across small, medium and large businesses gives Sage access to a significant Total Addressable Market (TAM), set to be worth $33 billion in 2019, comprising 92 million businesses.

Included in this TAM is the single-largest software category in the world, Accounting and Financials.

A **$33bn** *opportunity*

Competition

Competition remains fragmented and varies across the Small, Medium and Large business segments. Competition is strong in the Small business segment, where players compete to acquire businesses yet to adopt financial software. Sage is particularly strong in the Medium and Large business segments, which account for 90% of the addressable market and are subject to complex regulatory regimes.

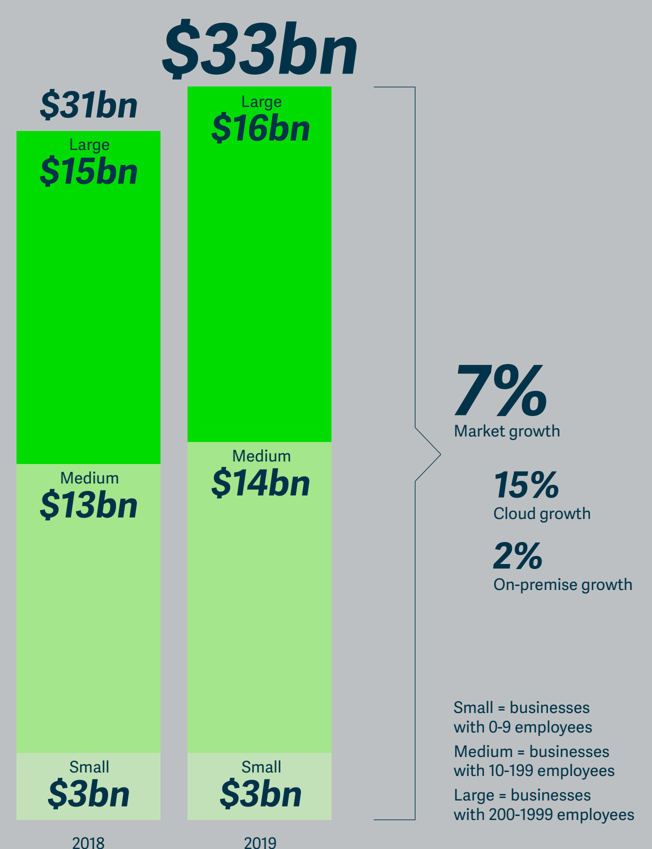
Catalysts for market growth

The market in which Sage operates is growing at 7%, driven by growth in the cloud of 15%; on-premise software is relatively flat.

Constant technological advances in the cloud, artificial intelligence (AI) and automation are speeding up the pace of software adoption, saving users time and money, and making financial software more and more fundamental to a business.

Sage uses these latest advances in technology to provide a suite of solutions that allow customers to run their entire business through Sage.

Forecasted Segment Growth 2019

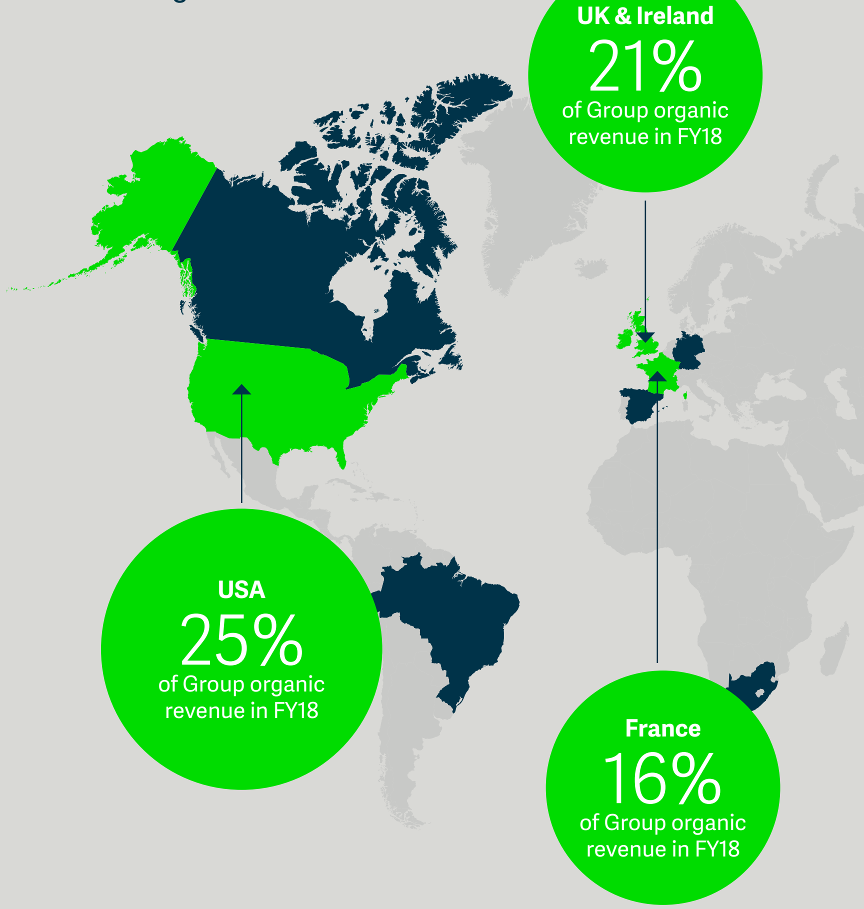


Source data = IDC Custom Solutions Market Model

2 A GLOBAL NETWORK OF 3 MILLION CUSTOMERS

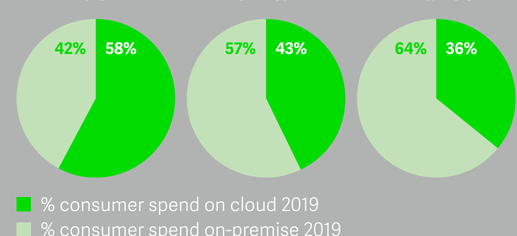
A deep knowledge of local legislation has allowed Sage to scale globally, serving 3 million customers, with a reputation for compliance, trust and excellent customer service.

Sage's core markets



Cloud adoption rates by geography

Cloud adoption rates vary by geography. The USA, which represents 55% of the TAM, is the most cloud adoptive region. Adoption in other geographies is slower but all are trending towards the cloud, with almost 50% of market spend set to be on cloud financial software by 2020.



Source data = IDC Custom Solutions Market Model

Targeting the available market opportunity

Transitioning to a high performing SaaS business on subscription will enable Sage to develop a closer relationship with these 3 million customers. As a result, Sage will be able to service customer needs better, increasing retention rates and driving greater value. With 46% of Sage's revenue currently driven by software subscription, there is still significant opportunity for growth.

Across Sage's global network, Sage customers move more than £3tn of money through their accounting software each year, making Sage an attractive proposition for ISVs and strategic alliances.

Continuing to innovate and partner with best in class technology partners, as well as further investment internally in R&D, means Sage can target further growth through new customer acquisition.

3 AND THE RIGHT PROPOSITION

SAGE

Technology

Sage Business Cloud delivers a suite of cloud services including Accounting, Financials, Enterprise Management, People, Payroll, Payments and Banking, as well as market-place apps that can be provisioned to create bespoke offerings for customers, tailored to their needs.

These cloud services comprise both cloud connected versions of our traditionally on-premise solutions and cloud native solutions, built from the ground up, in the cloud.

Our cloud connected solutions, Sage 50cloud and Sage 200cloud, provide the power and productivity of the desktop, with the freedom and security of the cloud.

Cloud native solutions: Sage Accounting, Sage Financials, Sage People and Sage Intacct provide a fully functional and flexible cloud native solution with open APIs, giving them access to a wide ecosystem of partners and ISVs.

Sage Enterprise Management, for our larger businesses, can be deployed on-premise or in the cloud, providing a sophisticated and deeply functional solution for end-to-end business processes.

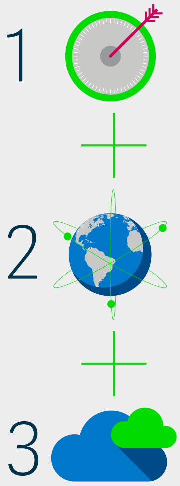
£434m

Sage Business Cloud revenue, growing at

51%

BUSINESS CLOUD

	CLOUD NATIVE	CLOUD CONNECTED/PRIVATELY HOSTED
LARGE BUSINESSES 200 – 1,999 employees 200K businesses	sage Intacct	sage Enterprise Management sage 200cloud
MEDIUM BUSINESSES 10 – 200 employees 4m businesses	sage People sage Financials	sage 50cloud
SMALL BUSINESSES 1 – 9 employees 88m businesses	sage Accounting	



A COMPELLING invest PROPOSITION

1 HIGH-QUALITY RECURRING REVENUE

Software subscription penetration

46%

Recurring revenue growth

6.7%

Recurring revenue penetration

79%

2 STRONG CASH FLOW

Underlying cash conversion

96%

Free cash flow as a percentage of revenue

19%

ment

Download our investor and capital markets day presentations and transcripts for expanded detail on our investment proposition online @ sage.com/investors

3 EFFICIENT ALLOCATION OF RESOURCES

Organic operating profit margin

27.8%

G&A expense as a percentage of revenue reduced by 90 bps to

12.9%

Investment in Sage Intacct and Sage People

200bps

4 SUSTAINABLE DIVIDEND

Ordinary dividend

16.5p

Ordinary dividend growth

7%

HOW WE CREATE VALUE FOR OUR STAKEHOLDERS

INPUTS | **HOW WE CREATE VALUE**

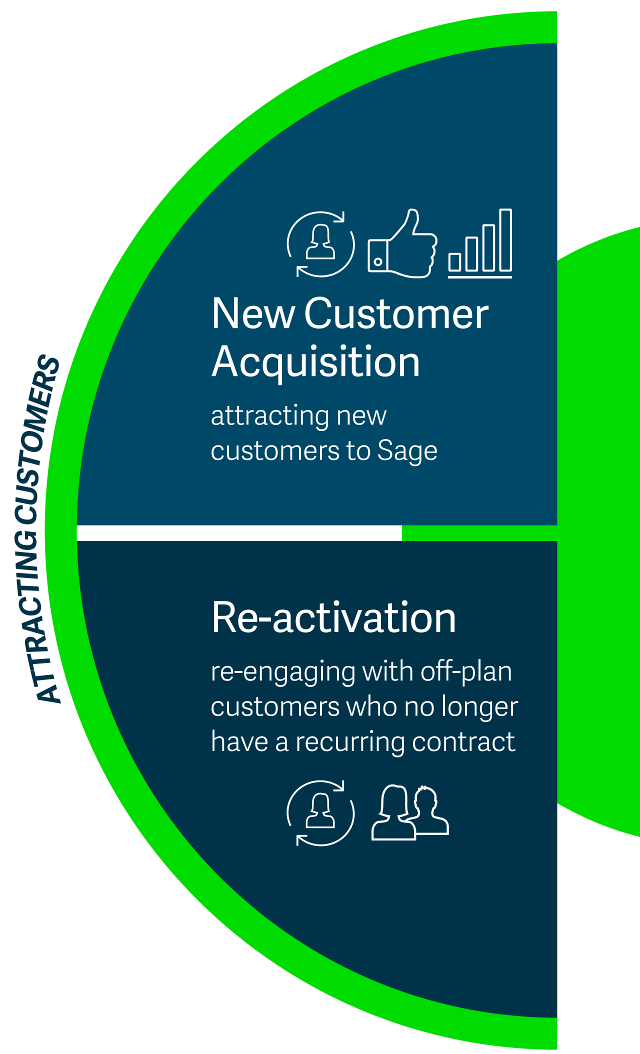
Trusted advisor
A strong brand of trust and market leading customer service.

Local knowledge
Our deep understanding of local regulation keeps our customers compliant and allows us to plan for new legislation on the horizon.

People
Caring and committed colleagues invested in driving success for our customers.

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

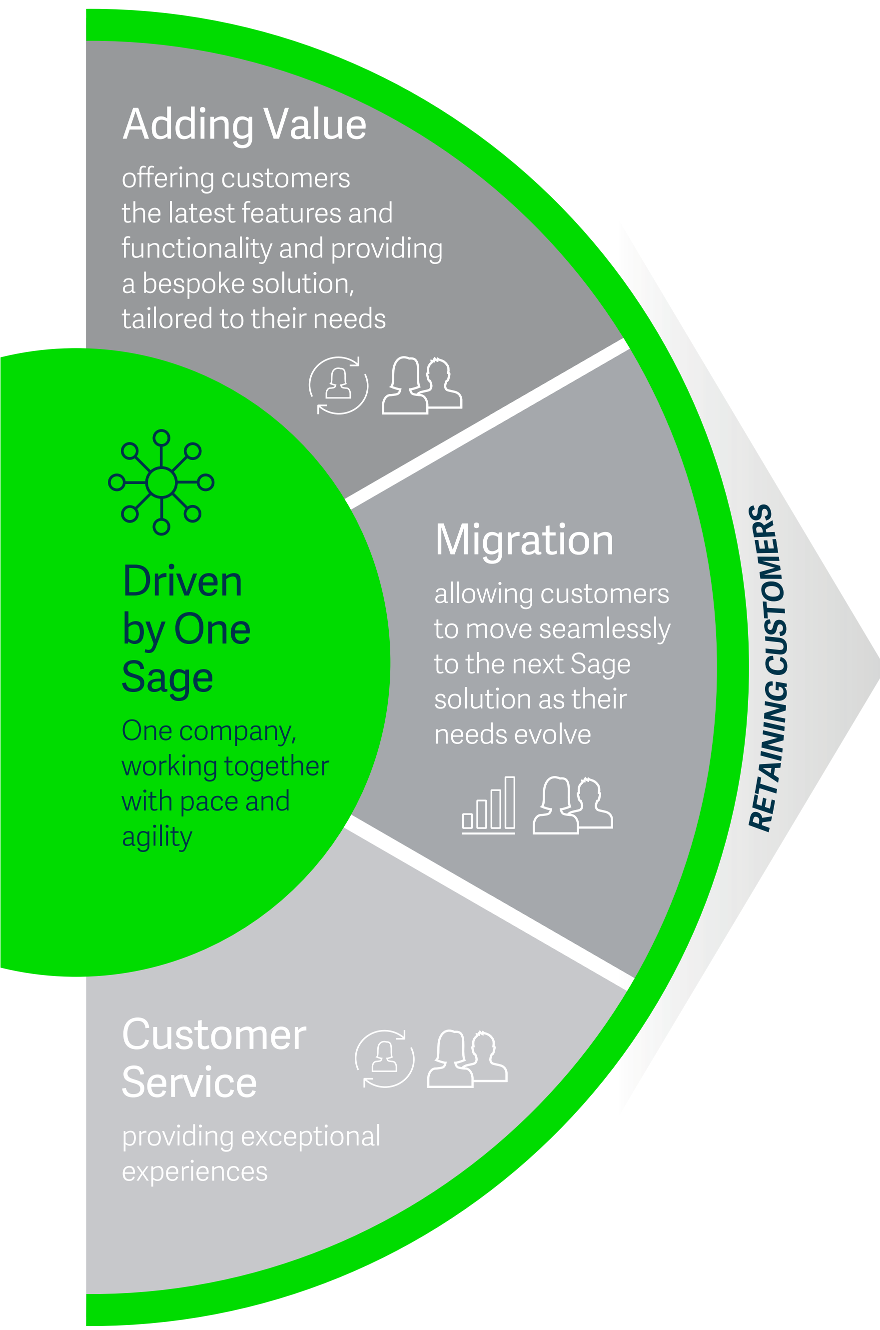
Innovation
We continually invest in technology to ensure our products are ahead of the curve in an ever-changing technological landscape.



THE RIGHT STRATEGY FOR OUR MARKETS

More information about our strategy on pages 23-27.

OUTPUTS



Customer success

- Net Promoter Score improvement of 6.1 points
- Renewal value by value over 100%

Colleague success

- 25% internal hire rate
- 3.9 training days completed by each colleague on average

Communities

- 24,000 voluntary days given back to the community
- Grants awarded to 162 not-for-profits in FY18

Shareholders

- 79% recurring revenue penetration
- 19% free cash flow as a percentage of revenue
- Ordinary dividend of 16.5p

HELPING CUSTOMERS AND COLLEAGUES

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Steve Hare outlines his plans for Sage to become a great SaaS business for customers and colleagues

Firstly, you've recently been appointed as the new CEO – tell us how that feels?

First and foremost, I'm very humbled by the Board's decision to appoint me as CEO and I see it as a great honour to lead Sage.

Over the past few months, I have spent a lot of time with colleagues and customers and partners and have reflected on where we have been successful and where we need to focus more of our attention. This analysis has given me confidence that we know what we need to do to become a great SaaS business.

What have been your highlights of FY18?

Undoubtedly the success of our cloud connected solutions, which were rolled out in our major geographies in FY17 but gained significant traction this year, both in terms of migrating our existing customers to Sage 50cloud and Sage 200cloud and in attracting new customers.

> **We know what we need to do to become a great SaaS business**

We now have 270,000 cloud connected contracts with a third of Sage 50 customers migrated to a cloud connected solution, all on subscription. From virtually no revenue in FY16, cloud connected ARR is now £280m, growing at 66% and we see much more potential for growth as we roll out these solutions in further geographies.

There were some encouraging regional highlights in the year too. After a challenging few years, North America grew at 12%, reflecting success in the cloud connected strategy and continuing momentum in Sage Intacct. There are strong signs of recovery in France, with Q4 18 growth of 8% reflecting its strongest quarter since Q1 16, and in the smaller regions, Central Europe, Canada and Australia all delivered double digit growth.

You faced some challenges in the first half of the year. Tell us what they were and how you've tackled them in H2?

There was some inconsistent execution in driving recurring revenue, especially in the UK&I and also some Enterprise Management slippage, resulting in us revising our full year organic growth guidance from around 8% to around 7%.

These issues were addressed in the second half of the year, where we had a renewed focus on driving high-quality subscription and recurring revenue, resulting in strong momentum in recurring revenue as we exited FY18.

There were particular recovery signs in the UK&I, with sequential increases in recurring revenue growth in every month in H2 18, exiting the year at 7% growth. The migration of customers to cloud connected solutions has been particularly successful in H2 18, with five times as many cloud connected contracts signed compared to the first six months of the year and half of Sage 50 customers in the UK&I now migrated to a cloud connected solution.

In Enterprise Management, we've implemented a single CRM system which is driving improved accuracy of forecasting and visibility of pipeline, laying the foundations for FY19 and showing the importance of expanding the single CRM system to all products and regions.

You mention creating a great SaaS business – where is Sage currently on this journey?

Sage has made significant progress over the past few years. We now have 46% of revenue on subscription and £434m of Sage Business Cloud ARR.

In FY19 we need to accelerate this transition to a SaaS business, by focusing on three key areas: customer success, colleague success and innovation. If we frame every decision we make through these three lenses, I am confident we will succeed in this acceleration.

What is the benefit of creating a SaaS business?

Moving towards a SaaS model will transform the relationship we have with customers. Increased interaction throughout the year will allow us to understand their business and needs better, meaning we can add more value. As a result, they are likely to stay with Sage longer, buy more and feel happier doing so.

There are already areas of the business where this model is evident. Sage Intacct, for instance, has a truly SaaS business model, which enables it to deliver volume retention rates around 90%, value retention rates above 105% and a lifetime value of customer many times in excess of the customer acquisition costs. The acquisitions of Sage Intacct and Sage People have provided Sage with best-in-class models to emulate in the transition of the business, as well as key talent with experience of doing so.

> **A highlight in FY18 is the success of our cloud connected solutions**

What should we look forward to in FY19?

As I mentioned earlier, Sage's vision is to become a great SaaS business, for customers and colleagues alike.

In order to achieve this vision, in FY19 we will sharpen our focus on customer success, colleague success and innovation to unlock the potential for significant value creation at Sage.

In order to do this, my key priorities are

First, focus on innovation and accelerating the capability of Sage Business Cloud by:

- Increasing R&D resource on Sage Business Cloud products and emerging technology;
- Expanding the availability of Sage Business Cloud within our chosen markets, delivering the Sage Intacct internationalisation, starting with Australia and the UKI;
- Enhancing the 'service fabric' of Sage Business Cloud to improve user experience, migration pathways, micro-services and connectivity of ecosystem.

Secondly, improving customer relationships and enhancing colleague experience by investing in best-in-class SaaS systems, tools and training to enhance data and improve customer insight.

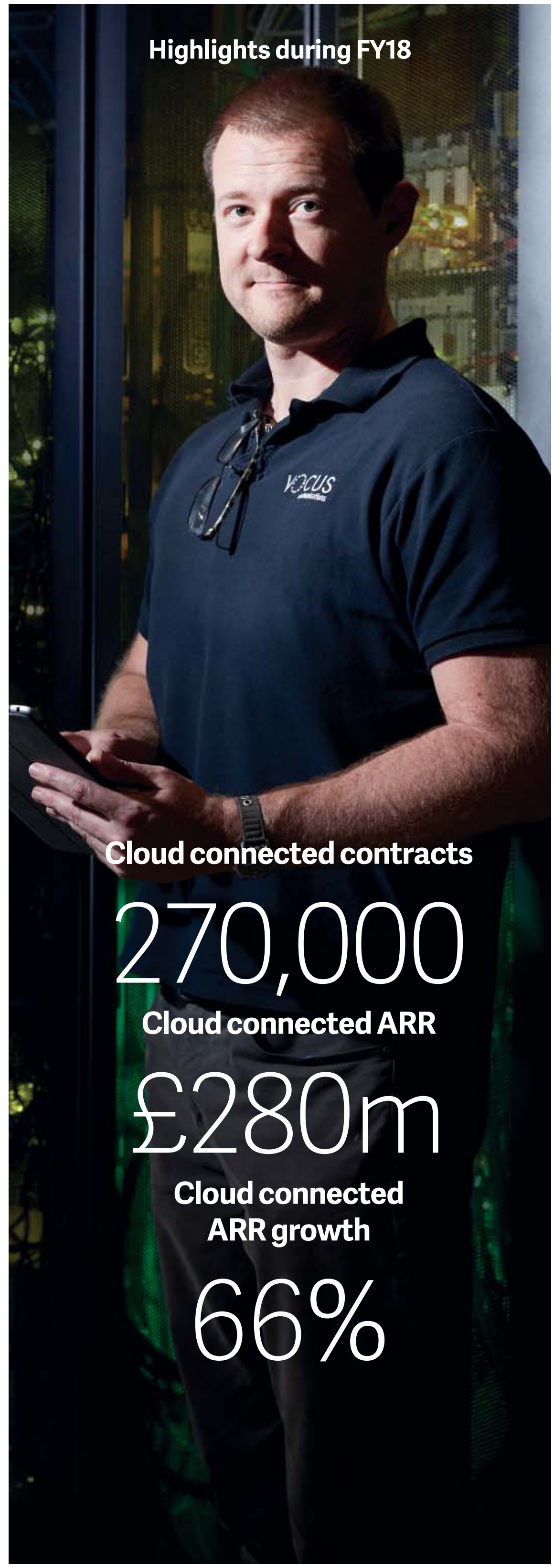
Together these initiatives are anticipated to require an accelerated investment to operating expenses of around £60m in FY19, with approximately two thirds of this investment allocated to product and innovation.

Finally, simplifying our product portfolio to allow further focus on the c.£1.5bn of products that are in, or have a pathway to, Sage Business Cloud, whilst identifying value creation paths for the remaining c.£350m of other products, either under Sage's ownership, in partnership or through an exit.

Guidance for FY19

Full year guidance for FY19 is based on the continuing operations of the business, on an IFRS15 like-for-like basis and at constant exchange rates. On this basis, we expect FY19 recurring revenue growth of between 8% to 9% with SSRS and processing revenue expected to be flat to mid-single digit decline, driven by our focus on subscription and recurring revenue. As the business accelerates the pace of transition towards subscription, the organic revenue growth rate may decrease in the short-term.

We expect FY19 organic operating margins to be broadly stable before the impact of the investment of around £60m I have mentioned. Including this impact, organic operating margin will be in the range of 23% to 25%, maintaining strong free cash flow as a proportion of revenue. Over time, this model will drive a sustainable acceleration in recurring revenue growth whilst enabling strong returns on investment.



"Sage has shown stronger performance in the second half of FY18. The renewed focus on high-quality subscription and recurring revenue has generated momentum in H2 18 and as we exit the year. In FY19, in my new role as CEO, I will ensure the business continues to put customers, colleagues and innovation at the heart of everything we do to accelerate the transition to a SaaS business. Increased investment in the business, especially in innovation, is necessary to do this and will lead to an acceleration in high-quality sustainable recurring revenue growth. I am also committed to continuing to embed a culture which encourages continuous two-way interaction with leadership and colleagues, valuing the individual and enabling a collaborative working environment."

Steve Hare
Chief Executive Officer
@SteveHare

Championing customer success

p. 26

At Sage, customer success not only means helping our customers be successful in running their own business, but also being successful in getting the most out of our solutions.

Advancing colleague success

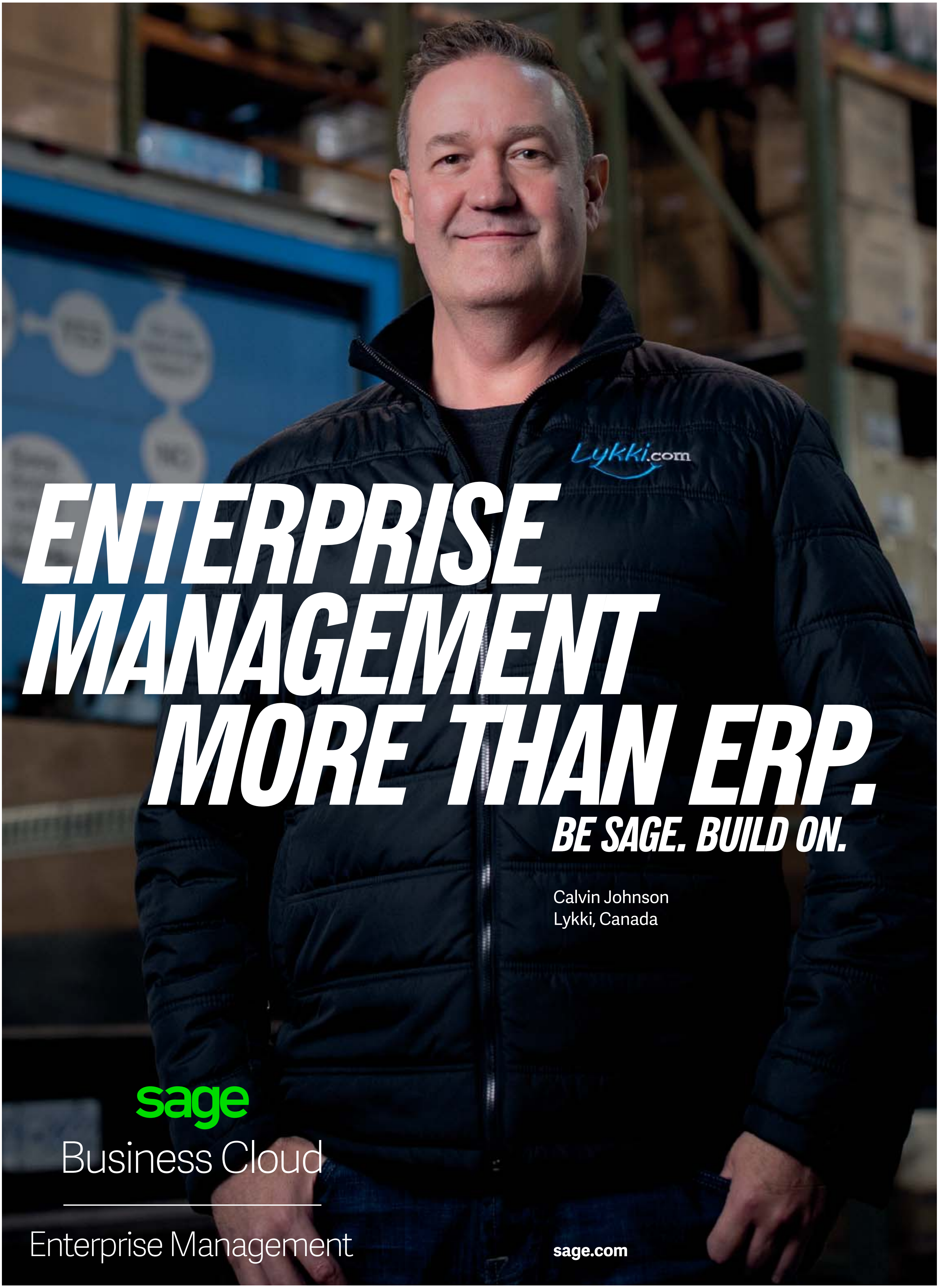
p. 30

Fulfilled colleagues who love what they do deliver outstanding service to our customers; it's that simple.

Delivering innovative technology

p. 34

We want Sage Business Cloud to be simple, smart and open.


Lykki.com
ENTERPRISE
MANAGEMENT
MORE THAN ERP.
BE SAGE. BUILD ON.
Calvin Johnson
Lykki, Canada
sage
Business Cloud
Enterprise Management
sage.com


NO MORE TRAWLING THROUGH RECEIPTS.
BE SAGE. BUILD ON.
Samantha Jameson, Founder
Soapsmith, London, UK
sage
Payments & Banking
sage.com

OUR STRATEGY TO DELIVER

		Description	KPIs	Risks
Customer success	**Customers for life**	Ensuring customer success by providing for their every need. Providing choice, indispensable advice and the right solutions for the customer	– Renewal rate by value	– Understanding Customer Needs, Customer Success, Product Strategy
	Winning in the market	Attracting new customers to outpace market growth and increase market share	– Sage Business Cloud annualised recurring revenue	– Route to Market, Understanding Customer Needs, Customer Success, Product Strategy, Innovation, Sustainable Processes and Controls, Values and Behaviours, Information as an Asset
Colleague success	**Capacity for growth**	Simplifying systems and processes within Sage to drive efficiencies and enhance colleague experience	– G&A expense ratio – Underlying cash conversion	– Product Strategy, Innovation, Route to Market, Third-Party Reliance, Sustainable Processes and Controls, Colleague Success, Values and Behaviours, Information as an Asset
	One Sage	Embedding a high performing culture, to drive colleague success	– Sage Foundation days	– Sustainable Processes and Controls, Colleague Success, Values and Behaviours, Information as an Asset
Innovative technology	**Revolutionise business**	Investing in the latest technology to stay ahead of the competition	– Software subscription penetration – Free cash flow as a percentage of revenue	– Understanding Customer Needs, Innovation, Third-Party Reliance, Information as an Asset

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.

Renewal rate by value

Description: The annualised recurring revenue[1] (ARR) from renewals, migrations, upsell and cross-sell of active customers at the start of the year, divided by the opening ARR for the year.

Performance: The first year of calculation, demonstrating growth from the existing customer base, even after attrition.

101%

FY17: N/A

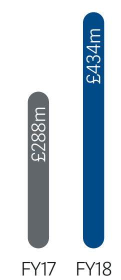
Sage Business Cloud ARR

Description: Sage Business Cloud ARR is the ARR of cloud native and cloud connected revenue in the last month of the reporting period.

Performance: Sage Business Cloud ARR continues to grow, showing sequential growth in each quarter of FY18.

£434m

FY17: £288m



Software subscription penetration

Description: Software subscription penetration is the amount of organic software subscription revenue as a percentage of total organic revenue.

Performance: Our progressive move to software subscription continues to gain momentum with growth of 7% in the subscription penetration rate.

46%

FY17: 39%

1 See pages 210 to 212 for glossary of terms.
2 As reported.

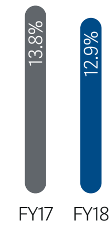
General & administration ("G&A") expense ratio

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

Performance: We continue to strive for efficiencies as we move to a single, united operating model. In FY18 we have reduced our G&A cost as a proportion of revenue by 80bps.

12.9%

FY17: 13.8%[2]



Sage Foundation days

Description: The numbers of days colleagues volunteer to work with charitable causes.

Performance: The success of Sage Foundation has continued to gain traction in its third year, leading to an additional 1,000 voluntary days organised by the Sage Foundation.

24,000

FY17: 23,000

Underlying cash conversion

Description: Underlying cash conversion is underlying cash flow from operating activities[1] divided by underlying operating profit

Performance: The increase in underlying cash conversion to 96% demonstrates the quality of our earnings.

96%

FY17: 95%

Free cash flow as a percentage of revenue

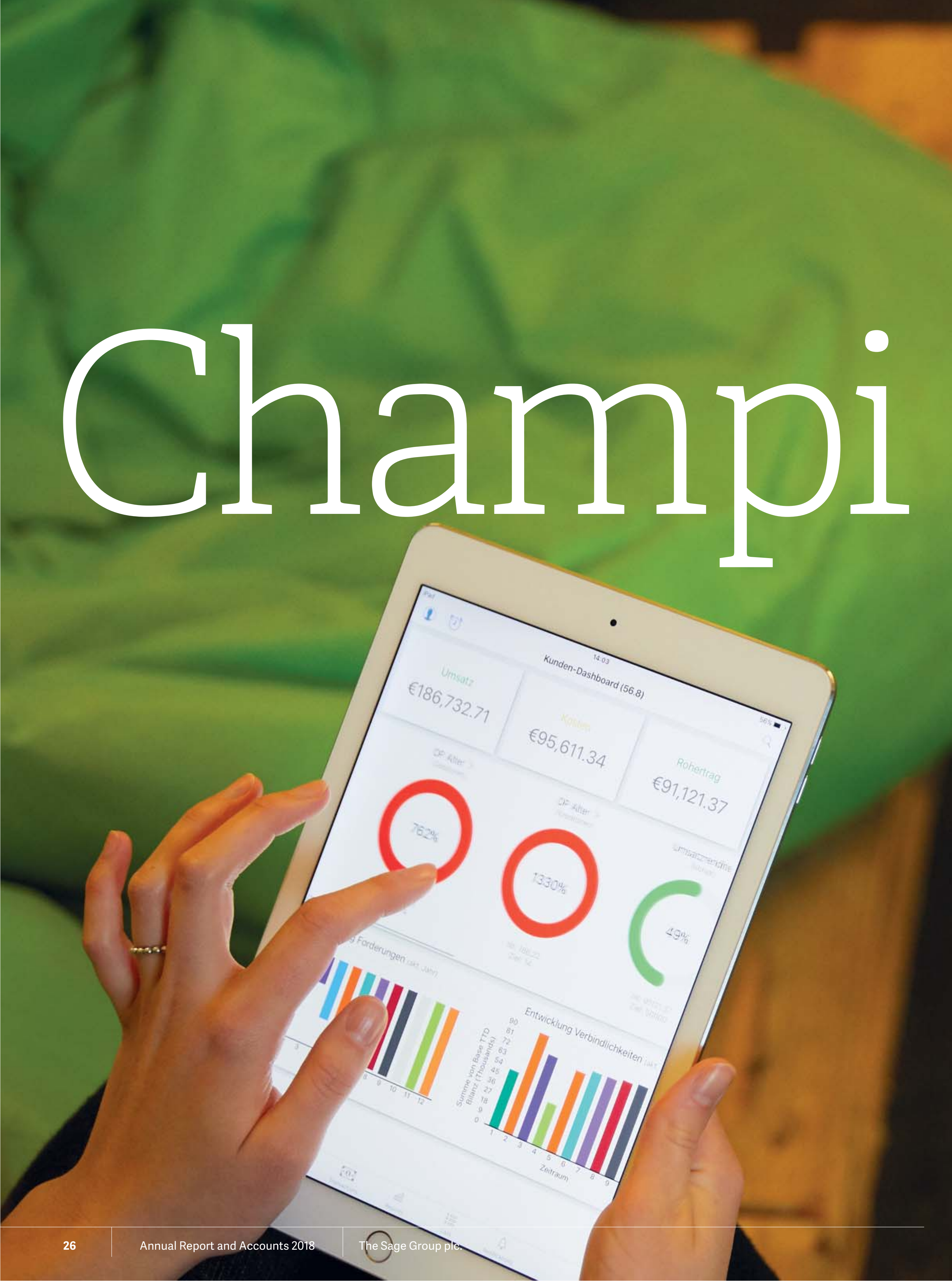
Description: Free cash flow as a percentage of underlying revenue.

Performance: The increase in free cash flow as a percentage of revenue to 19% demonstrates the quality of our revenue.

19%

FY17: 15%

Champi


Kunden-Dashboard (56.8)
Umsatz
€186,732.71
€95,611.34
Rohertrag
€91,121.37
76.2%
133.0%
49%
Forderungen
Entwicklung Verbindlichkeiten
Zeitraum

oning

CUSTOMER SUCCESS

Successful customers are at the heart of every great SaaS business.

At Sage we are focused on optimising our customers' success on Sage solutions, and providing them with products that make their lives easier, freeing up their time, whilst always keeping them safe. That relationship is built on trust; it is also built on a regular two-way dialogue, where we listen to our customers and provide a service and experience tailored for them.

CUSTOMER SUCCESS MEANS

Customer for life on subscription

Blair Crump, President of Sage, outlines the success of our cloud connected strategy

When engaging with our customers, we frequently hear that success to them means saving time and increasing productivity. That's why we took our traditionally on-premise Sage 50 and Sage 200 products and created cloud connected offerings. This provides our customers with the freedom and automation of the cloud, whilst retaining the power and trust of the solution they know best.

The popularity of these solutions has driven cloud connected ARR from virtually zero in FY16 to £280m in FY18, with further growth anticipated in FY19 and beyond. Their volume renewal rates are high too, with Sage 50cloud approaching 90% and Sage 200cloud in excess of 90%, in line with the renewal performance for cloud native solutions, such as Sage Intacct and Sage People.

Cloud connectivity – a way to offer our customers more

sage 50cloud

- **Working flexibly** – Customers can now access their data remotely on their mobile or tablet through Microsoft Outlook
- **Increased insight** – With Sage Dashboard, all of a customer's key data will be in one place, updated in real time, enabling them to make better strategic decisions

sage 200cloud

- **Faster payments** – Integrations with Paypal, Go Cardless and Stripe enable faster payments, meaning customers increase efficiency and reduce aged receivables
- **Cost savings** – Being able to log their records remotely will reduce customers' travel time and expense
- **Bank grade security** – Customers can work safe in the knowledge that their data is secure and backed up with Microsoft One Drive

Here's what market data* tells us customers are saying…

50% of business email users primarily rely on a tablet or other mobile devices

89% of business owners say that automation & productivity are the top purchase drivers for new technology

73% of business owners say trust is the cornerstone of digital technology

* Source: Gartner vs Storage Review & Odin 2015 SME Report.

CUSTOMER SUCCESS MEANS

Winning in the market

Ron McMurtrie, Chief Marketing Officer, explains what it takes to win in the market

Success for many customers is finding a trusted partner to help run their business, automating processes, improving efficiencies and enabling better strategic decision making.

Sage has a reputation as a trusted advisor and excels at customer service, a key competitive differentiator as we target new customer acquisition in the cloud. Through Sage Business Cloud, we can take a customer on a journey from a small start-up to a large enterprise, with Accounting, Payroll, People, Payments and Banking all in one place.

Sage Business Cloud's architecture is API driven, which has enabled us to connect to hundreds of strategic partners, from Paypal and Stripe to Microsoft. This gives our customers access to a large ecosystem of best-in-class partners who will help them run their entire business, powered by the Sage Business Cloud platform.

Our customers are recognising the benefits of Sage Business Cloud, demonstrated by sequential growth in every quarter of FY18, ending the year with an ARR of £434m, growing by 51%.

Unleashing the power of subscription:

the Sage Intacct case study

In order to drive significant new customer acquisition, we need both the cloud solutions and the business model capable of scaling worldwide.

In July 2017, Sage acquired Sage Intacct, a sophisticated and powerful cloud Financial Management Solution targeted at fast-growing businesses in Services, Technology and Not-for-profit verticals.

The product services thousands of medium and large sized customers with award winning customer satisfaction.

Sage Intacct is currently available in the USA where it has continued to grow strongly under Sage's ownership:

FY18 ARR growth: 30%
FY18 net increase in contracts: 29%

INTERNATIONALISATION

Sage Intacct is a truly cloud native, SaaS solution. The processes, systems, technology and cloud expertise within the business are optimised to drive significant new customer acquisition in the cloud. Sage will internationalise Sage Intacct, starting with its English-speaking geographies, from FY19 onwards.

This move is a significant step forward in Sage's strategy to drive new customer acquisition at scale, in the cloud, and will leverage Sage Intacct's highly effective business model as a key component of Sage's SaaS engine.

ADVANC

COLLEAGUE SUCCESS

Colleague success and customer success are intrinsically linked. Engaged colleagues who love what they do deliver outstanding service to our customers. At Sage we want to build a culture of colleague success where every colleague has the opportunity to reach their full potential, feels valued and rewarded and knows the role they personally play in creating a great SaaS business at Sage.

ING

COLLEAGUE SUCCESS MEANS ENGAGEMENT AND EFFICIENCY

Steve Hare shares some of the actions taken over the year to create a better working experience for colleagues to drive higher levels of engagement and greater efficiency...

Steve Hare
Chief Executive Officer

'Perform'

INCREASE IN PRODUCTIVITY

70%

REDUCTION IN OUTSTANDING INVOICES

22%

During FY18 we have focused on colleague experience, improving how it feels to work at Sage. A better working experience for our colleagues drives higher levels of engagement and more efficiency, allowing colleagues to focus on our customers' success.

For example, in FY18, the UK&I team successfully implemented the 'Perform' approach, training its renewals teams to transform their approach to customer success, leading to an **improvement in retention rates in the UK&I, a 70% increase in productivity and a 22% reduction in the number of related Sage invoices outstanding after 30 days**. On an investment of £1.3m, the project had a seven month payback period and generated annualised returns of £2.4m. Sage plans to invest in rolling out similar projects to other geographies in FY19, with similar payback period and returns expected.

For the second year running we opened Sage Save and Share, our voluntary all-colleague Sage share ownership plan. Over a quarter of Sage colleagues now invest in a Sage share plan, driving engagement and a shared purpose within the business.

In FY19 we are introducing the LEAD programme to revolutionise our approach to performance management. Look, Evaluate, Assist and Deliver provides a framework for managers to have a continuous conversation with colleagues on their performance and development **with a shift in focus from historic performance to future development.**

ONE SAGE

COLLEAGUE SUCCESS MEANS HIGH-PERFORMANCE CULTURE

Amanda Cusdin talks about creating a winning culture – one where colleagues feel valued, respected and listened to...

Amanda Cusdin,
Chief People Officer

This year we launched quarterly pulse surveys to gather colleague feedback, with **key issues identified and solutions quickly actioned to drive continual improvements to colleague experience.** As a result of survey feedback, we have made simplifications to internal processes and changes to performance management, as Steve has outlined.

In June we launched **"How to excel your career@Sage"**, an initiative aimed at promoting our internal vacancies and helping colleagues find relevant development materials on Sage Learning. In the first week of the campaign we had a **42% increase in** internal applications for roles and a **76% increase** in visits to Sage Learning.

After launching Sage Learning in FY17, we embedded the platform fully in FY18 and now all **colleagues at Sage have access to 12,000 courses and have completed over 50,000 training days** for their own professional development.

Sage Foundation continues to gather momentum as **colleagues completed 24,084 volunteer days** in FY18 (1.9 days per colleague). Sage Foundation continues to be a significant differentiator for us in the market and is cited as one of the reasons for joining by many of our new hires.

INTERNAL APPLICATIONS FOR ROLES

↑ 42%

VISITS TO OUR LEARNING AND DEVELOPMENT INTRANET PAGES

↑ 76%

Innovating for tomorr world

ow's

At Sage, we spent around £190 million on R&D in FY18. We are committed to increasing this investment further in FY19 to ensure that we are constantly one step ahead of the curve.

Data shows that nearly all of the market growth is coming from consumer spend on cloud software and we've made shifts over the past couple of years to ensure our R&D is more heavily weighted to investing in Sage Business Cloud.

We've created Sage Business Cloud to be simple, smart and open.

Klaus-Michael Vogelberg, Chief Technology Officer, outlines his strategy to revolutionise business

SIMPLE

SMART

OPEN

WITH SAGE BUSINESS CLOUD, WE'RE CREATING A SIMPLE AND SINGLE POINT OF CONTACT WITH THE CUSTOMER. WE'RE ENABLING A SMARTER WAY OF WORKING, LEVERAGING OFF THE LATEST TECHNOLOGY. AND WE'RE DEVELOPING AN OPEN PLATFORM WHERE WE WORK WITH BEST-IN-CLASS PROVIDERS OF MICROSERVICES THAT MAXIMISE VALUE FOR OUR CUSTOMERS.

In FY18 the Group delivered Sage Business Cloud revenue of £377m, driven by cloud native and cloud connected products. Based on a review of existing products and roadmaps, a further £1bn of Sage's revenue base today comes from customers using products with a clear pathway to the Sage Business Cloud.

Execution on this migration strategy and attracting new customers through Sage Business Cloud will be management's primary operational focus for FY19 and beyond.

The remaining £354m revenue comprises customers using products for which management does not envisage a path to Sage Business Cloud, either because the product addresses a segment outside Sage's core focus, or due to the complexity and expense involved in a migration. A significant number of these products have strong brands, market position and commercial success and Sage intends to identify value creation paths for these products.

Our customers want smarter ways of working. Through our AI powered expense app, which uses Optical Character Recognition, we are reducing the amount of time our customers spend on administrative tasks. Take a photo of your receipt and throw it away – the machines will do the rest.

Sage Business Cloud is starting to make a real difference to our customers. 25% of admin tasks are related to invoice payments. The integration of Go Cardless into Sage 50 is significantly increasing automation, saving customers a day a month in admin and halving debtor days.

A recent customer had a three-month payback on implementation of Sage Intacct, saving $60k in headcount costs, reduced their invoicing time from 12 hours to six hours and shortened their monthly close from 10 days to six. Truly a smarter way to work.

Sage Business Cloud is an open "plug-in-and-play" platform that gives our customers access to hundreds of ISVs. This allows us to scale our innovation with our partners and our global developer community, all for the benefit of our customers.

In FY18 we've continued to use our partnership with Microsoft to roll out Office 365 integration with Sage 50cloud and Sage 200cloud into our wider geographies, following the successful launch in our core geographies in FY17.

Every day, we support and enable the success of our customers, colleagues and partners around the world. Those who look deeper, reach higher and strive harder. They are the people that fuel the global economy and drive worldwide progress. It is our responsibility to ensure we do the right thing for their continued success.

OUR PEOPLE

Striving to be our best in an environment which embraces colleague experience, diversity, inclusion and wellbeing

p. 40

BUSINESS BUILDERS

Championing small businesses and entrepreneurs

p. 44

SAGE FOUNDATION

Giving back to the community through voluntary work and fundraising

p. 46

ETHICS & GOVERNANCE

Placing ethical business conduct at the centre of all our activities and monitoring our progress

p. 50

THE ENVIRONMENT

Committed to managing our use of resources and proactively managing our environmental impact

p. 51

We take corporate responsibility seriously. Here's a dashboard of our progress:

ESG in a nutshell

Money raised towards $1m challenge
$788,787
2017: $275,000

Board diversity (Female/Male)
25%/75%
2017: 25%/75%

Number of working days this year that Sage colleagues have spent volunteering
24,000
2017: 23,000

Combustion of fuel and operation of facilities (tonnes CO_2e)
1,489
2017: 1,338

Energy intensity: Emissions reported above normalised to tonnes of CO_2e per total £1m revenue
13.97
2017: 10.76

Electricity, heat, steam and cooling purchased for own use
11,343
2017: 11,783

Non-financial information statement

Ethics & Governance

Human rights	pg.50
Code of Conduct	pg.50
Suppliers	pg.50
Anti-bribery & corruption policy	pg.50
Tax transparency	pg.50

Environment

Direct and indirect GhG emissions	pg.51
Direct and indirect energy consumption	pg.52
Environmental policy	pg.51

Social

Gender diversity	pg.41
Community engagement	pg.48

Our People

Sage is determined to be the employer of choice for our industry. During FY18 we continued our focus on leadership capability by both building and developing talent internally and bringing in experienced talent to complement our leadership team and drive higher performance.

We increased our focus on colleague experience and colleague engagement to ensure all our colleagues consider Sage a great place to work where all colleagues live our values and behaviours.

And finally, we continued our work on diversity & inclusion and wellbeing, winning several awards regionally and globally and ensuring all our colleagues are equipped to manage their wellbeing and thrive at work.

For FY19 we will continue to work on these three priorities as we aspire to make Sage an even more diverse workplace, with highly engaged colleagues who live our values every day.

Amanda Cusdin
Chief People Officer

Sage continues to place colleague success, diversity, inclusion and wellbeing at the heart of what we do, making Sage a place where colleagues can reach their full potential and bring their whole selves to work.

Leadership development and talent management

Through a mix of continued talent management, leadership development and talent acquisition we have developed the skills and capability of our leadership team. In November 2017 we brought Laurent Dechaux into the leadership team as Southern Europe Managing Director, in September 2018 we welcomed Sabby Gill as our Northern Europe Managing Director and at the start of October 2018 we promoted Andreas Zipser internally into the role of Central Europe Managing Director.

For our senior leadership we delivered two modules of face to face leadership development covering feedback and coaching, change management, building trust and planning and execution. In FY19 we will continue to deliver development programmes for our senior leaders on a regular basis.

We have continued our focus on leadership development within our manager population of c.2,000 people managers at Sage. All managers are invited to take part in our five-module training course – Leading@Sage. Currently 65% of managers at Sage have completed the training.

This is coupled with our all colleague learning platform – Sage Learning, which launched in 2016 and has been further developed during FY18 to provide topical and relevant training to our colleagues which supports their personal development.

Colleague experience and engagement

Our focus on colleague success this year has led us to simplify our processes, target our communications more thoughtfully and enable our colleagues to engage with each other and our senior leaders on a more regular basis.

In FY18 we launched quarterly pulse surveys to check our progress on these key initiatives and receive more frequent, in the moment feedback from our colleagues on what we're doing well and the changes they want to see.

Another of our key focuses has been enabling and empowering our colleagues to bring customer success to life and delight our customers. We have engagement initiatives across Sage designed to encourage our colleagues to connect with customers and celebrate successes:

- closed loop calls where all our colleagues can call back customers to listen to their feedback and resolve their issues
- magic moments which give our colleagues the opportunity to give acts of random kindness to their customers if they spot an opportunity during a conversation
- CX engagement campaigns across all our geographies asking colleagues to share their stories.

We have also focused on the way we reward our colleagues, making improvements to the benefits and rewards we offer our colleagues around the world. In particular this year we won several industry awards in the US for the innovative communications programme to launch our annual benefits enrolment. FY19 will see us continue the work on our benefits and rewards throughout the Sage family, with South Africa due to launch their updated benefits offering soon.

Finally, we continually want to improve the places where our colleagues work to make them more fun and engaging and in FY18 we opened or moved into five new offices which all have a One Sage feel and provide more space for collaboration and agile working.

“We continually want to improve the places our colleagues work to make them fun and engaging”

Board gender diversity

6 (75%) Male

2 (25%) Female

SMT[1] gender diversity

116 (67%) Male

58 (33%) Female

Total workforce gender diversity

6,444 (50%) Male

5,716 (44%) Female

843 (6%) Prefer not to say

1 SMT refers to c.150 leaders in Sage including Executive Committee and Executive Team members.

Year-end colleague count split by region

13,003
All Colleagues

4,320
Central & Southern Europe

3,158
International

2,858
Northern Europe

2,667
North America

Internal hire rate

25%

Colleague training days

3.9
days per colleague

Diversity and inclusion

Building on the progress from FY17 when we increased our senior leadership gender balance to 30% female (from 26% in FY16), we have now made further progress to bring this to 36%, which is higher than the industry standard. We have also created a strong pipeline of diverse talent which will ensure we continue to grow the diversity of our leadership team in FY19. Our Women@Sage network remains strong and we delivered an engaging programme of speakers during International Women's week to hear voices and share experience from across Sage and externally in support of women in technology.

In FY18 we have been recognised externally for our work on diversity, winning the Global Diversity award at the Employers Network for Equality & Inclusion (enei), two awards at the National Centre for Diversity Awards 2018, including Technology Company of the Year 2018, the Chartered Institute of Professional Development's North East of England HR&D award – Excellence in Employability and Diversity, and Sage featured in a Glassdoor blog as one of the 13 Companies Committed to Diversity & Hiring Now.

Alongside our external accolades, we have captured the hearts and minds of our colleagues with our internal diversity awards, where we opened up awards for five categories (Inclusive Leader, Mentor of the Year, Inspirational Women of the Year, Making a Difference and Unsung Star). We received over 900 nominations from colleagues across the business, which shows how passionate our colleagues are about diversity and inclusion at Sage.

We are passionate about making our playing field as equal as possible – in terms of gender, ethnicity, sexuality, disability and more. To help us achieve this we continue to have unconscious bias training for all colleagues and during FY18 we launched a more detailed unconscious bias training pilot in the UK.

We've seen a renewed energy behind our Pride@Sage network and across the UK&I, Brazil and North America, Sage has 15 thriving Pride@Sage networking groups that meet regularly to plan and prepare for a variety of activities in support of their LGBTQ+ colleagues and customers, such as Pride parades, building Sage Foundation opportunities and developing transgender awareness.

In FY18 we put a focus on raising awareness of mental health. In February we held Wellbeing Week which was dedicated to colleague wellbeing, where we gave tips to colleagues on how to maintain work-life balance and ran activities promoting wellbeing. We have launched our healthy mind first aiders programme in three regions and have trained 26 colleagues to be able to respond to mental health queries from colleagues.

Our Sage Foundation continues to gather momentum as colleagues completed 24,084 volunteer days in FY18 (1.9 days per colleague), supporting charities close to their hearts and in their local communities.

Kids@Sage days were back in FY18! Over 350 children came to work at Sage with their parents for one day. These days provide education and fun by building a stronger connection between work and family life for colleagues and introducing technology to children at an early age which will help to enhance talent pipelines for technology apprentices and graduates.

Globally we have 190 graduates and apprentices particularly focused in Product Development and IT. This year we focused on the diversity of our emerging talent intakes and achieved 60% female apprentices (48% in FY17) and 50% female graduates (8% in FY17). We are aiming to recruit 150 new graduates and apprentices during FY19. Feedback from our emerging talent is that they feel supported with tools for their personal development and excited by the opportunities at Sage.

Our values

Customers first

Our customers are at the heart of everything we do; they are why we are here and we wouldn't exist without them.

Velocity

We are action oriented and agile; we keep things simple, deliver at pace and overachieve.

Innovate

We create new ways of doing things and deliver innovative solutions which our customers need to help their business grow.

Do the right thing

Our colleagues are aligned and we trust each other to do the right thing to enable our customers to succeed.

Make a difference

Sage is a great place to work and our colleagues make a difference to local communities by relentlessly supporting our customers and their businesses to be successful.

“We have captured the hearts and minds of our colleagues with our internal diversity awards”

Kerry Sinclair – EVP Information Technology

I joined Sage Software Limited in 1987 as an apprentice in our Sales team and spent a long time working with our customers and partners in a Sales & Services role. The company was growing fast and it was a really exciting time for me and a huge learning opportunity. Working with the original founders, I was given many fantastic opportunities to get involved in a huge range of projects, across different areas of our business. As our acquisition plans accelerated, I was involved in a lot of the review work with the new companies and looking for synergies across the business, which eventually landed me in IT in terms of integrations.

Today I am the Executive Vice President of IT for our Enterprise Application Delivery teams across the world. I lead a team of highly skilled IT professionals who work across 23 countries. Success for us comes from bringing to life the art of the possible through technology and enabling our business plans. For me a key part of the role is translating that vision to our people and bringing our teams together behind these shared goals. I am personally passionate about diversity, especially women in technology and work across various platforms, including our Women@Sage networks to support a diverse and healthy balance of females in a technology world.

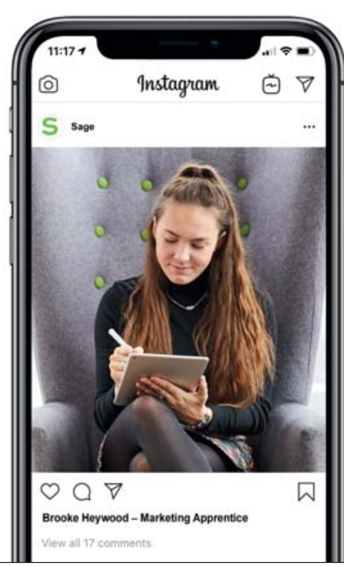
Brooke Heywood – Marketing Apprentice

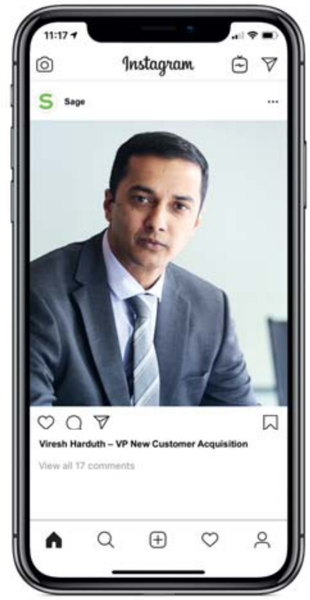
In 2018 I joined the Global Communications team at Sage, aged 18, straight from school after completing my A-Levels. With several university offers in my back pocket, I decided that this wasn’t the route for me and followed my desire to start a career in marketing as soon as possible. I had no previous experience of the corporate environment, but on the same day I received my A-level results, the Sage Talent Team called and offered me a role in their Corporate Communications team as Product PR Apprentice – and I can honestly say, I haven’t looked back.

My first year at Sage has been quite a ride and I have embraced every opportunity as a new learning experience. I’ve managed Internal Communications events such as Kids@ Sage day in our London Bridge office, developed a video sharing our vision of Artificial Intelligence in business, attended the House of Lords Select committee on AI and co-managed the official Sage Partners social media account. In truth there is no quick way to summarise the wealth of experience and learnings I have gained. Each day brings new challenges and the fast-paced environment keeps me excited to come to work.

As an apprentice I never thought that I would be working hand-in-hand with Senior Leaders at Sage, but it has become somewhat normal. Some days I have to pinch myself as a reminder of how lucky I am.

Key to my success has been working with colleagues who are dedicated to helping me develop new skills and progress my career – this has been an invaluable part of my journey, which is just beginning.





Viresh Harduth – VP New Customer Acquisition

I joined Sage in 2013, as the Pricing Strategist for Africa, Australia, Middle East and Asia, having previously worked in the Banking sector. Over five years I have had opportunities across the Group, working with amazing people from all Regions and being exposed to Global initiatives that have resonated in the Africa and Middle East (A&ME) region. I have been able to utilise my Actuarial Science background while incorporating new methodologies at Sage. It has been five years of learning, interaction and ownership.

Five years and four roles on, I head the Sales division for the New Customer Acquisition for Start-up in the A&ME Region. Through my various roles at Sage I have been exposed to all areas of the business from Sales to Functions. This exposure and the environment at Sage have enabled me to develop and shape my career path.

The ability to work on new projects and interact with a diverse team across Sales, Finance, Marketing and Product, provides me with my job satisfaction. In an ever-changing landscape, I enjoy the ability to adapt and the challenge of achieving new goals. One of my key motivators is that I want to work in an environment that allows me to have an impact, while being exposed to new ideas and driven people and I feel Sage provides this.

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 all businesses in most countries, one thing is for certain – when Business Builders do well, we all do. With millions of Business Builders around the world, it is in all of our interests to champion their causes and help drive customer success.

Sage is 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 priorities: commissioning regular pieces of research that assess the small business landscape; holding events and panel discussions that allow entrepreneurs to talk directly to each other and politicians; and campaigning to change policy for the better, particularly now as we head towards Brexit. Here are just a few of the ways we've supported the heroes of the economy this year.

Introducing Sage Sessions

In FY17 we took Sage Summit on the road, to eight different cities around the world. This year, we improved our event programme, which became Sage Sessions – where local business leaders come together to drive business forward.

> **Sage is giving entrepreneurs the world over a voice**

Building a competitive and ethical AI economy

We believe that no-one should be left behind by the Fourth Industrial Revolution and the UK risks losing out with a low uptake of digital skills.

As an industry leader in Artificial Intelligence, our customers trust us to innovate in an ethical way, which is why in 2017, we established five core principles towards the ethical creation of AI. Building on that in 2018, we launched the Roadmap for Ethical Business, built with experienced Business Builders and government officials. Our framework highlights four areas for creating a competitive, ethical AI economy: create a governance framework; make your AI accountable; build trust through transparency; and empower your workforce. Industry's next challenge will be to move the global conversation away from AI as a threat – or replacement – for humans, and towards encouraging organisations to approach AI as a complement to human ingenuity.

Shining a light on the productivity gap

In October 2017, Sage, in collaboration with Nesta, launched the State of Small Business report, which sought to explore the causes of low UK productivity. We found that there are striking differences in SME growth and productivity at a local level across the UK. For example, the number of SMEs in London have increased at more than ten times the rate of those in Northern Ireland and the most productive authority in the UK produces 26 times more turnover per worker than the least productive.

Globally, in early 2018, we launched the Productivity Tracker which tracked the growing loss in productivity as a result of unnecessary admin for small and medium businesses. Available in eleven markets, the tracker shows that globally we are losing £13,780 per second due to unproductive, admin-heavy tasks and that equates to over £430bn or 5% of total time lost each year.

Brexit

Sage has been working hard to ensure that the voice of small and medium businesses is heard by government in their Brexit preparations. Since before the referendum, we have been a vocal participant on Brexit, achieving 70% earned share of voice in tier 1 titles against our key competitors. As the end deal has been an unknown throughout the year, Sage has been championing the importance of businesses' views throughout the process and helping organisations gain the clarity they need, whatever flavour of Brexit we ultimately get. We have also been calling on government to not get completely distracted by the Brexit process and to remain focused on delivering greater education and skills as well as an open, digital Britain.

Supporting business in managing regulatory change

Small and medium businesses around the world are facing the twin challenge of the digitisation of tax and the ever continuing changes to legislation. Sage has worked around the world to help businesses understand these changes and minimise the time they have to spend managing their tax affairs. The big legislative change this year was the introduction of the General Data Protection Regulation (GDPR) in Europe, which came in to force in May 2018. Sage was very active in arming its customers with the information they needed to prepare GDPR for their business. Its communication campaign secured over 120 pieces of coverage globally.

Furthermore, we have run education campaigns in the UK around Making Tax Digital; in Brazil for the eSocial regulations; in France for the new taxation laws; and in South Africa for the annual address from the President and Finance Minister. Sage will continue to support small and medium businesses to navigate change and fight to minimise the impact these changes have on our Business Builders.

"We believe that no-one should be left behind by the Fourth Industrial Revolution… Sage launched the Sage FutureMakers Labs to bring AI educational work experience direct to under 18s across five UK and Irish cities"


sage Foundation
sage Foundation
Supporting charities through the
$1 million challenge
sage Foundation
Supporting charities through
$1 million challenge
435

Sage Foundation

This year, Sage Foundation has evolved from an ambitious start-up to a philanthropic programme focused on sustainable growth, innovation and impact.

24,000
The number of working days this year that Sage colleagues have spent volunteering

$788,787
Amount of money raised to date for $1m challenge

162
The number of grants awarded to not-for-profits this year

Community

Sage Foundation's mission is to create routes into education, work and entrepreneurship for young people, women and military veterans. Every second of volunteering, each donation, or product licence is an opportunity to unlock potential.

Sage Foundation: doing business the right way

This year, Sage Foundation has evolved from an ambitious start-up to a philanthropic programme focused on sustainable growth, innovation and impact.

In response to the needs of our local communities and non-profit partners, in FY18 Sage Foundation reaffirmed its mission, more clearly focusing on building a workforce fit for tomorrow. This is being achieved by providing more routes into education, work and entrepreneurship for young people, women and military veterans. Just as we have since 2015, Sage Foundation's mission is powered by 13,000 Sage colleagues leading from the front, who in turn are inspiring the wider Sage eco-system to support not-for-profits delivering change.

We have seen a truly inspiring response from colleagues embracing what Sage Foundation means to them in FY18. Sage colleagues gave back over 24,000 days in volunteering – an increase of 8% on last year. Critically, the value of our colleague volunteering was equivalent to an investment of over £2,400,000 to our communities around the world.

We remain focused on helping three groups that often face barriers finding their place in tomorrow's workforce. Sage believe that our communities will truly thrive when more women, young people and military veterans have fair access to education, work and entrepreneurial opportunities.

Here are just a few examples of the innovations we have driven in FY18 to deliver on our mission:

Women: Introducing rAInbow

Previewed for the first time at the United Nations AI for Global Good Summit, Sage Foundation worked in partnership with South African charity, Soul City, to build and fund an AI companion to support women who are victims of domestic violence. In the era of #MeToo, many have woken up to the scale of discrimination. But, we are finding answers – not hashtags. The goal is not to replace human connection but provide help when talking to a human is not possible, or comfortable. Free to use, available 24/7, and accessible via social media, rAInbow provides information on the victim's rights, in addition to emotional support. rAInbow launched in the South African market in early FY19.

Young people: Sage FutureMakers Lab

Driven by our core belief that 'AI will replace, but it must also create' we have started to build a talent pipeline through Sage FutureMakers Lab. The programme was designed to showcase the exciting opportunities a career in AI may provide. Free to attend, the sessions educated over 150 young people on the diverse range of skills required for a future career in AI, including ethical design as part of the course curriculum. After these initial courses, 30 young people were offered a more in-depth one-day course, with around 15 attendees being offered a relevant work placement. Our message is clear: AI careers are open to all. We now intend to expand the initiative globally.

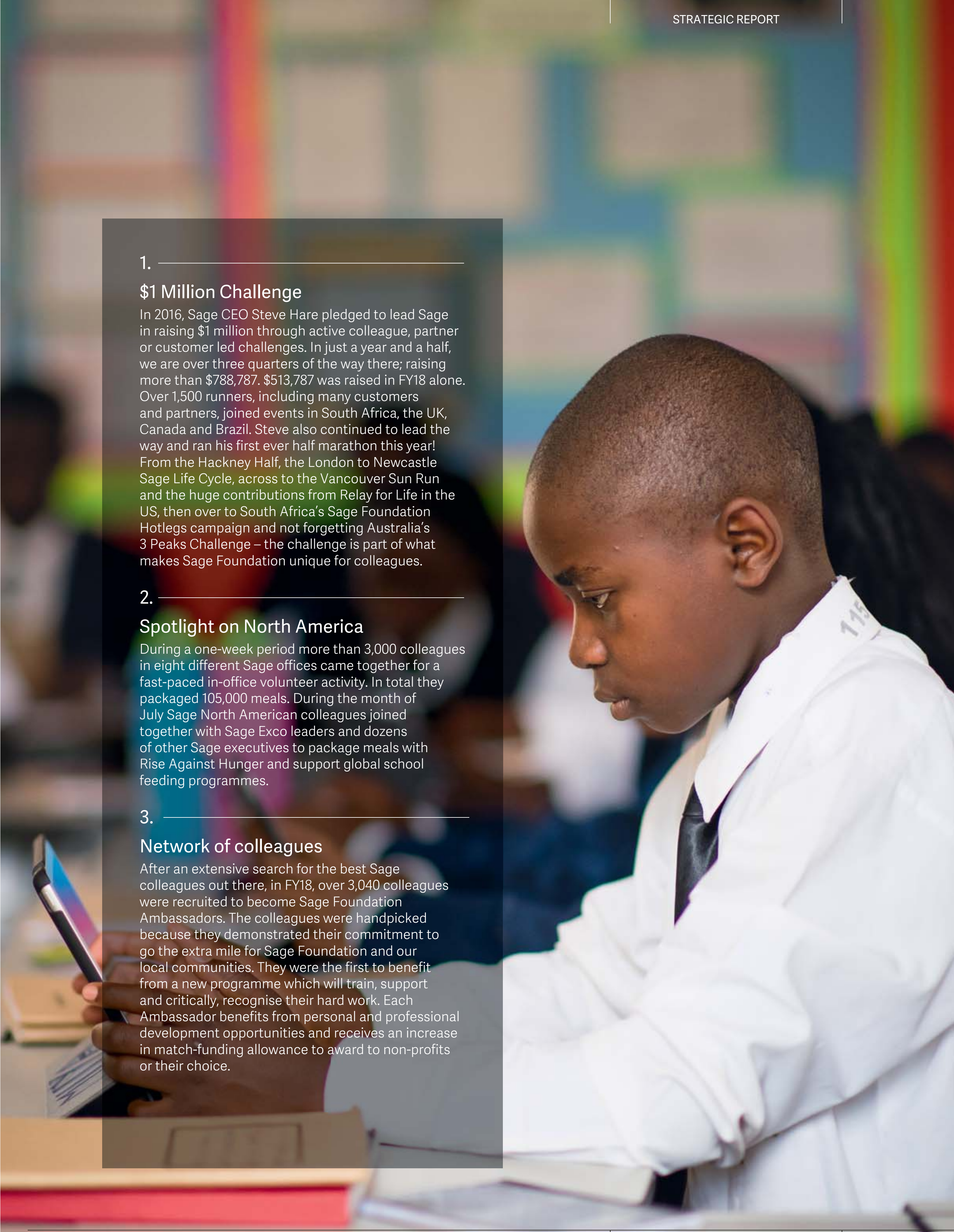
Building on a successful FY17

Young people: A Place to Call Home

We are delivering on the findings of our FY17 A Place to Call Home report on youth homelessness. Work has begun to deliver two projects near to our Newcastle headquarters, working exclusively with young people at risk of becoming homeless. Our non-profit partners are working with 10 families in the most deprived areas of the North East and 33 young people, to access family mediation and counselling services. We are also training 80 professionals to be able to spot the early signs of family breakdown. By funding and evaluating this type of work we will provide an evidence base for others to follow and recognise that prevention is part of the key to ending youth homelessness.

Military veterans: #SageServingHeroes

Sage Foundation remains committed to helping military veterans transition into meaningful civilian employment, build professional skills, or start their own businesses. Once again, we are extremely honoured to partner with the Invictus Games Sydney 2018. Additionally, this year Sage UK were proud signatories of the Armed Forces Covenant and recognised as one of just 50 organisations in 2018 to be given a 'Gold Award' for their outstanding support of the Armed Forces community. This was in recognition of work such as our Sage Military Mentoring Programme. Our programme supports work-based volunteers to mentor veterans transitioning into civilian life. Sage provides training, to ensure veterans excel in a work environment, through a one-day workshop centred on learning about organisational culture, mentorship, and the veteran life.



1.

$1 Million Challenge

In 2016, Sage CEO Steve Hare pledged to lead Sage in raising $1 million through active colleague, partner or customer led challenges. In just a year and a half, we are over three quarters of the way there; raising more than $788,787. $513,787 was raised in FY18 alone. Over 1,500 runners, including many customers and partners, joined events in South Africa, the UK, Canada and Brazil. Steve also continued to lead the way and ran his first ever half marathon this year! From the Hackney Half, the London to Newcastle Sage Life Cycle, across to the Vancouver Sun Run and the huge contributions from Relay for Life in the US, then over to South Africa's Sage Foundation Hotlegs campaign and not forgetting Australia's 3 Peaks Challenge – the challenge is part of what makes Sage Foundation unique for colleagues.

2.

Spotlight on North America

During a one-week period more than 3,000 colleagues in eight different Sage offices came together for a fast-paced in-office volunteer activity. In total they packaged 105,000 meals. During the month of July Sage North American colleagues joined together with Sage Exco leaders and dozens of other Sage executives to package meals with Rise Against Hunger and support global school feeding programmes.

3.

Network of colleagues

After an extensive search for the best Sage colleagues out there, in FY18, over 3,040 colleagues were recruited to become Sage Foundation Ambassadors. The colleagues were handpicked because they demonstrated their commitment to go the extra mile for Sage Foundation and our local communities. They were the first to benefit from a new programme which will train, support and critically, recognise their hard work. Each Ambassador benefits from personal and professional development opportunities and receives an increase in match-funding allowance to award to non-profits or their choice.

ETHICS & GOVERNANCE

Human Rights

Sage expects all colleagues, partners and suppliers to adhere to international standards on human rights, including with respect to child and forced labour, land rights and freedom of association among other elements. Our full expectations are included in our Partner and Supplier Codes of Conduct, which are available on our website at www.sage.com. We conduct due diligence on all new partners and suppliers and they are contractually obliged to adhere to our Code of Conduct.

Anti-bribery & Corruption

Sage has a well embedded anti-bribery and corruption policy and associated whistleblowing procedures designed to ensure that colleagues and other parties including contractors and third parties are able to report any instances of poor practice safely through an independent organisation. All reports received via this or any other reporting mechanism are thoroughly investigated and reported to the Audit & Risk Committee, which reviews each case and its outcomes. None of our investigations during FY18 have identified any systemic issues or breaches of our obligations under The Bribery Act 2010.

Governance & Oversight

We recognise that assurance over our business activities and those of our partners and suppliers is essential. During 2018 we monitored and reported on the completion of our mandatory Code of Conduct training for all colleagues and took disciplinary action for non-completion where necessary. You can read more about our compliance and assurance activities over the principal risks associated with ethical business conduct from page 60 onwards.

Tax Strategy

We publish our tax policy on our website and are committed to managing our tax affairs responsibly and in compliance with relevant legislation. Our tax policy is aligned to our Code of Conduct and Sage's Values & Behaviours and is owned and approved by the Board.

NON-FINANCIAL INFORMATION STATEMENT: ENVIRONMENT

DOING BUSINESS THE RIGHT WAY

Proactively managing our impact

We are committed to managing our use of resources and proactively managing our environmental 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 participate in the global Carbon Disclosure Project, annually disclosing our approach and performance to investors. We continue to review and develop our approach to managing our environmental impact and associated emissions.

Greenhouse gas emissions

This section includes our mandatory reporting of greenhouse gas emissions pursuant to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). 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 2017 to 30 September 2018. 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 Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) in respect of those emissions for which we are responsible. Adopting the operational control approach means that Sage reports on all sources of environmental impact over which it has operational control.

Sage has reported on all Scope 1 and 2 emission sources which we are deemed to be responsible for with the exception of our offices in the United Arab Emirates and Nigeria. 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.

Global greenhouse gas emissions data for period 1 October 2017 to 30 September 2018

	FY18/tonnes CO_2e	FY17/tonnes CO_2e
Scope 1: Combustion of fuels and operation of facility	1,489	1,338
Scope 2: Electricity, heat, steam and cooling purchased for own use	11,343	11,783
Scope 3: Company business travel – vehicles, hotel stays and air travel	13,104*	5,391
Total emissions	25,936	18,512
Company's chosen intensity measurement: Emissions reported above normalised to tonnes of CO_2e per total GBP £1,000,000 revenue	13.97	10.76

* Large increase in Scope 3 emissions due to the scope of the reporting expanding to now include hotel stays and air travel which were not available for reporting in 2016/17. There is also more comprehensive vehicle data available for business use mileage

Carbon emissions

Scope of reported emissions

Emissions data from all our global Group operations within scope has been reported, including 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 our offices in the United Arab Emirates 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 2018/19 reporting year.

Intensity ratio

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

Carbon Disclosure Project

We once again took part in the Carbon Disclosure Project (CDP) during the year under review by reporting our Scope 1, 2 and 3 emissions for the financial year ending 30 September 2018. This external submission also includes our approach to governance, risk management and stakeholder engagement on climate-related issues.

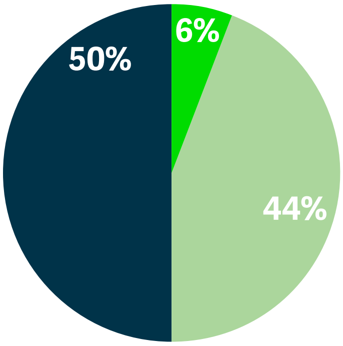
Our GhG emissions data are classified as direct (Scope 1), or indirect (Scope 2 & 3) emissions. Scope 1 emissions are those from sources the Group owns or controls. Scope 2 emissions are associated with our consumption of electricity, heat, steam and cooling. Scope 3 emissions occur at sources which we do not own or control and are consequences of our actions.

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:

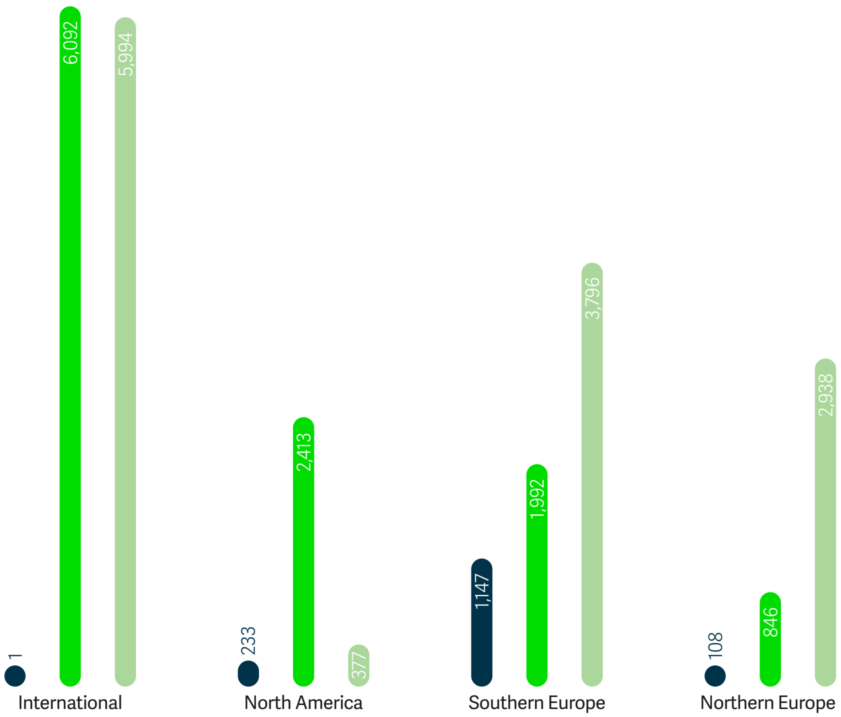
- Increased use of bioethanol for business travel fuel
- All waste is diverted from landfill at North Park, Manchester and Dublin
- Investing in new technology with lower energy consumption including laptops and workstations
- Further installation of LED lighting across the Group
- Selected office moves to more energy efficient buildings
- Energy efficiency integrated into our office redevelopment plans
- Increased renewable energy sourcing through our contracts with suppliers
- Self-generation including solar panels and hydroelectric plant installations
- Reducing business travel and encouraging sustainable travel practices across our operations
- Building optimisation at our owned sites

Total CO_2 by type



- Combustion of fuels and operation of facilities
- Electricity, heat, steam and cooling purchased for own use
- Company business travel – rail, private vehicles, hired vehicles, contracted taxi services and air travel

Sum of CO_2 (tonnes)



- Combustion of fuels and operation of facilities
- Electricity, heat, steam and cooling purchased for own use
- Company business travel – rail, private vehicles, hired vehicles, contracted taxi services and air travel

Total CO_2e by type

	FY18 tonnes CO_2e
Scope 1: Combustion of fuels and operation of facilities	1,489
Scope 2: Electricity, heat, steam and cooling purchased for own use	11,343
Scope 3: Company business travel – vehicles, hotel stays and air travel	13,104
Total emissions	25,936

Region	**Scope 1 emissions** Generated from the gas and oil used in all buildings where the Group operates; emissions generated from Group-owned vehicles used for business travel; and fugitive emissions arising from the use of air conditioning and chiller/refrigerant plant to service the Group's property portfolio.	**Scope 2 emissions** Generated from the use of electricity in all buildings from which the Group operates.	**Scope 3 emissions** Relates to business travel undertaken by all colleagues using rail, private vehicles, hired vehicles, contracted taxi services and air travel.
International	1	6,092	5,993
North America	233	2,413	377
Southern Europe	1,147	1,992	3,796
Northern Europe	108	846	2,938
Grand Total	**1,489**	**11,343**	**13,104**

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 BEIS 2018 conversion factors for the UK, combined with the most recent IEA international conversion factors (2016) 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 and Accounts.

For further details, our methodology document can be found at http://www.sage.com/company/about-sage/corporate-social-responsibility

FINANCIAL REVIEW

Group performance

Sage achieved organic revenue growth of 6.8% (FY17: 7.8%) and an underlying operating profit margin of 27.2% (FY17: 27.3%). Recurring revenue growth of 6.7% (FY17: 10.4%) includes software subscription growth of 25.2% (FY17: 30.9%).

The organic definition neutralises the impact of foreign currency fluctuations and includes the contributions of acquired businesses from the beginning of the financial year following their year of acquisition. Adjustments have been made to the comparative period to present prior period acquired businesses as if these had been part of the Group throughout the entire prior period.

The organic definition also excludes the contributions from discontinued operations, disposals, assets held for sale and acquired businesses in the year of acquisition. The underlying definition neutralises the impact of foreign currency fluctuations but includes the contribution from discontinued operations, disposals, assets held for sale of standalone businesses and current and prior period acquisitions. A reconciliation of underlying operating profit to statutory operating profit is shown on page 58.

Statutory figures below are based on continuing operations, including the impacts of acquisitions and disposals but excluding discontinued operations.

Revenue

	Statutory			Organic		
	FY18	FY17	Change	**FY18**	FY17	Change
Northern Europe	**£380m**	£368m	3.3%	**£381m**	£373m	2.5%
Central & Southern Europe	**£625m**	£580m	7.7%	**£625m**	£587m	6.5%
North America	**£574m**	£492m	16.7%	**£546m**	£489m	11.6%
International	**£267m**	£275m	(3.0%)	**£267m**	£254m	4.7%
Group	**£1,846m**	**£1,715m**	**7.6%**	**£1,819m**	**£1,703m**	**6.8%**

Operating profit

	Statutory			Underlying		
	FY18	FY17	Change	**FY18**	FY17	Change
Group	**£427m**	£348m	22.7%	**£504m**	£490m	2.9%
Margin	**23.1%**	20.3%	2.8%	**27.2%**	27.3%	(0.1%)

Statutory operating profit is stated after recurring costs relating to amortisation of acquisition related intangible assets and other M&A activity related charges and non-recurring costs for provisions and settlement of legal disputes and structural redundancies in FY18. FY17 statutory operating profit is also stated after non-recurring costs incurred relating to business transformation in FY17.

Revenue mix

Segmental reporting

	Recurring revenue			Processing revenue			SSRS revenue		
Organic	**FY18**	FY17	Change	**FY18**	FY17	Change	**FY18**	FY17	Change
Northern Europe	**£298m**	£294m	1.6%	**£39m**	£37m	4.0%	**£44m**	£42m	7.2%
Central & Southern Europe	**£475m**	£455m	4.4%	**–**	–	–	**£150m**	£132m	13.9%
Total Europe	**£773m**	£749m	3.3%	**£39m**	£37m	4.0%	**£194m**	£174m	12.3%
North America	**£471m**	£417m	12.9%	**£1m**	£1m	(2.4%)	**£74m**	£71m	4.0%
International	**£197m**	£186m	6.2%	**£15m**	£13m	13.0%	**£55m**	£55m	(2.5%)
Group	**£1,441m**	£1,352m	6.7%	**£55m**	£51m	6.2%	**£323m**	£300m	7.6%
% of total organic revenue	**79%**	**79%**	**-%**	**3%**	**3%**	**-%**	**18%**	**18%**	**-%**

Recurring revenue

Sage delivered recurring revenue growth of 7% (FY17: 10%), driven by the increase in software subscription revenue of 25% (FY17: 31%), as the business transitions to a subscription model. Recurring revenue represents 79% of organic revenue (FY17: 79%) and software subscription penetration is now 46% of total revenue (FY17: 39%).

Processing revenue

Processing revenue growth of 6% (FY17: 1%) reflects growth in payments processing in both Northern Europe and Africa.

SSRS revenue

SSRS revenue grew by 8% (FY17: decline of 1%) due to strong performance in professional services and training.

Performance – European regions

Organic revenue growth	FY18	FY17
Northern Europe	**+2%**	+8%
Central Europe	**+10%**	+12%
France	**+3%**	+1%
Iberia	**+9%**	+10%
Central & Southern Europe	**+7%**	+6%
Total Europe	**+5%**	+7%

Revenue in the European regions grew by 5% overall in FY18 (FY17: 7%). Within Europe, growth in Northern Europe was impacted by inconsistent sales execution in driving recurring revenue growth in H1 18. Central Europe (Germany, Switzerland and Poland) delivered double digit growth. Iberia (Spain and Portugal) also delivered strong growth of 9%, whilst growth in France of 3% shows encouraging signs of recovery in the region.

Recurring revenue in Europe grew by 3% (FY17: 8%), reflecting strong growth in Central Europe, offset by weaker performance in Northern Europe and Southern Europe. Software subscription revenue grew by 18% (FY17: 20%), now representing 42% of total revenue (FY17: 37%).

Processing revenue in Europe grew by 4% (FY17: flat), reflecting growth in payments processing through Sage Pay in Northern Europe.

SSRS revenue grew by 12% (FY17: 5%), reflecting strong performance in professional services and training.

Northern Europe

UK&I – foundations laid in H2 18 for FY19

UK&I revenue grew by 2% (FY17: 8%) for the year, with recurring revenue growth of 2% (FY17: 10%). Software subscription revenue growth was 26% (FY17: 26%) now representing 47% of total revenue in the UK&I (FY17: 38%).

Following flat performance in H1 18 due to inconsistent execution, recurring revenue showed sequential recovery each month in H2 18, exiting with 7% growth in September 2018. Progress in H2 18 is due to success in migrating Sage 50 customers to Sage 50cloud, with more than five times as many contracts signed in H2 18 than in H1 18 and half the Sage 50 base now converted, driving year-on-year growth in cloud connected revenue of £21m (71% increase).

Reactivating the off-plan customer base was a further strategic priority during the period, with over 12,500 customers reactivated in the UK&I, with an average annualised contract value (ACV) of £650.

Sage People, acquired in FY17, continued to show strong momentum in the year with revenue growth of £6m (75% increase).

SSRS growth of 7% in the UK&I reflects strong growth in professional services.

Processing growth of 4% was driven by volume in chip and pin transactions through Sage Pay.

Focus for FY19 in UK&I is to build on the recurring revenue foundations laid in the latter part of FY18, with further growth anticipated through the continued migration to Sage 50cloud and the introduction of Sage 200cloud in FY19.

Central and Southern Europe

France – recovery well underway

France revenue grew by 3% (FY17: 1%), with recurring revenue growth of 3% (FY17: 1%). The region continues to show strong signs of recovery with sequential growth each quarter in both organic and recurring revenue.

Enterprise Management revenue, of which nearly half is generated in France, grew at 12% in the year. The cloud connected strategy is also showing strong momentum, with Sage 50cloud and Sage 200cloud each growing by triple digits (growth of £8m and £18m respectively) and now contributing 10% of the region's revenue (FY17: 1%), following strong endorsement from the partner channel on Sage 200cloud.

France has high recurring revenue and software subscription revenue penetration rates of 85% and 59% respectively and in FY19 management will focus on continuing the recurring revenue momentum achieved in FY18 and drive further growth from the cloud connected strategy.

Iberia – continuing strong performance

Organic revenue growth of 9% (FY17: 10%) was underpinned by recurring revenue growth of 4% and SSRS revenue growth of 25%.

Following its roll out late in FY17, Sage 200cloud has proved popular, now contributing more than 10% of Spain's revenue.

SSRS growth of 25% is due to strong performance in professional services and training in Spain, associated with Sage 200cloud.

Portugal was the Group's strongest performing country with 17% organic growth and 18% recurring revenue growth.

Central Europe – double digit organic revenue growth

Central Europe delivered strong growth of 10% (FY17: 12%), underpinned by recurring revenue growth of 8% and SSRS revenue growth of 13%.

In Germany, organic revenue grew by 10%, with Sage 200 also growing at 10%, delivered by a strong performance in the partner channel. SSRS growth has been driven by success in professional services associated with Sage 200.

In the smaller Central European countries, Poland grew at 11% and Switzerland delivered growth of 6%.

Performance – North American region

Organic revenue growth	FY18	FY17
USA	**+8%**	+5%
Sage Intacct	**+26%**	+31%
Canada	**+12%**	+10%
North America	**+12%**	+9%

Strong growth of 12% (FY17: 9%) in North America, including Sage Intacct, was driven by 13% growth in recurring revenue (FY17: 14%), underpinned by software subscription growth of 51% (FY17: 75%) with; software subscription revenue is now 48% of total revenue (FY17: 35%).

Processing revenue excluding the performance of Sage Payroll Solutions (now held for sale) declined by 2%, whilst SSRS revenue grew at 4% (FY17: 11% decline), following a strong end to the year from Enterprise Management.

USA (excluding Sage Intacct) – cloud connected migrations driving strong growth

Strong growth of 8% (FY17: 5%) in the USA, excluding Sage Intacct, was driven by 9% growth in recurring revenue (FY17: 9%).

Performance in the USA was driven by the successful migration of customers from Sage 50 and Sage 200 to the cloud connected versions of these products, with well over half of the on-premise customers of both solutions now migrated. Cloud connected revenue grew by £46m (82% increase), driving software subscription growth of 77% in the country.

SSRS revenue growth was 5%, reflecting growth in Enterprise Management and professional services and training, offset by a decline in other licences. Enterprise Management grew at 15% following a record quarter in Q4, winning a contract with a total contract value of £2.3m.

Sage Intacct – showing continuing momentum

Sage Intacct has continued to grow strongly, with organic revenue growth of 26% (FY17: 31%), as management continues the carefully sequenced integration of this acquisition. Organic revenue growth was underpinned by recurring revenue growth of 29% and ARR growth of 30%, offset by 2% decline in professional services and training.

Canada – double digit organic and recurring revenue growth

In Canada, both organic and recurring revenue delivered double digit growth of 12% and 14% respectively. Over 75% of Sage 200 customers have been migrated to Sage 200cloud, driving growth in the year of £7m (77% increase), whilst new customer acquisition was achieved through Enterprise Management growth of £3m (114% increase).

In North America, the focus in FY19 is continuing the momentum and value uplift through the Sage 50 and Sage 200 migrations to cloud connected solutions, whilst continuing to attract new customers through Sage Intacct, Sage People and Enterprise Management.

Performance – International region

Organic revenue growth	FY18	FY17
Africa and Middle East	**+5%**	+12%
Latin America	**+3%**	+12%
Australia and Asia	**+6%**	+3%
International	**+5%**	+10%

Organic revenue in the International region grew by 5% in FY18 (FY17: 10%), with recurring revenue growth of 6% (FY17: 15%), processing revenue growth of 13% (FY17: 7%) and SSRS decline of 3% (FY17: decline of 4%). Software subscription revenue in International is now 59% of total revenue (FY17: 56%).

Performance in the region has been mixed with strong growth in Australia, offsetting the slight decline in Asia and growth in Africa offsetting weaker performance in the Middle East, whilst growth in Latin America was below Group growth rates.

Africa and Middle East – recurring revenue a highlight

Growth in Africa and Middle East of 5% (FY17: 12%) reflects growth in Africa of 6%, offset by a decline in Middle East of 25%.

In Africa, double digit recurring revenue growth reflects continuing momentum of Sage Accounting, which grew by £3m (50% increase). SSRS decline of 8% is driven by weak Enterprise Management sales reflecting challenging conditions in the region.

The decline in Middle East revenue is also driven by under-performance in Enterprise Management in the region.

Latin America – turbulent economic conditions

Revenue in Latin America grew at 3% (FY17: growth of 12%), underpinned by recurring revenue growth of 2% (FY17: 17%).

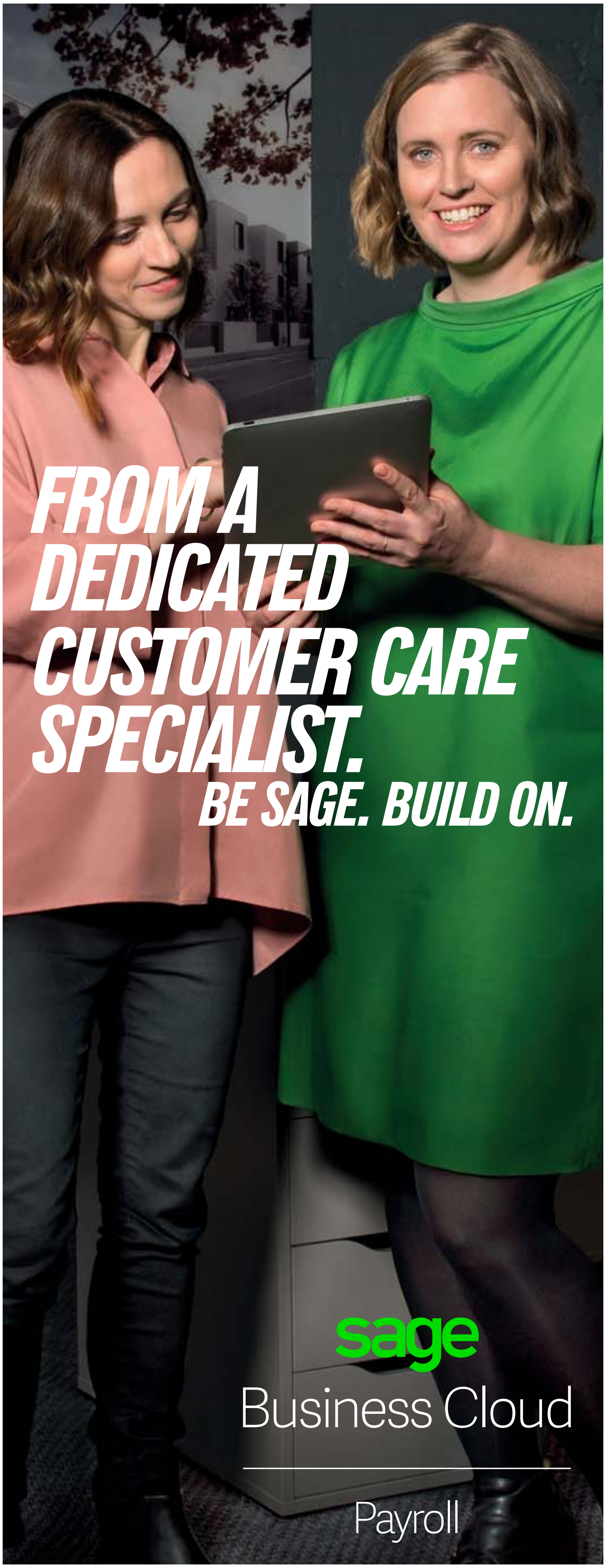
Due to the turbulent economic conditions in the region, since the end of FY17 management has been focused on driving growth through high-quality customers, where debt collection is less of a risk. The underlying performance in the region remains robust with Sage Accounting growth of £1m (35% increase) in FY18 and H2 18 organic revenue growth of 8%.

SSRS growth of 7% reflects strong growth in learning services.

Australia and Asia – strength in Australia offset by Asia

In Australia, strong revenue growth of 11% (FY17: 7%) is underpinned by recurring revenue growth of 6% (FY17: 9%) and SSRS growth of 36% (FY17: 2% decline), led by strong performance from both Sage 50 and Payroll.

Asia revenue (accounting for 1% of total Group revenue) declined by 5% in the year (FY17: 6%) due to local macroeconomic challenges in this region.



Organic to statutory reconciliations	FY18 Revenue	FY18 Operating profit	FY18 Margin	FY17 Revenue	FY17 Operating profit	FY17 Margin
Organic	**£1,819m**	**£505m**	**27.8%**	£1,703m		
Organic adjustments[1]	**£38m**	**(£1m)**		(£20m)		
Underlying – Continuing	**£1,857m**	**£504m**	**27.2%**	£1,683m	£463m	27.5%
Discontinued operations	**–**	**–**		£112m	£27m	
Underlying	**£1,857m**	**£504m**	**27.2%**	£1,795m	£490m	27.3%
Discontinued operations (as reported)	**–**	**–**		(£119m)	(£27m)	
Impact of foreign exchange[2]	**–**	**–**		£44m	£4m	
Underlying (as reported) – Continuing	**£1,857m**	**£504m**	**27.2%**	£1,720m	£467m	27.2%
Recurring items[3]	**(£11m)**	**(£67m)**		(£5m)	(£49m)	
Non-recurring items[4]	**–**	**(£10m)**			(£70m)	
Statutory	**£1,846m**	**£427m**	**23.1%**	£1,715m	£348m	20.3%

1 Organic adjustments are as per note 2 of the financial statements.
2 Impact of retranslating FY17 results at FY18 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 in FY17.

Revenue

Statutory revenue grew by 8% to £1,846m (FY17: £1,715m), reflecting organic growth, the full year impact of prior period acquisitions and foreign exchange movements experienced throughout the year. The impact of foreign exchange of £44m reflects a currency headwind during the period.

Operating profit

Underlying (continuing) operating profit increased by 9% to £504m and statutory operating profit increased by 23% to £427m. The improvement in statutory operating profit margin of 2.8% reflects a net reduction in recurring and non-recurring items and the impact from changes in foreign exchange rates.

Statutory operating profit increased by

£79m

Adjustments between underlying and statutory operating profit

Non-recurring items relate to an exceptional charge of £9m and a £1m loss on disposal of a small, non-core asset. The exceptional charge consists of litigation costs of £4m relating to two specific one-off employment related matters and costs of £5m arising from the restructure of parts of the senior leadership team, announced at the time of the interim results. Recurring items of £67m combined reflect £35m relating to amortisation of acquisition related intangible assets and £21m M&A activity-related charges. A further £11m relates to an adjustment applied to acquired deferred income. Both recurring and non-recurring items, £77m combined, have been excluded from the underlying operating profit of £504m.

Net finance cost

The statutory net finance cost for the period was £29m (FY17: £18m) and the underlying net finance cost was £29m (FY17: £25m). The difference between underlying and statutory net finance costs in the prior year was driven by a gain of £7m from a valuation adjustment on financial assets.

Taxation

The statutory income tax expense for FY18 was £103m (FY17: £85m[1]). The effective tax rate on both underlying and statutory profit for FY18 is 26% (FY17: 26% underlying, 25% statutory). The underlying rate does not differ from the statutory tax rate as the items included as non-recurring have been subject to tax at similar rates to the Group average rate of tax.

Earnings per share

Underlying basic earnings per share increased by 3% to 32.51p (FY17: 31.45p). Adjusted for transactions, underlying earnings per share increased by 14% reflecting a 5% impact from normalisation of the operating profit for the pre-acquisition period of the acquired businesses based on the FY17 operating profit margin achieved during the post-acquisition period and a 6% impact from the disposal of the North American Payments business. Statutory basic earnings (continuing operations) per share decreased by 2% to 27.21p (FY17: 27.80p) due to increased operating profit and net reduction in adjusting items following completion of the business transformation, offset by an increase in recurring charges for the acquisitions of Sage Intacct and Sage People in FY17.

1 Continuing operations.

Cash flow and net debt

Cash flow	FY18	FY17
Underlying operating profit	**£504m**	£490m
Exchange rate translation movements	**–**	£6m
Underlying operating profit (as reported)	**£504m**	£496m
Non-cash items	**(£6m)**	(£1m)
Depreciation/amortisation/impairment/profit on disposal	**£34m**	£35m
Share-based payments	**£5m**	£6m
Net changes in working capital	**(£10m)**	(£14m)
Net capital expenditure	**(£45m)**	(£52m)
Underlying cash flow from operating activities	**£482m**	£470m
Non-recurring cash items	**(£35m)**	(£72m)
Net interest paid	**(£26m)**	(£22m)
Income tax paid	**(£64m)**	(£102m)
Statutory P&L foreign exchange movements	**(£1m)**	£2m
Free cash flow	**£356m**	£276m

Cash flow	FY18	FY17
Statutory cash generated from operating activities	**£487m**	£428m
Recurring and Non-recurring items	**£37m**	£94m
Net capital expenditure	**(£45m)**	(£52m)
Balance sheet adjustments	**£2m**	£2m
Eliminate exchange rate translation movements	**£1m**	(£2m)
Underlying cash generated from operating activities	**£482m**	£470m
Underlying cash conversion	**96%**	95%

The Group remains highly cash generative with underlying cash flows from operating activities of £482m, which represents underlying cash conversion of 96%, increasing from 95% in FY17, due to strong working capital management, although this was slightly lower than the H1 18 cash conversion of 99%, due to the value of Enterprise Management contracts signed in September 2018, with longer associated payment terms.

A total of £172m was returned to shareholders through ordinary dividends paid. Net debt stood at £668m at 30 September 2018 (30 September 2017: £813m). The decrease is attributable to strong free cash flow of £356m, offset principally by M&A costs of £21m (including fees and acquired IP assets), ordinary dividends of £172m and an FX translation loss of £20m.

Debt facilities

The Group's syndicated bank multi-currency Revolving Credit Facility (RCF) was renewed in February 2018 and now expires in February 2023 (with further extension options of one or two years) with facility levels of £686m (US$719m and £135m tranches). At 30 September 2018, £418m (30 September 2017: £318m) of the RCF was drawn. Existing RCF drawings were used principally to fund the acquisitions completed in FY17 and to refinance maturing debt in FY18. Specifically, the term loan of $150m arranged in July 2017 to partially fund the Intacct acquisition was refinanced using drawing from the RCF on 25 July 2018.

Total USPP loan notes at 30 September 2018 were £497m (US$550m and EUR€85m), (30 September 2017: £523m (US$600m and €85m)). Approximately £36m (US$50m) of USPP notes matured in May 2018 and were repaid using funds from the RCF.

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)	FY18	FY17	Change
Euro (€)	**1.13**	1.15	(2%)
US Dollar ($)	**1.35**	1.27	6%
South African Rand (ZAR)	**17.56**	16.95	4%
Australian Dollar (A$)	**1.77**	1.66	6%
Brazilian Real (R$)	**4.72**	4.06	16%

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, primarily recurring, supported by targeted bolt-on acquisitions. The growth underpins the Board's sustainable, progressive dividend policy. Consistent with this policy, the Board is proposing a 7% increase in the total ordinary dividend per share for the year to 16.50p per share (FY17: 15.42p per share).

Managing our risk profile

In FY18 we launched the Sage Business Cloud, providing a single point of focus for our business as we accelerated into the cloud. As our strategic focus shifted to the cloud, we evolved our principal risks to drive even greater strategic alignment, visibility and risk ownership across the business. We increased the cadence of risk reporting and enhanced access to real-time risk information to further support the organisation in making risk informed decisions.

We continued to mature our risk management and control environment, which included launching the Sage Governance, Risk and Compliance tool, which supports the business to grow the right way. During the year we ingrained risk ownership across the Company and continued to embed our three lines of defence model.

Effect of Brexit

Although uncertainty remains as to the outcome of the Brexit negotiations between the UK and EU, the Group has adopted an approach that we believe will allow us to manage the risks Brexit brings. These risks could include:

- Changes in market access that impact how we transact intra-Group operations, share data, manage tax and foreign exchange exposures, and manage our intellectual property
- Changes in people-specific rules and regulations that could impact the international mobility of our colleagues

At present, the Group does not currently foresee any adverse material impact on day to day operations.

Principal risks

The Board and the Audit and Risk Committee carried out a robust and ongoing assessment of the principal risks facing the Company throughout the year. This assessment considered those risks that would threaten Sage's business model, future performance, solvency or liquidity, and ensured that the risks continued to align with our business strategy. As a result, the principal risks evolved to reflect the changes within the strategy, simplifying the risk appetite statements, and focusing on those metrics that would not only signal current performance, but also act to identify any emerging issues in the management of the principal risks.

FY17 Principal Risk	FY18 Principal Risks	Commentary
– Business Model Delivery	**Innovation** **Colleague Success** **Values and Behaviours**	Evolved to focus on the capacity and capability of colleagues to execute on our SaaS strategy, and to empower our colleagues to be innovative in delivering on outcomes.
– Licence Model Transition	**Understanding Customer Needs** **Route to Market** **Customer Success**	To accelerate value from subscription through the use of the Sage Business Cloud, it is critical that our customers' success is at the forefront of everything we do.
– Market Intelligence	**Understanding Customer Needs** **Route to Market** **Innovation**	Expanded to reflect moving beyond simply understanding our markets to focusing on understanding the needs of our customers, allowing us to tailor our route to market and approach to innovation to deliver the right products to the market at the right time, using the right means.
– Competitive Positioning and Product Development	**Understanding Customer Needs** **Product Strategy** **Customer Success** **Innovation**	The risks have evolved to align innovation and customer success to our product strategy, to deliver the right cloud products to the right markets to satisfy the needs of current and future customers.
– Brand	**Understanding Customer Needs** **Product Strategy** **Route to Market** **Customer Success**	Our Brand risk has been absorbed within a number of refreshed risks focused on understanding our customers' needs and putting them at the centre of what we do, in order to maximise new customer acquisition and retention through the delivery of products and services that provide an excellent customer experience.
– Partner and Alliances	**Route to Market** **Third Party Reliance**	In recognising that Sage's ecosystem includes an extensive range of third parties, that support, maintain and deliver our products and services, we have amalgamated partners and alliances with other third parties to better reflect and manage the extent of this reliance.
– Third Party Reliance	**Third Party Reliance** **Sustainable Processes and Controls**	Given our increasing reliance on third parties to deliver and support our products and services, this risk has evolved to reflect both their importance and the necessary alignment with our current and future process and control requirements.
– Supporting Control Environment	**Innovation** **Sustainable Processes and Controls**	The movement of this risk represents a focus on applying sustainable and repeatable end-to-end business processes, supported by appropriate innovation and automation, which delivers a consistent and efficient experience to colleagues and customers.
– Information Management and Protection (including Cyber)	**Information as an Asset**	In addition to the management and protection of information assets from both internal and external threats, we have evolved this risk to reflect the value derived from the appropriate use and management of data.
– Legal and Regulatory Framework	**Sustainable Processes and Controls** **Values and Behaviours**	We have evolved these risks to support ownership of Legal and Regulatory risks across Sage, driven through compliant process, systems and products, and in support of our aim of a 100% compliance culture.

The Board monitors the risk environment, and reviews the relevance and appropriateness of the principal risks throughout the year in consultation with the Audit and Risk Committee. These risks are proactively managed by executive risk owners, supported by Sage Risk, with progress to plan tracked on an ongoing basis. Local and regional engagement is also undertaken to support the collective actions required to manage these principal risks and to enable the identification and escalation of any local risks as appropriate.

Principal risks are also formally reported to the Global Risk Committee, alongside any escalated local risks. We manage risk in line with our risk management policy and approach, as set out in Risk Management on page 70. In FY18 we monitored and reported against our principal risks. These risks are mapped against the strategic pillars they support, as set out in the table below.

FY18 principal risks and aligned strategic pillars

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
Understanding Customer Needs		Improving risk environment
If we fail to understand the products and services our current and future customers need to be successful, they will find alternative solution providers. **STRATEGIC ALIGNMENT** 	Sage is the leader in key global markets, and we can use this position to gather valuable insights into what our current and future customers want and need. It can also help us to better understand the strengths and weaknesses of our products and services, and better position those products and services to meet the needs of our current and future customers. By understanding the specific needs of these customer groups in each country and region, we will be better positioned to efficiently manage our products, marketing efforts and support services. This in turn will allow us to maximise our return on investment, and retain a loyal customer and partner base over the long term.	– Brand health surveys are used to provide us with an understanding of customer perception of the Sage brand and its products, which we use to inform and enhance our market offerings – A Market and Competitive Intelligence team is established to provide insights that Sage uses to win in the market. – A product re-naming exercise was completed to simplify the purpose of each product, and assist with customer understanding – Ongoing refinement and improvement of market data through feedback from the business **In progress:** – By providing ISVs with access to the Sage Developer Platform, we gain additional insights into customer needs that are able to be met through the development of bespoke solutions

Principal risk	Risk background	Management and mitigation

Product Strategy

Static risk environment

Principal risk

If we fail to develop and manage a prioritized strategy for our products that is aligned with our goals and delivers against customer needs, there is a significant financial risk that customers will go elsewhere.

STRATEGIC ALIGNMENT

Customers for life · Winning in the market · Capacity for growth

Risk background

A key component of Sage's transition to a SaaS company is the delivery of cloud-connected and cloud-native products.

To achieve this, we will need to execute on a prioritised product strategy that moves our product portfolio to cloud-native solutions. This may include a transitional period of cloud-connected products, with a clear path to the cloud-native products our current and future customers desire.

Management and mitigation

- A licensing model transition strategy is in place, anchored on the Sage Business Cloud
- Sage Business Cloud is available in United Kingdom and Ireland, North America, France and Spain
- Recent cloud-native products (Sage Intacct and Sage People) are available in Sage Business Cloud in North America
- A Product Marketing team oversees competitive positioning and product development to align products with the needs of our customers

In progress:

- Product rationalisation and prioritisation exercise is being conducted to ensure that native cloud products are delivered in line with customer expectations

Innovation

Static risk environment

Principal risk

If we fail to encourage and sustain the innovation that is required to create disruptive technologies, processes and services, we will fail to deliver on our commercial goals.

STRATEGIC ALIGNMENT

Winning in the market · Revolutionise business · Capacity for growth

Risk background

As Sage transitions into a SaaS business powered by a subscription licence model, we must be able to rapidly deploy new innovations to our customers and partners. This innovation could relate to new technologies or services, or could represent a new way of working with Sage.

Innovation will require us to address how we encourage innovation across our people, process and technology, and how we make this innovation sustainable. By building innovation into our collective DNA, we can empower our colleagues to improve the customer experience, and drive efficiencies in how we deliver our products and services.

By strategically investing in platforms and relationships, we can also harness the innovation of our partners. By providing opportunities for our partners to interact with our products we can drive scalable growth and improve the customer experience.

Management and mitigation

- Market intelligence surveys identify market opportunities
- Integration of the Pegg chat bot with Sage Accounting, to enhance the product experience using artificial intelligence
- Prioritised product development based on 'customer for life' roadmaps, with the development of innovative solutions that meet the identified needs of our customers

In progress:

- Simple, smart and open technology strategy to provide API and microservices through a Sage Developer Platform
- Strategic acquisition and collaboration to complement and enable accelerated innovation
- Platform Services delivered to Sage Business Cloud to enhance value proposition for cloud adoption
- Development of an incubation framework to guide how Sage interacts with its innovation partners
- Enhancement of the Pegg AI capability, and increased use of machine learning to support new areas and operations

Route to Market

Static risk environment

Principal risk

If we fail to identify, develop and maintain a blend of channels to market, our ability to sell and support the right products and services to the right customers at the right time is reduced.

STRATEGIC ALIGNMENT:

Risk background

By offering our current and potential customers the right information on the right products and services at the right time, we can maximise the value we can obtain from our marketing and customer engagement activities.

This can shorten our sales cycle, and ensure that customer retention is improved. It can also use new products and services, such as payments and banking technologies, to draw new customers into the Sage family.

Management and mitigation

- Market data and intelligence is disseminated internally to support decision makers in the best routes to market
- Dedicated colleagues are in place to support partners, and to help manage the growth of targeted channels
- New routes to market are being opened through our partnerships with Payment and Banking technology providers

In progress:

- The Sage Partner Programme has been moved into the marketing organisation to drive increased alignment of the indirect channel to market

Customer Success

Static risk environment

Principal risk

If we fail to align front and back office activities to deliver the best possible customer experience, including the cloud-based products our customers need to be successful, we will not be able to achieve sustainable growth.

STRATEGIC ALIGNMENT:

Risk background

If Sage is to become a true SaaS business, we must maintain a sharp focus on the relationship we have with our customers, constantly focusing on delivering the products, services and experiences our customers need to be successful. If we do not do this, they will likely find another provider who does give them these things. Conversely, if we do these things well these customers will stay with Sage, increasing their lifetime value, becoming our greatest marketing advocates.

While Sage is renowned for its quality customer support, a focus on customer success requires more proactive engagement as well. By proactively helping customers to recognise and fully realise the value of Sage's products we can help increase the value of these relationships over time, and reduce the likelihood of customer loss. By aligning our people, processes and technology with this focus in mind, all Sage colleagues can help support our customers to be successful and in turn drive increased financial performance.

Management and mitigation

- A Product Delivery team develops and delivers those products needed by our customers to support their success
- Battlecards are in place for key products in all countries, setting out the strengths and weaknesses of competitors and their products
- Defined 'customer for life' roadmaps are in place, detailing how products fit together, any interdependencies, and migration pathways for current and potential customers
- Continuous Net Promoter Score (NPS) surveying allows Sage to identify customer challenges rapidly, and respond in a timely manner to emerging trends

In progress:

- A data-driven Customer Success Framework is being piloted in Northern Europe. This framework is designed to enhance the customer experience and ensure that Sage is better positioned to meet the current and future needs of the customer
- The results of this pilot will be used to enhance the Framework as it is rolled out to other major markets

Principal risk | Risk background | Management and mitigation

Third Party Reliance

Static risk environment

Principal risk

If we fail to develop, manage and maintain relationships with third parties that are critical to the delivery of our products and services, we could suffer significant reputational and financial damage.

STRATEGIC ALIGNMENT:

Risk background

Sage has an increasing reliance on a relatively small number of critical third-party providers that support the delivery of our products to our customers. Any interruption in these services or relationships could have a profound impact on Sage's reputation in the market and could result in significant financial liabilities and losses.

Equally, Sage has an extensive network of sales partners critical to our profile in the market. Carefully selecting, managing and supporting these partners is critical to how we grow our business, as well as ensuring that we only engage with those people and organisations that share Sage's values and aspirations.

As Sage continues its transition into a SaaS business, this will likely split into two risks. The first of these will focus on our key supplier dependencies, while the second will consider the risks specifically associated with our partner relationships.

Management and mitigation

- Dedicated colleagues are in place to support partners, and to help manage the growth of targeted channels
- Standardised implementation plans for Sage products that facilitate efficient partner implementation
- A specialised Procurement function supports the business with the selection of strategic third-party suppliers and negotiation of contracts
- Clear roles and responsibilities for colleagues are outlined in the Procurement Lifecycle Policy and Procedures, which includes delegated levels of authority for investment approval

In progress:

- Rationalisation of targeted channels is continuing to focus on value-add activities
- Managed growth of the API estate, including enhanced product development that enables access by third party API developers
- Transition of the Sage Partner Programme into the Marketing function to drive increased alignment of all product and service offerings

Sustainable Processes and Controls

Improving risk environment

Principal risk

If we fail to apply sustainable and repeatable end-to-end business processes and controls, we will not be able to deliver against our goals.

STRATEGIC ALIGNMENT:

Risk background

Sage operates in multiple geographies and market segments which require sustainable processes to drive operational efficiencies. By consistently delivering the right outcome from its business processes each and every time, Sage is able to efficiently and effectively deliver an improved customer experience.

By embedding a common business control framework that prioritises processes, technology and ownership, the organisation can focus on delivering the right outcomes at the right time. By simplifying our control environment, we can also drive an improved focus on those outcomes that help support customer success, in turn helping to sustain our subscription growth.

Management and mitigation

- Established Global and Regional Risk Committees oversee the risk and internal control environment, and set the tone-from-the-top
- The Sage Governance, Risk and Compliance (GRC) technology solution automates activity, and provides a consolidated view of risk, compliance and control environment
- The Sage Compliance Hub provides a one stop repository and alert mechanism for the organisation, simplifying how Sage colleagues interact with and manage their compliance obligations
- Shared Service Centres (SSCs) are established in Newcastle, Johannesburg and Atlanta, enabling the implementation of consistent and standardised systems and processes
- Policy Approval Committee is in place to supervise and approve policies within the Sage-wide policy suite
- Sage's business control framework is starting to drive standardisation of practice and process across the business

In progress:

- Plans for migration of remaining country General Ledgers into Sage Enterprise Management are in place
- The Business Control Framework continues to be built out as a way of supporting the One Sage approach to control

Principal risk	Risk background	Management and mitigation
Colleague Success		Static risk environment
If we fail to ensure we have colleagues with the critical skills, capabilities and capacity we need to deliver on our strategy, we will not be successful. **STRATEGIC ALIGNMENT:**	As Sage transitions into a SaaS business, the capacity, knowledge and leadership skills we need will change. Sage will not only need to attract the talent and experience we will need to help navigate this change, we will also need to provide an environment where colleagues can develop to meet these new expectations. By empowering colleagues and leaders to make decisions, be innovative, and be bold in delivering on our commitments, Sage will be able to create an attractive working environment. By addressing drivers of colleague turnover, and embracing the values of successful SaaS businesses, Sage can increase colleague engagement and create an aligned workforce.	– Roles and vacancies are benchmarked in the market to ensure appropriate remuneration – Job descriptions provide criteria aligned with our SaaS strategy against which new hires and internal transfers are assessed – Continued the rollout of our Sage Business Cloud People solution to enhance colleague experience – Sage Save and Share scheme opened for a second year, with over 25% of colleagues now invested – The performance management process identifies training and development needs for colleagues that supports their ability to deliver against the strategy – Fully embedded Sage Learning and deployed the Leading at Sage training programme for all managers within the business to develop leaders **In progress:** – An Employee Value Proposition is being developed to drive a consistent experience for colleagues – Focused efforts are being developed to address regional retention drivers – Introducing the L.E.A.D. programme to enhance our approach to performance management and focus on future development
Values and Behaviours		Improving risk environment
If we do not fully empower our colleagues in line with our shared values, we will fail to develop the behavioural competencies required to be a successful SaaS business. **STRATEGIC ALIGNMENT:**	The development of a shared behavioural competency that encourages colleagues to think small and act big will be critical in Sage's successful transition to a SaaS business. Devolution of decision making, and the acceptance of accountability for these decisions, will need to go hand in hand as the organisation develops and sustains its shared values and behaviours, and develops a true SaaS culture. Sage will also need to create a culture of empowered leaders that support the development of ideas, and that provides colleagues with a safe environment that allows for honest disclosures and discussions. Such a trusting and empowered environment can help sustain innovation, enhance customer service and drive the engagement that results in increased market share.	– Code of Conduct communicated to all colleagues, and subject to annual certification – Alignment of personal objectives across Sage, with direct cascade from the CEO – Formal assessment against personal objectives for each colleague as part of established performance management process, which also considers personal application of Sage's Values and Behaviours – Core eLearning modules have been rolled out across the enterprise, with annual refresher training – Whistleblowing and Incident Reporting mechanisms are in place to allow issues to be formally reported, and investigated – All colleagues are empowered to take up to five paid Sage Foundation days each year, to support charities and provide philanthropic support to the community **In progress:** – Transitioning compliance training into role-based education as a way of supporting colleagues to apply expected values and behaviours – Sage Compliance is undertaking work to measure and monitor the ethics and compliance culture at Sage using relevant operational metrics

Principal risk	Risk background	Management and mitigation

Information as an Asset

Improving risk environment

Principal risk

If we fail to manage, protect and maximise the value of our data, we will not be able to realise the full potential of our assets.

STRATEGIC ALIGNMENT:

Winning the market, One Sage, Revolutionise business

Risk background

Information is the life blood of a SaaS business – it tells us how we create revenue, how we can improve the customer experience, and how we can meet our obligations and commitments. Analysed using manual and machine learning, it provides us with the intelligence we need to run and build our business.

Protecting the confidentiality, integrity and accessibility of this data is table stakes for a data-driven business, and failure to do so can have significant financial and regulatory consequences in the General Data Protection Regulation (GDPR) era. In addition, we also need to use data efficiently and effectively to drive improved business performance.

Management and mitigation

- Accountability is established within both OneIT and Product for all internal and external data being processed by Sage. Sage Chief Information Security Officer oversees information security, with a network of Information Security Officers that directly support the business
- The Chief Data Protection Officer supported by a Data Governance forum oversees information protection for Sage
- A network of country-level data champions help support the business to embed Sage practices across the organisation, with particular focus on the GDPR requirements that came into effect this year
- 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 for the development of new code
- Structured and ad-hoc IT Internal Audit activity is undertaken by Sage Assurance against an agreed plan, and reported to management and the Audit and Risk Committee
- The Sage information security policy suite was reviewed and updated to reflect changes in industry best practice
- An organisation-wide GDPR project oversees those actions required to achieve compliance
- An incident management framework is in place, which includes rating of incidents and requirements for notification and escalation, and online incident reporting to Sage Risk
- All colleagues are required to undertake awareness training for information management and data protection, with a focus on the GDPR requirements. Colleagues who frequently handle personal data also undertake role-based training

In progress:

- Information Security Risk Management Methodology continues to be deployed to provide objective risk information on our assets and systems

The principal risks are assessed as presenting the greatest threat to the successful delivery of Sage's strategy. For this reason, they are used as the basis for challenging, and establishing, our financial viability.

VIABILITY STATEMENT

The viability period

In accordance with provision C.2.2 of the UK Corporate Governance Code, the Directors set out how they have assessed the Group's prospects, the period covered by the assessment and the Group's formal viability statement.

The Directors assess the prospects of the Group taking into account various factors including the Group's current position, the nature of its business, its business model and strategy, its principal risks, its liquidity analysis based on net debt and available debt facilities and its expected performance. Expected performance reflects the Group's focus on generating recurring revenue through software subscriptions. The viability statement sets out how the Directors have reached a conclusion on the Group's ability to continue in operation and meet its liabilities as they fall due over the period of their assessment.

The viability periods

The Directors have 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 the business continues its transition to the subscription model. Projections beyond this period become less reliable given the inherent uncertainty of technology and market developments.

The assessment process and key assumptions

The assessment of the Group's prospects is based on its strategy and associated principal risks. These are reviewed by the Board and the Audit and Risk Committee at least annually, and are a foundation for the Group's strategic plan. The financial forecasts contained in the plan make certain assumptions about the uptake of subscription services and the acceptable performance of the core revenue streams and market segments. They assume that debt instalments are paid as they fall due, although the Group's main debt facilities are not due for renewal within the period of the assessment.

The viability assessment

The Group's viability has been assessed by stress testing the plan 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 scenarios were considered where principal risks arose in combination.

The scenarios considered to be the most plausible and significant in performing the assessment of viability and the combination of principal risks involved were as follows:

	Description of scenario	Principal risks involved
1	**Malicious data breach impacting EU data** The deliberate targeting of data relating to EU data by malicious or criminal actors. This scenario considers the impacts on both customer data, as well as on Sage colleague data as it impacts data confidentiality, integrity and availability.	– Competitive Advantage – Approach to Market – Customer Success – Ecosystem – Control Environment – Information Management and Protection
2	**Two accidental data breaches in a major market** Two accidental releases of customer or colleague data within a major market within a short period of time. This scenario considers the impacts on both customer data, as well as on Sage colleague data as it impacts data confidentiality, integrity and availability.	– Competitive Advantage – Approach to Market – Customer Success – Ecosystem – Control Environment – Values and Behaviours – Information Management and Protection
3	**Legal breaches by Sage or an associated third party** Sage or a third party, acting on Sage's behalf, fails to comply with legal obligations relating to sanctions, anti-money laundering, bribery and corruption or modern slavery.	– Approach to Market – Ecosystem – Control Environment – Values and Behaviours
4	**Collapse in subscription NCA in core markets** A reduction in the perceived competitiveness of Sage's subscription products by customers, resulting in an adverse impact on ARR growth	– Competitive Advantage – Approach to Market – Customer Success

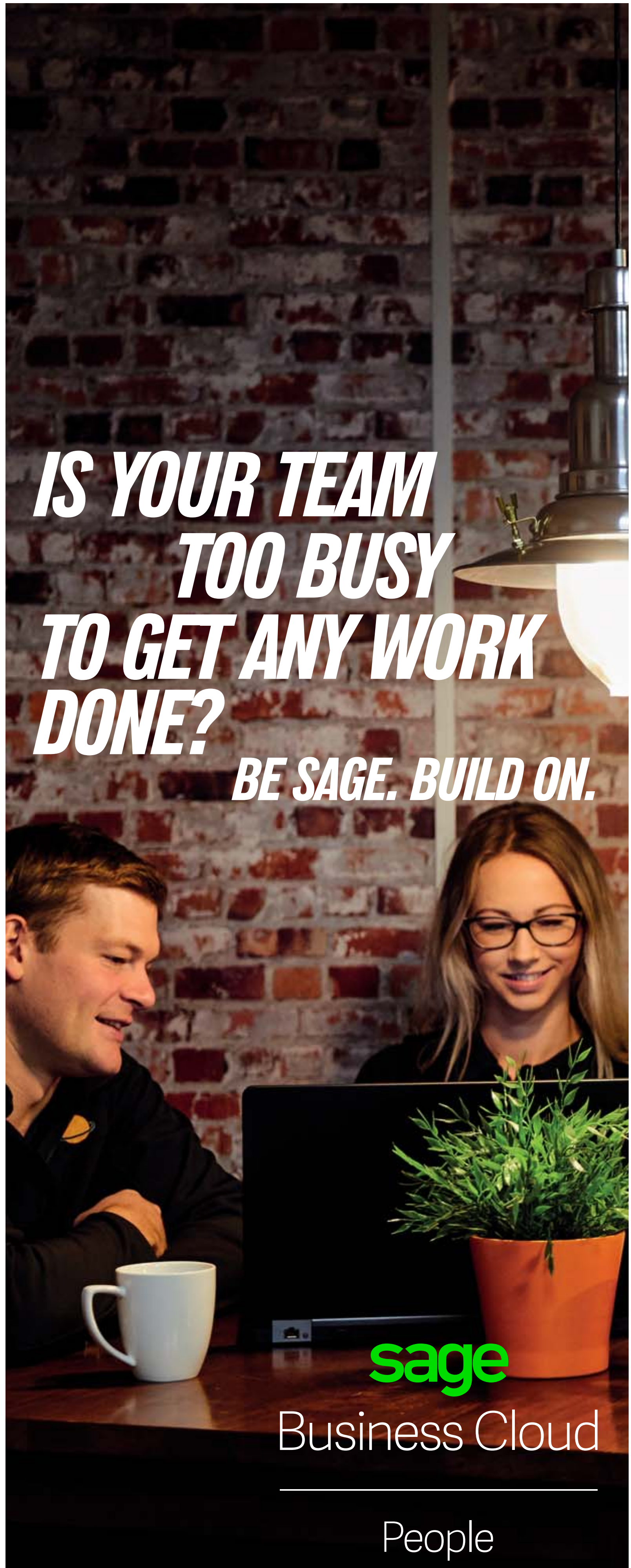
The monetary impact of each scenario was estimated by a cross functional group of senior leaders, including representatives from Finance, Risk, IT, Product Marketing and Legal, who evaluated the possible consequences, primarily through reducing revenues and net cash inflows. These impacts were based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

As set out in the Audit and Risk Committee's report on page 97, 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.

In the event that scenarios such as those tested were to occur, management would have a number of options available to maintain the Group's financial position including cost reduction measures, the arrangement of additional financing and a review of the sustainability of the dividend policy.

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, that is, until 30 September 2021.



ANOTHER TOOL TO HELP US ACHIEVE OUR AMBITION

The Board is responsible for maintaining and reviewing the effectiveness of our risk management activities. These activities reflect financial, operational and compliance considerations, and are designed to support the business to successfully achieve its operational and strategic objectives. Our risk management strategy provides parameters for the successful management of risk and provides our leaders with the scope to successfully deliver the business strategy in the most efficient way possible.

How we identify risk

Our risk identification process follows a dual approach, which seeks to identify:

- strategic risks using a top down approach, with the principal risks representing the risks that most threaten delivery of our strategy; and
- operational risks using a bottom up approach at the country and regional level. These risks most threaten local business activity.

Higher-rated local risks are escalated in line with the Risk Management Policy to the Regional and Global Risk Committees, which provides organisational visibility to emerging risks.

Our risk appetite

Our risk appetite reflects our ability or desire to accept a certain level of risk in order to achieve our strategy. We recognise that eliminating risk is often not feasible or desirable, so by defining our risk appetite we support our leaders to manage risk within acceptable boundaries.

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. These statements and metrics are evaluated throughout the year to ensure they remain aligned with our strategic objectives and within an acceptable risk 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. 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 72 and 73. Sage Risk completed the deployment of the Sage Governance, Risk and Compliance (GRC) tool in 2018 which supports the business to maintain visibility of its current risk exposure, and the status of its risk management activities. This tool enables Sage Risk to provide ongoing guidance, support and challenge to the business on the management of risks to our strategy and operations. It is also used to support Sage Compliance efforts across the business, including hosting the Sage Compliance Hub, which provides a one-stop shop for Sage colleagues to manage and interact with the business control framework. The Sage GRC tool also supports the development of the Sage Assurance risk-based audit plan, and will be used to track any actions identified through assurance activity.

In addition to its business as usual risk management activities, Sage Risk also support the business in a number of other key projects or reviews each year. In 2018, this included supporting Sage's readiness preparations for the General Data Protection Regulations, and the enhancement of the business control framework. Sage Risk worked to critically review activities and collaboratively improve practices and processes, and then help embed ownership within the business.

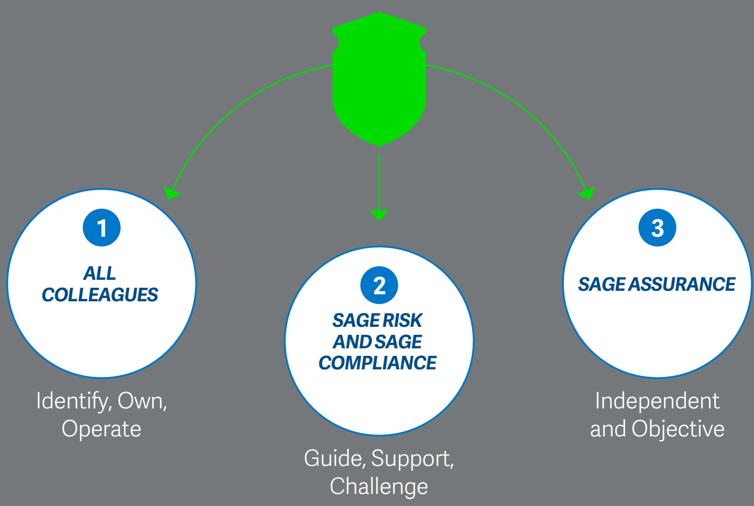
During 2018, Sage Risk focused on supporting the enablement of risk ownership across the business. The team has dedicated resources in Europe, Africa, Asia, North America and Latin America who support the business and functions in the management of both operational and strategic risks. The responsibilities of each Risk colleague continue to include their specific geographic scope, as well as supporting principal risk owners to manage their risks. The Sage Risk team also manages the organisation's corporate insurance programme, ensuring that global and local insurance placements are appropriate for the risk exposure and in line with the organisation's risk appetite.

Continuing training implemented in 2017, Sage Risk provided compulsory training for colleagues on Risk Management and Incident Management. In July 2018, Sage Risk launched a single global incident reporting portal, which simplified the incident reporting process for all colleagues, and helped streamline our ability to respond to emerging threats as part of a One Sage approach.

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 when it comes to the management of risk.

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



To promote this model Sage Compliance 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 2018, Sage Risk and Sage Compliance continued to work together to maximise the guidance, support and challenge being provided to the business.

Values and Behaviours

The Board recognises that values and behaviours underpin the effectiveness of Sage's risk management, and the operation of an effective control environment.

Sage's Values and Behaviours set out how our strategy should be executed. Our Code of Conduct supports and reinforces these values and behaviours, and sets clear expectations across Sage for compliance with ethical standards. Behaviour forms a significant part of our colleague performance management process, and in FY18 was identified and managed as a principal risk.

As previously stated, our three lines of defence model also articulates clear roles and responsibilities for all colleagues, and establishes accountability for individual actions and decisions. It also describes how appropriate challenge and assurance is provided over business activities, including the ethical conduct of our operations.

During 2018 we commenced the transformation of our compliance training into innovative, engaging role-based education programmes tailored to meet the specific learning objectives of targeted stakeholder groups. We seek to equip colleagues with knowledge relevant to their role that is consistent with Sage values and behaviours, and supports accountability and decision making. In addition, the continued development of a standardised business control framework will provide additional guidance and direction on these expected ways of working.

Our values

Customers first

Velocity

Innovate

Do the right thing

Make a difference

More on page 42

Risk governance

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 and their associated appetite statements and metrics, to assess whether they continue to be relevant, effective and aligned to the achievement of Sage's strategic objectives, and within an acceptable tolerance for the Group. The committee also monitors the effectiveness of the control environment through the review of Internal Audit reports from Sage Assurance and consideration of relevant reporting from management, Sage Risk, Sage Compliance and the external auditor. Further information on the committee's activity in 2018 is set out in the Report of the Audit and Risk Committee section on pages 92 to 100.

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 the associated risk. Each principal risk is also owned by an assigned 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 Sage. It meets quarterly and seeks to:

- Establish clear governance and accountability for risk, and any associated (remediation) activities;
- Provide direction to regions and countries, including the creation and deployment of common methodologies and practices;
- Provide a point of escalation;
- Drive the consideration of risk in decision making;
- Drive the inclusion of risk management into performance management;
- Oversee cultural change;
- Enable the Group 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.

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

Regional Risk Committees

FY18 saw changes in how risks were formally reported and managed at the regional level. Four Regional Risk Committees were operational throughout FY18 in Africa-Middle East, Asia-Australia, North America and Latin America. Reflecting the need for greater differentiation in the European region, in April the Europe Regional Risk Committee was replaced with four separate Regional Risk Committees in Northern Europe, Central Europe, Southern Europe and Iberia. Each committee met four times during FY18.

The Regional Risk Committee meetings occur in advance of the Global Risk Committee. This supports the operation of the Global Risk Committee and the management of principal and local risks within each region. In addition to managing identified local risks, these regional committees 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 risk 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 Regional Risk Committees, and provides guidance, support and challenge to the business to effectively manage risk. Led by the Risk Director, the team continues to leverage local and global relationships to support business activities. Sage Risk also works closely with Sage Compliance as a second line partner to improve controls and behaviours across the enterprise, and allow Sage to operate and grow within its risk appetite.

Sage Compliance

Sage Compliance provides guidance, support and challenge to the business to drive excellence in governance and control, enhance business control frameworks and monitor and guide colleague engagement on compliance related matters to reinforce Sage values and behaviours, 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 pages 98 and 99.

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 3 to 53 and the associated work of the Audit and Risk Committee on pages 92 to 100.

Directors' approval of the Strategic Report

Our 2018 Strategic Report, from pages 1 to 73, has been reviewed and approved by the Board of Directors on 20th November 2018.

Steve Hare
Chief Executive Officer

CORPORATE GOVERNANCE...

A STRATEGIC ENABLER

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.

Donald Brydon
Chairman

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.

Last year I reported that the Board had created the new position of Board Associate to enhance the voice of employees in the Board's deliberations. This has proved successful and the Board plans to appoint a successor Board Associate after the first 18-month term (extended from the original one year) has concluded. The role has proved valuable in providing two-way communication.

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 Boards to have fewer and fewer Executive Directors.

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.

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

Throughout the financial year ended 30 September 2018 and to the date of this report, Sage has complied with the provisions of the Code. The Code is publicly available at the website of the UK Financial Reporting Council at www.frc.org.uk. This corporate governance section of the Annual Report & Accounts describes how we have applied the principles of the Code. The new UK Corporate Governance Code published in July 2018 (2018 Code) will apply to Sage in the financial year ending 30 September 2020. We are already considering the extent to which we already apply the principles and provisions of the 2018 Code and will report on progress in our 2019 Annual Report & Accounts.

Bringing knowledge and experience to the table

Donald Brydon (73)

Chairman

N

Appointed to the Board 6 July 2012

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.

Past experience

Donald 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.

Other current appointments:

- London Stock Exchange Group Plc – Chairman
- Medical Research Council – Chairman

Neil Berkett (63)

Independent Non-executive Director

A R

Appointed to the Board 5 July 2013

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.

Past experience

Neil has over 30 years' experience in a wide range of highly competitive consumer industries. 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.

Other current appointments:

- Guardian Media Group – Chairman
- NSPCC – Chairman elect

Blair Crump (57)

Executive Director

Appointed to the Board 1 January 2018

Blair has significant leadership experience within the technology sector and a strong background in sales, customer service and driving growth gained during his years in this sector. Blair holds a BSc in Economics from The Wharton School, University of Pennsylvania.

Past experience

Blair was appointed to the Board on 1 January 2018 having joined Sage in August 2016 in the newly created position of President, leading on sales and customer service across the Group. Blair joined Sage from Texas-based profit realisation company PROS Holdings, where he was Chief Operating Officer. Previously, Blair led Salesforce.com's Global Enterprise business, reporting into CEO Marc Benioff, and prior to this spent five years at Verizon Business, where he was appointed Group President. Blair was also at MCI Communications for 23 years, before its acquisition by Verizon in 2006.

Other current appointments:

None

Drummond Hall (69)

Senior Independent Non-executive Director

A N R

Appointed to the Board 1 January 2014

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.

Past experience

Drummond 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. 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

Changes to the Board during the year and up to the date of this report

Blair Crump joined the Board on 1 January 2018. Stephen Kelly stood down from the Board with effect from 31 August 2018. Steve Hare was appointed interim Chief Operating Officer in addition to his role as Chief Financial Officer on 31 August 2018 and Steve was appointed Chief Executive Officer on 2 November 2018.

Board committees

A	Audit and Risk Committee	See page 92
N	Nomination Committee	See page 101
R	Remuneration Committee	See page 103

Steve Hare (57)

CEO and CFO
Executive Director

Appointed to the Board
3 January 2014 and as CEO on 2 November 2018

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.

Past experience

Prior to joining Sage as CFO, Steve was Operating Partner and Co-Head of the Portfolio Support Group at the private equity firm Apax Partners, which he joined in 2009. Before his work at Apax Partners, he built over 10 years' experience leading the finance function for three listed UK companies culminating as CFO for FTSE 100 company Invensys plc from 2006 to 2009. Between 2004 and 2006 Steve was Group Finance Director for Spectris plc, the FTSE 250 precision instrumentation and controls company, and from 1997 to 2003 he was with Marconi plc, serving as CFO from 2001. Steve was appointed interim Chief Operating Officer in addition to his role as CFO on 31 August 2018 and was appointed CEO on 2 November 2018. Steve qualified as a chartered accountant in 1985 with Ernst & Whinney, now part of Ernst & Young LLP, and has a Bachelor of Commerce degree from Liverpool University.

Other current appointments:

None

Jonathan Howell (56)

Independent
Non-executive Director

A R

Appointed to the Board
15 May 2013

Jonathan's significant financial and accounting experience, across a number of sectors 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.

Past experience

Jonathan recently left the role of Group Finance Director of Close Brothers Group plc, after 10 years, to pursue the next stage of his career, having joined in February 2008. He 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.

Other current appointments:

None

Soni Jiandani (52)

Independent
Non-executive Director

N

Appointed to the Board
28 February 2017

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.

Past experience

An engineer by background, Soni 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.

Other current appointments:

None

Cath Keers (53)

Independent
Non-executive Director

R

Appointed to the Board
1 July 2017

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.

Past 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. Cath has held non-executive roles in a number of FTSE-250 companies, including most recently Royal Mail Group plc.

Other current appointments:

- Funding Circle plc – Independent Non-executive Director;
- TalkTalk Telecom Group plc – Independent Non-executive Director;
- Ustwo Fampany Ltd – Chairman

Meet the Executive Team

Sanjay Almeida

Vicki Bradin

Blair Crump

Amanda Cusdin

Sanjay Almeida (45)

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.

Vicki Bradin (40)

General Counsel and Company Secretary

Vicki joined Sage in 2016 from former FTSE 250 software company Misys (now Finastra), where she was Associate General Counsel. In her role at Misys, Vicki was responsible for M&A, litigation, risk, intellectual property and more.

After graduating from Nottingham University, Vicki qualified as a solicitor in the City of London. Vicki spent her early career working as a corporate lawyer in global and magic circle law firms before moving in-house working in large multi-nationals and UK public limited companies, helping grow and transform businesses whilst managing their regulatory and litigation risk.

Blair Crump (57)

President

For Blair Crump's skills and experience see page 76.

Amanda Cusdin (41)

Chief People Officer

Amanda became interim Chief People Officer in October 2017, having joined Sage in March 2015. In September 2018, Amanda was appointed permanent Chief People Officer.

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.

Passionate about developing talent and leadership and creating truly inclusive organisations which promote diversity, Amanda has a Bachelor's degree in History from the University of Warwick and postgraduate qualifications in Human Resources Management.

Steve Hare (57)

Chief Executive Officer

For Steve Hare's skills and experience see page 77.

Steve Hare

Ron McMurtrie

Rob Reid

Klaus-Michael Vogelberg

Ron McMurtrie (53)

Chief Marketing Officer

Ron 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 including public affairs, 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 budgetary and personnel responsibility spanning direct sales, marketing, enterprise consulting and professional services in private and public-sector markets. Ron was appointed permanent Chief Marketing Officer in July 2018.

Rob Reid (68)

Managing Director, Sage Intacct

With more than 30 years' experience in the software industry, Rob has a proven track record of driving explosive growth at innovative companies, and has demonstrated a deep expertise in bringing cloud computing to the world of business applications.

Rob served most recently as president and CEO of LucidEra, a market leader for on-demand business intelligence. Prior to that, he was group vice president of industry-leading Siebel CRM On Demand for Oracle Corporation, managing the SMB sector. As president and CEO of on-demand CRM innovator UpShot, Rob grew the company tenfold before it was acquired by Siebel.

Rob served as president of Concur Commerce Network, an e-marketplace for small to mid-sized businesses, and also as President and CEO of Seeker Software.

Klaus-Michael Vogelberg (53)

Chief Technology Officer

Responsible for Sage's technology strategy and software architecture, Klaus-Michael joined us when Sage acquired the German KHK Software group in 1997. Having been R&D Director and a partner of that business Klaus-Michael went on to act as R&D Director for Sage in the UK and Ireland from 2004 to 2007 before taking on his current role.

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

Keith Robinson

In FY18 Keith Robinson, Chief Strategy Officer, was appointed as advisor to the Executive Committee. Keith has a wealth of SaaS experience both from working in and investing in technology, having previously worked at Lamond Capital Partners LLC, Arma Partners and Gartner.

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 Executive Directors and other senior leaders, 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;
- Inorganic growth and other future growth strategies; and
- Succession planning, including the recruitment of a new Chief Executive Officer, and talent development.

The Board's activities and focus during the year are described in more detail on pages 86 and 87.

Board composition and independence

The Board composition, including changes during the year, is set out on pages 76 to 77 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 are 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.

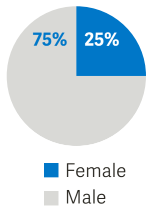
The Board monitors the independence of its Non-executive Directors, particularly any who have given long service. Having reviewed the current Board, the Non-executive Directors are all considered to be independent. Donald Brydon was considered independent at the date of his appointment.

The Board has 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.

Diversity

The Board has due regard for the benefits of diversity in its membership and in senior executive positions. We strive to maintain the right diversity balance, including gender, age, professional background, cognitive and personal strengths, 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. You can read more about how the Nomination Committee has implemented the diversity policy, and results during the reporting period, on page 102.

The Board, as at the date of this Annual Report & Accounts, comprises 25% women (2017: 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	Sub- & Disclosure Committees	Audit & Risk Committee	Nomination Committee	Remuneration Committee
Donald Brydon	10/10	7/7	–	5/5	–
Steve Hare	10/10	7/7	–	–	–
Drummond Hall	9/10	–	4/5	5/5	8/8
Jonathan Howell	10/10	6/7	5/5	–	8/8
Neil Berkett	10/10	–	5/5	–	6/8
Soni Jiandani	10/10	–	–	4/5	–
Cath Keers	9/10	–	–	–	8/8
Blair Crump[1]	8/8	–	–	–	–
Stephen Kelly[2]	7/9	1/3	–	–	–

1 Blair Crump was appointed on 1 January 2018.

2 Stephen Kelly stood down as a Director on 31 August 2018 and all of his absences above, other than one Disclosure Committee meeting, relate to meetings at which his resignation was discussed.

The Board meets not less than six times per year. During FY18, it met seven times in person, with a further three telephone meetings dealing with matters arising in between scheduled meetings. A sub-committee of the Board and, since February 2018, a formal Disclosure Committee, dealt with, among other things, the approval of Sage's full year, half year and quarterly results announcements.

Induction and professional development

During 2018, no new Non-executive Directors were appointed. Blair Crump joined the Board as an Executive Director and, in view of his having held a senior executive position with Sage since 2016, received a focused induction in respect of the expectations and duties of a director of a UK-listed company as well as meeting the Company's key external advisers.

To assist the Board in undertaking its responsibilities, training is available to all Directors and training needs are assessed as part of the annual Board evaluation. In addition to training and updates on industry and corporate governance developments, in 2018 we continued our formal Director engagement programme. This programme is designed to give the Board the opportunity to learn more about the business, whilst also giving colleagues, customers and partners a direct line of communication with the Board. The activities covered ranged from formal structured roundtables to informal lunches and included the areas of focus of the Board for this financial year.

You can read more about the Board's engagement activities on page 88.

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

The Board

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

(see pages 76 to 77 for the Board's composition)

- Sets Sage's long-term strategy and associated risk appetite
- Has overall responsibility for risk management and systems of internal control
- Ensures processes are in place to identify and manage the Group's principal risks

Audit and Risk Committee

- oversees the Group's financial reporting, risk management and internal control procedures and the work of its internal and external auditors

Read Jonathan Howell's Audit and Risk Committee report on page 92

Nomination Committee

- reviews the composition of the Board and plans for its progressive refreshing with regard to balance and structure as well as succession planning
- considers wider elements of succession planning below Board level, including diversity

Read Donald Brydon's Nomination Committee report on page 101

Remuneration Committee

- determines the framework, policy and levels of remuneration and makes recommendations to the Board on the remuneration of the Chief Executive Officer, Chairman, Executive Directors, the Company Secretary and senior executives
- oversees the creation and implementation of all-employee share plans

Read Drummond Hall's Remuneration Committee report on page 103

Chief Executive Officer

- responsible for management of the Group as a whole
- delivers strategic objectives within the Board's stated risk appetite

Executive Committee

- implements strategy, operational plans, budgets, policies and procedures
- responsible for monitoring operating and financial performance
- responsible for assessing and controlling risks
- responsible for prioritising and allocating resources
- responsible for monitoring competitive forces in each area of operation under the direction of the CEO

(see pages 78 to 79 for the Executive Committee's composition)

Delegates authority

Reports back on progress

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. The relevant confirmation statement is contained within the Strategic Report on page 73.

You can read more about our risk management and internal controls systems in our Strategic Report on pages 70 to 73 and the associated work of the Audit and Risk Committee on page 92 to 100.

Board evaluation 2017/18

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. For FY18, the Board repeated an internal evaluation process for itself and each of its Committees, which was introduced in FY17. The evaluation utilised the same online evaluation tool, and to aid the assessment of progress against the previous year, the questions were kept the same where possible. Free text comment boxes allowed respondents to expand on their 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.

The resulting report was received and discussed by the Board in September 2018. The overall conclusion from this year's evaluation was that the Board and its Committees continue to work well and are operating effectively. Thematic areas such as Executive leadership, focus and prioritisation have been acted upon and taken into the Board's FY19 objectives. You can find details of how the Board's activities contributed towards its objectives on page 87. As with any Board whose ambition is to be world-class, the Directors will continue to seek to improve and evolve their standards of performance over the course of the year. During FY19, the Board plans to conduct an externally facilitated review and this will be discussed in our FY19 report.

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.

Steve Hare, Chief Executive Officer

Responsible for implementing the Board's agreed strategy and running of the Group

My responsibilities as Chief Executive Officer include:

- Delivering the Board's strategy through the Executive Committee
- Managing the overall operating performance of Sage, concentrating on revenue and profitability; and
- Maintaining a disciplined control environment and delivering the Group's financial disclosure obligations

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 or the executive directors; 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 updated following the appointment of Steve Hare as Chief Executive Officer in November 2018 and is available via our website.

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 FY18, we have focused on maintaining a consistently high paper quality to enrich the Board's discussions and complement its engagement activities. 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, engagement sessions and less formal social activities with 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 is able to build strong relationships over time with those individuals.

During FY18, we have focused on maintaining a consistently high paper quality to enrich the Board's discussions

Relations with shareholders

Communication with shareholders is given high priority. Information on Sage's activities, published financial results and the Annual Report and Accounts can be found on our website. A full Annual Report and Accounts is sent to all shareholders who wish to receive one. 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 both private and institutional investors and the Board welcomes their participation.

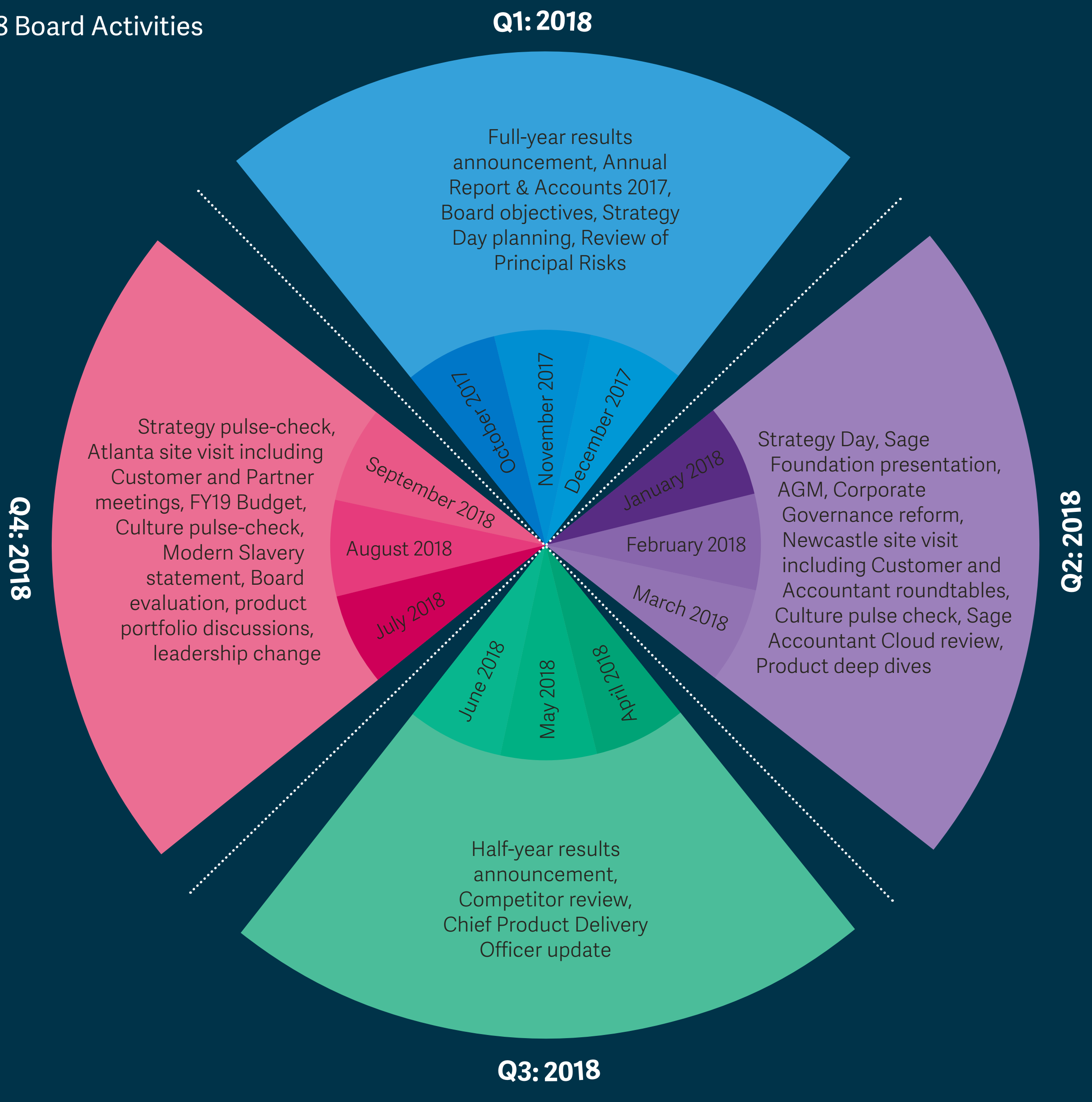
You can read more about stakeholder engagement including shareholders on page 88.

The Board's activities

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 provide an anchor to the strategy and provide the Board with a consistent view of progress during the year, whilst sessions on priority topics allow deeper insight.

2018 Board Activities



How the Board spent the year

The Board adopts a written set of objectives for each financial year, against which it informally assesses progress at each meeting. Activities aligned to these objectives are summarised below. A formal review takes place as part of the annual Board evaluation process.

SaaS Culture

- Regular Board input from SaaS "thinkers" within the business
- Talent cultivation through regular meetings with colleagues
- Received Culture pulse checks
- Performance monitoring and strategy discussions

Revolutionise Business

One Sage

Customer for Life

Cyber Risk

- Received reports from Global CISO on bolstering of Info Sec capability
- Regular cyber briefings

One Sage

Capacity for Growth

Technology Innovation

- Interactive session on ISV and API strategy
- Participated in "Botcamp"

Revolutionise Business

One Sage

New Customer Acquisition

- Received regular progress reports from management on go-to-market activities and initiatives

Winning in the Market

Customer Lens

- Customer and Partner roundtables throughout year
- Attended Sage Sessions

Winning in the Market

Customer for Life

Sage Business Cloud

- Product deep dive sessions throughout year
- Accountant channel strategic review in the year
- Capital Markets Day attendance

Winning in the Market

Revolutionise Business

Market Leadership

- Atlanta visit including Board meeting with North America focus
- Annual Board strategy day
- Competitor review
- Regular review of strategic M&A opportunities

Winning in the Market

Capacity for Growth

Stakeholder engagement

Who are our main stakeholders?

Business Builders – the small and medium-sized businesses who are the growth engine of the economy

Colleagues – our people, who are dedicated to creating, selling and supporting solutions that free our customers from admin so that their businesses can thrive

Partners – those who share our vision and bring our solutions to life, partnering with our customers locally and creating an ecosystem of complementary services

Accountants – the professionals who rely on us to help them deliver a great service to their clients, whatever their size

Investors – our providers of capital, without whom we could not grow and invest for future success

Why is stakeholder engagement important?

Transparency – sharing information about how we run our business so that stakeholders can make informed decisions

Strategy – creating and maintaining a strategy aligned to our stakeholders' values

Long-term, sustainable value creation

What did we do during FY18?

Roundtables – hearing from customers, partners and accountants (advocates of Sage as well as those who do not actively use or sell non-Sage solutions) to better understand our markets, how the strategy we set impacts our stakeholders and how we can serve them better

Site visits – speaking to colleagues, seeing their working environment and understanding Sage's culture around the world

Colleague lunches – informal yet confidential opportunities to meet everyone from apprentices through to senior leaders, and hear what working for Sage means to them

Tech lunches – getting the latest on our products, technology and innovation both at Sage and in the wider software industry and beyond

Investor meetings – finding out what's most important to our investors and updating them on the decisions we've taken and our direction of travel

What's next?

A focused FY19 programme of stakeholder engagement, building on what we've learned during FY18

Growing the Board Associate role

Considering how changes to the UK Corporate Governance Code are implemented and how we can further improve our reporting

Information included in the Directors' report

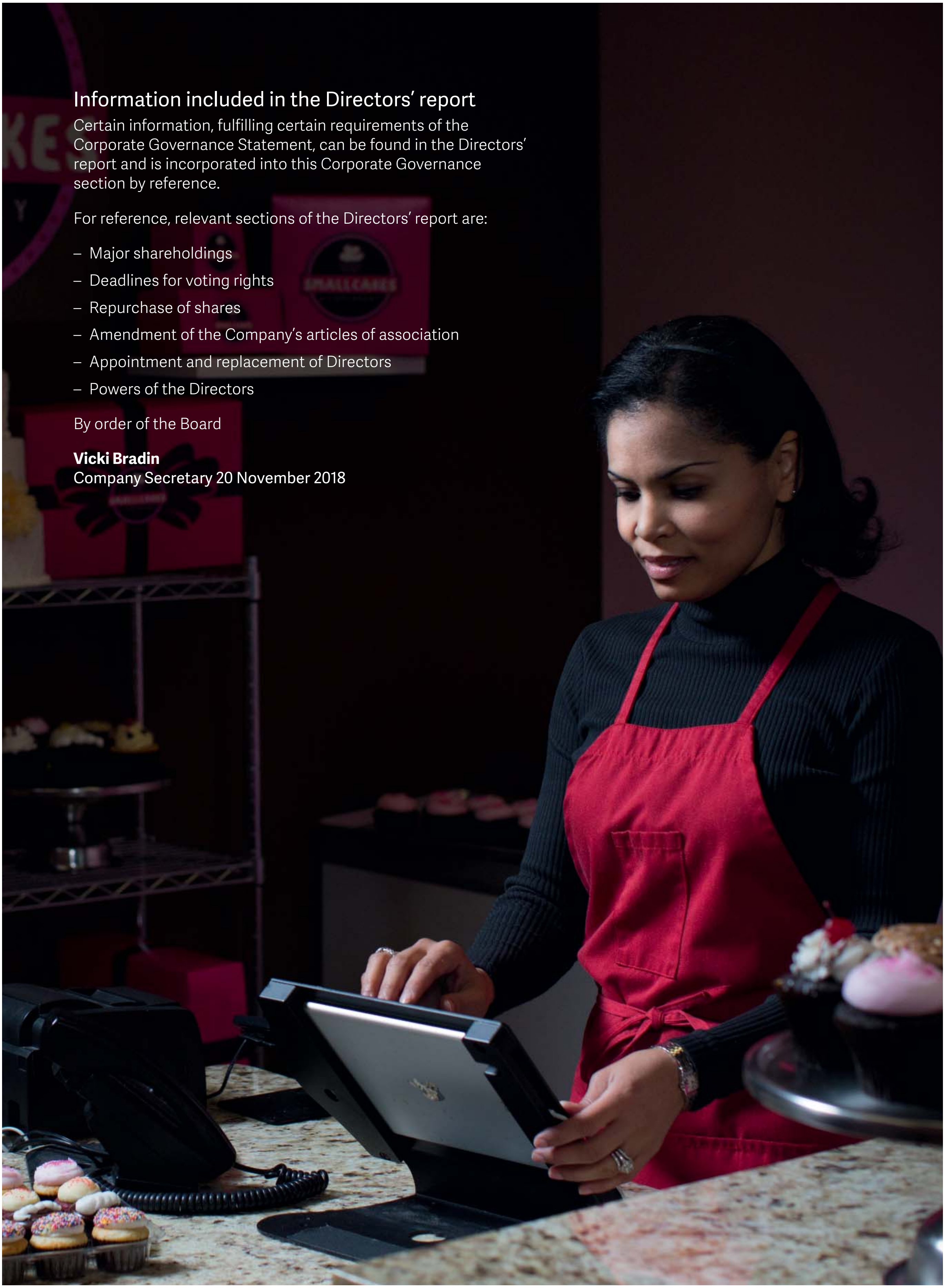
Certain information, fulfilling certain requirements of the Corporate Governance Statement, can be found in the Directors' report and is incorporated into this Corporate Governance section by reference.

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

- Major 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 20 November 2018



INTERVIEW WITH
BOARD ASSOCIATE, AMY LAWSON

DEMYSTIFYING THE BOARD

Amy Lawson took on the role of Board Associate in July 2017. Here she discusses what it means to her, and how she's helping bring the voice of Sage colleagues into the Boardroom.

Amy, you've been Board Associate for nearly 18 months now. What exactly does a Board Associate do?

I attend all Board meetings as an observer. I question, challenge and contribute my views and the insights I've received from other colleagues where appropriate but I am not formally appointed a Director, so I don't carry a vote and I am not subject to the same degree of legal liability as the Directors. I also attend as many of the Board's other engagement activities as I can. **Outside the boardroom, I have the task of listening to colleagues' views and also sharing with them what the Board does and how they can help shape the discussion.** I've done this through a series of blogs shared on our intranet and via a live Q&A with colleagues. I also ensure everyone knows how they can contact me to ask questions or share their views.

How would you explain the role of the Board to your colleagues?

The role of the Board is unique: to advise, to challenge, to support – and only exceptionally to execute. **The Board brings collective insight, but they are also rigorous about not stepping over the line into executive, directive behaviour.** I've observed this dynamic first-hand on many occasions and it's a nuance I hadn't really appreciated until I took on this role. I would also explain the mechanics of the Board, how the agenda is set and how topics make it on to the agenda, including which items are discussed regularly at each meeting and why.

Has anything surprised you about being Board Associate?

I'm going to be honest with you. Previous to this programme, I had always suspected Board meetings would be rather slow and laboured. I also couldn't quite see how they could connect with the colleague experience on the ground and I thought deeply in advance about how I would use this role, which, after all, is intended to close the gap. But, **I've been amazed by how fast-paced meetings are and how much ground is covered.** Like most Boards, ours operates from a series of advance papers, shared in an app, which are 'taken as read', so there is an onus on every single Board member to prepare thoroughly for the meeting. It's a big investment in terms of time, but it means that there's real focus in the discussion and no treading over old ground. I have learned to really listen and follow the flow so that I can pick the right time to ask a question or contribute and add maximum value.

What insights do you think you have brought into the Boardroom that perhaps weren't there before we had colleague representation?

I can't bring all 13,000 colleagues into the Boardroom itself, and this role isn't primarily about airing colleague issues or complaints as there are local mechanisms where that happens. **Instead, I actively seek out the views of my colleagues and I'm helped enormously in that via our network of local communications leaders.** They and others give me really honest feedback about how colleagues are feeling and what matters to them in each of our country locations. From the Board's perspective I think I often provide a bit of a sense check for them. Something that seems like common sense when discussed at Board level might not translate on the ground the way they are anticipating, so I offer challenge in those areas to make sure they get the whole picture.

You've mentioned that the Board members don't get involved in day-to-day operational execution. If they did, how do you think they would get involved?

They each bring something different to the table, and between them they have really strong backgrounds in areas like customer service and marketing, technology and finance. **One thing they all have in common is that they all care deeply about our culture,** and whether it's supporting our performance or not. They know that having the right culture is absolutely key to customer and colleague success, and so we often come back to that in our discussions. I've also seen this come through in the engagement activities where we've met colleagues, customers and partners and those conversations have added depth and context for the more formal Board meetings.

Has being Board Associate changed how you think about your own role?

Absolutely! It's shown me the value of having a discipline of stepping back from the day-to-day role, considering lots of different inputs and thinking longer-term. When I apply that discipline now to my own role as EVP of Communications I find I have so many more interesting thoughts, and I've even solved problems I've been pondering for some time. **It forces your brain into a different gear and I think that reflects the value the Board brings to an organisation.** I appreciate that not everyone can have the opportunity of seeing the Board in action like this, but I do think it's a discipline anyone can apply in their own work, for example by volunteering for projects that take them out of their usual area of expertise and working with colleagues from a different part of the business.

Report of the Audit and Risk Committee

Jonathan Howell
Chairman of the Audit and Risk Committee

Audit and Risk Committee Membership

Jonathan Howell (Chairman)
Attended 5 of 5 meetings

Neil Berkett
Attended 5 of 5 meetings

Drummond Hall
Attended 4 of 5 meetings

Dear shareholder,

I am pleased to present the annual report of the Audit and Risk Committee ("the Committee") for 2018. This report explains the Committee's responsibilities and shows how it has delivered on these, whilst also considering and responding to how the business has evolved during the year. In particular the Committee has challenged and considered the suitability, assessment of and response to the principal risks in light of changes to the performance of the business.

Key activities during the year have included assessing the ongoing effectiveness of internal controls, including the decision to bring forward an external assessment of internal audit, monitoring the business's response to the requirements of GDPR and reviewing compliance with anti bribery and corruption and sanctions legislation. In addition, the Committee has monitored progress on the implementation of IFRS 15 and other new accounting standards as well as 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 (2016) ("the Code") and the associated recommendations set out in the FRC's Guidance on Audit Committees, as revised in 2016. The Committee is considering the extent to which it already applies the requirements of the UK Corporate Governance Code (July 2018) as they affect audit committees, terms of reference and operating procedures. The Committee will report on this in the 2019 Annual Report and Accounts.

"We are firmly focused on ensuring that Sage's risk management procedures and internal controls remain robust and able to respond effectively to the demands of the Group's developing business model and changes in financial reporting requirements."

Role of the Committee

The Committee is an essential part of Sage's overall governance framework. The Board has delegated to the Committee the responsibility for overseeing the Group's financial reporting, risk management and internal control procedures, and the work of Sage Assurance and the external auditor. These responsibilities are defined in the Committee's terms of reference, which were reviewed and approved by the Committee in February 2018, with no changes made from the previous version approved in October 2017.

Composition

The Code requires that at least one member of the Committee has recent and relevant financial experience. The Disclosure Guidance and Transparency Rules (DTRs) require that at least one member has competence in accounting and or auditing. The Board is satisfied that the Chairman meets these requirements, being a qualified chartered accountant and who, until very recently, was 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 Executive Officers with extensive experience of leading businesses that, like Sage, are strongly focused on their customers. This means that they have a good understanding of the challenges presented by the Group's customer-focused strategy which enables them to make robust contributions 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 76 to 77 of this report.

Activities during the year

The Committee had four scheduled meetings over the course of the year in line with its terms of reference. A fifth Committee meeting was convened in February 2018 to provide the Committee with additional time to explore the technical aspects of IFRS 15, consider the impact for the Business and the Group's implementation project. Attendance at the Audit and Risk Committee during the year to 30 September 2018 is shown in the table on the following page. Drummond Hall was unable to attend one meeting, however, he reviewed the relevant information and papers and provided comments to the Chairman in advance of the meeting. The Chairman of the Board was present at three of the four scheduled meetings. Steve Hare in his capacity as Chief Financial Officer (and, more recently, Chief Executive Officer as well), the Vice President ("VP") Risk and Assurance, the Executive Vice President ("EVP") Finance Control and Operations and the General Counsel were present at all five meetings. The Chairman of the Committee 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 receives 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 status of investigations and, where appropriate, management actions to remediate issues identified;

– progress against the plan and results of internal audit activities, including Sage Assurance and management reports on internal control, including financial, compliance and operational matters, and the implementation of management actions to remediate issues identified and make improvements to internal controls; 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 GDPR, the UK Bribery Act 2010 and sanctions legislation. Specific items addressed by the Committee at each of its regular scheduled meetings since the 2017 Annual Report and Accounts was published were as follows.

Meeting	Key items considered	
February 2018	**Financial management and reporting** – Finance update **Risk management and internal controls** – Risk and Compliance report – Sage Assurance update – GDPR review ("In-Focus" review) – Overview of Sanctions ("In-Focus" review) **Internal Audit** – Approval of Internal Audit Charter	**External Audit** – EY update **Incident management and whistleblowing** – Whistleblowing, Fraud and Incident update **Other matters** – Committee Terms of Reference – Auditor Independence Policy – Companies Act 2006: Director Duties – Regulatory changes update
April 2018	**Financial reporting** – Half year financial reporting matters – Interim financial statements and results announcement – Tax strategy update – IFRS 15 update **Risk management and internal controls** – Risk and Compliance Report – Sage Assurance update – GDPR update ("In-Focus" review) – Sanctions update ("In-Focus" review) – Risk Management Policy	**Incident management and whistleblowing** – Whistleblowing Policy – Whistleblowing, Fraud and Incident update **External Audit** – EY FY18 Audit Plan – Interim Results Review Report **Other matters** – Companies Act 2006: Director Duties – Regulatory changes update
September 2018	**Financial reporting** – Finance update – Draft version of the 2018 Annual Report and Accounts – Draft review of positioning and FBU statement – IFRS 15 implementation project update **Risk management and internal controls** – Risk and Compliance report – GDPR update – Sage Assurance update – Draft Viability statement – Bribery Act update ("In-Focus" review)	**Internal Audit** – Effectiveness Review of Sage Assurance **External Audit** – EY Audit update and discussion **Incident management and whistleblowing** – Whistleblowing, Fraud and Incident update **Other matters** – Companies Act 2006: Director Duties – Regulatory changes update
November 2018	**Financial reporting** – Year-end financial reporting matters – Final review of positioning and FBU statement – Revenue Recognition and Adoption of IFRS 15 – Going concern and long-term viability assessment – 2018 Annual Report and Accounts – Preliminary results announcement – Update on financial controls **Risk management and internal controls** – GDPR update – Risk and Compliance report – Sage Assurance update – Principal Risks Review and Update – Compliance Culture ("In-focus review")	**Internal Audit** – Control environment effectiveness review of Sage Assurance **Incident management and whistleblowing** – Whistleblowing, Fraud and Incident update **External Audit** – EY Year-end Audit Results Report – Auditor Effectiveness review **Other matters** – Companies Act 2006: Director Duties – Regulatory changes update

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

Outside these formal meetings, the Chairman met regularly with the Chief Financial Officer (now CEO), the external auditor, the VP Risk and Assurance, the EVP Finance Control and Operations and the General Counsel & Company Secretary.

Financial Reporting, including significant reporting and accounting matters

The agenda for every Committee meeting includes a formal finance update from the EVP Finance Control and Operations. This informs the Committee about developments in the Group's reporting and accounting environment. During the year, the Committee considered how these developments were addressed in preparing the Group's financial statements. Those significant matters on which the Committee was particularly focussed are set out below. The Committee assessed the overall quality of financial reporting through review and discussion of the significant accounting matters and the full interim and annual financial statements. The Committee also received an update on the strategies and policies of the Group's Tax function and its approach to risks and controls.

In performing its review of the Group's financial reporting, 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 financial statements. The Committee's review included assessing the appropriateness of the Group's accounting policies and practices, confirming their compliance with financial reporting standards and relevant statutory requirements, and reviewing the adequacy of disclosures in the financial statements.

In the current year, the Committee also challenged management's assessment of the impact on the Group's operating and reportable segments of the change in the management structure of the Southern Europe region with effect from 1 October 2017 and disclosed at the half year.

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 has a detailed policy on revenue recognition for each category of revenue. This includes the application of rules relating to the various ways in which the Group sells its products around the world and recognition policies for critical estimates and judgements including (i) sales to partners versus end users and; (ii) deferral of revenue on bundled products.

The Committee has continued to monitor the application of the Group's revenue accounting policy, receiving reports on the work performed to confirm adherence to the Group's policy. Existing revenue recognition policies have remained a key area of focus for the Committee throughout 2018 and the outputs of the IFRS 15 impact assessments performed during FY18 have enabled the Committee to assess the continued appropriateness of existing policies and the consistent application of them. This continues to be a key area of focus for the Committee given the ongoing transition in business model from the sale of standalone software licences to selling software as a service.

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.

During FY18 management has performed an in-depth review of existing revenue recognition policies in order to determine the potential areas of impact resulting from the upcoming implementation of IFRS 15. The Committee has overseen this exercise through attendance of briefing sessions with the external auditors and review of reports on areas of impact and approach to transition. See page 97 detailing the Committee's assessment of the effectiveness of this process.

The Committee discussed and challenged management's conclusions in respect of both existing and upcoming revenue recognition policies, satisfying itself that the approach applied to determine revenue recognised in FY18 was appropriate, consistent across the Group and in line with the Group's accounting policy. The Committee also received and discussed the external auditor reports setting out its work and conclusions on this area.

Goodwill impairment testing

The amount of the Group's goodwill balances and the continuing evolution of Sage's business model mean that the assessment of the recoverability of goodwill is a significant area of focus for the Committee. The Committee considered management's approach and procedures for testing the recoverability of goodwill balances as part of the annual impairment test. This year, attention has also been paid to the carrying amount of the goodwill arising from the acquisition of Sage Intacct in the previous financial year.

This year the Committee has, again, considered the appropriateness of the CGUs tested for impairment. Given the continued evolution of the Group's management structure and how the associated goodwill is monitored, certain CGUs have now been combined into groups of CGUs for the purposes of the annual impairment test. Germany, Austria, Switzerland and Poland have been grouped as Central Europe; Spain and Portugal have been grouped as Iberia: and South Africa and the Middle East have been grouped as Africa and the Middle East. The Committee reviewed and considered the 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 Committee considered the appropriateness of the assumptions used and reviewed the impact of a sensitivity analysis applying downside scenarios. 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. Due to the recent timing of the Intacct acquisition, the headroom for the Sage Intacct CGU is lower than the other CGUs. In line with the requirements of IAS 36, sensitivity disclosures are included in note 6.1 to the financial statements for the Intacct CGU. The Committee was satisfied that no sensitivity disclosures were required other than for the Sage Intacct CGU.

From the information provided in the report and discussions with management, the Committee obtained assurance that the change to the CGUs was appropriate and an impairment to the carrying value of goodwill was not required. In evaluating this matter. The Committee also considered a report from the external auditor setting out its procedures and conclusions in this area.

Allocation of Sage Intacct goodwill

The accounting for a business combination involves significant judgement and estimation, particularly in relation to the goodwill and other intangible assets recognised. This includes the IFRS 3 requirement for management to consider if any existing CGUs are expected to benefit from the synergies arising from a business combination and allocate goodwill to those CGUs on that basis. The Committee received details from management on the final accounting for the Sage Intacct acquisition including the allocation of goodwill. The Committee considered the assumptions and estimations used and challenged management's conclusions. It also received and discussed a report from the external auditor which set out its work and conclusions in this area. Accordingly, the Committee was satisfied that goodwill was appropriately allocated to the UKI, Australia and Africa and Middle East CGUs as they are expected to benefit from the synergies arising from the acquisition in the foreseeable future, in line with the original acquisition plan.

New IFRS standards

Three new IFRS standards become effective for the Group over the next two years. IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" will apply to the next financial year ending in 2019, and IFRS 16 "Leases" to the following financial year ending in 2020.

Of these, IFRS 15 is the most significant for the Group, where, in line with other software companies, the impact is broad and can result in a change to both the amount and timing of revenue recognition. Management does not expect IFRS 15 to fundamentally change the presentation of the Group's previously published financial statements but a detailed exercise was performed to reach this conclusion. During the year, management performed an impact assessment consisting of a full review of revenue recognition practices, contracting arrangements and the "Go to Market" strategy for key products. This involved a wide variety of teams across the business including product, sales, marketing and finance representatives, reflective of the complex nature of the project and the potential for far reaching change.

The Committee closely monitored the progress of the project. It received detailed updates from management and the external auditors on the progress and resultant updates to the project throughout the year. The proposed approach to revising the Group's accounting policies was reviewed and challenged by the Committee. Additionally, due to the significance of this new standard, the Committee held an additional meeting during the year to consider and discuss the technical aspects of IFRS 15.

The Committee also received updates on management's assessment and implementation of IFRS 9. The standard has limited impact on non-financial sector entities. For Sage, the impact on transition arises on recognition of impairment provisions for trade receivable balances. The Committee was satisfied with the approach taken by management and with the results of the impact assessment.

The Committee considered management's disclosure in the financial statements of the effects of the new standards and its compliance with accounting standards and related best practice guidance. The Committee was satisfied that the approach taken by management and the resulting impact assessment is appropriate. These disclosures, covering the changes introduced by the standards and the identified areas of impact, are contained in note 1 to the financial statements.

Taxation

The Committee reviewed and considered reports from management in respect of uncertain tax positions and provisions and the deferred tax position. These reports included consideration of the impact on the Group of the significant reforms of taxation in the US which were announced in December 2017 and became effective from 1 January 2018, as well as developments with regards to the European Commission's State Aid review. The Committee was satisfied that management's approach to accounting for taxation was appropriate and took account of developments during the year. The Committee also considered the outcome of work performed by the external auditor in this area which confirmed the conclusions.

Fair, balanced and understandable

Each year, the Committee advises 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 the results of management's assessment of going concern, reviewed the Annual Report and Accounts document as a whole, and assessed the results of processes undertaken by management to provide assurance that the Group's financial statements were fairly presented. These processes included an analysis of how the key events in the year had been described and presented in the Annual Report and Accounts, how alternative performance measures (APMs) had been defined and presented, and the outcome of representations received from country management teams on the application of a range of financial controls. The Committee also considered the perspective of the external auditor.

Viability statement and Going Concern

The Committee reviewed management's process for assessing the Group's longer-term viability in order to allow the Directors to make the Group's viability statement. The Committee considered and contributed to the determination of the period over which viability should be assessed, and which of the Group's principal risks should be reflected in the modelling of sensitivity analysis for liquidity and solvency. It reviewed the results of management's scenario modelling and the reverse stress testing of these models. The Committee's principal review was conducted at the September Committee meeting with all comments and recommendations addressed by management in advance of Committee approval of the viability statement.

At the November 2018 meeting the Committee reviewed management's going concern assessment and approved the continued application of the going concern basis.

The Group's going concern and viability statements can be found on pages 129 and 68-69 respectively.

Risk Management and Internal Controls

The Committee assists the Board in its monitoring of the Company's internal control and risk management systems, and in its review of their effectiveness. This monitoring includes oversight of all material controls, including financial, operational, regulatory and compliance controls, assessing whether the control systems are fit for purpose and whether any corrective action is necessary.

During the year, the Committee:

- reviewed the principal risks, their evolution during the year, and the associated risk appetites and metrics in light of business changes and performance, challenging and confirming their alignment to the achievement of Sage's strategic objectives. At each meeting, the Committee considered the ongoing overall assessment of each risk, their associated metrics and management actions and mitigations in place and planned. This review was supported through consideration of risk dashboards outlining both principal risks and any escalated local risks;
- received and considered minutes of meetings of the Global Risk Committee, including scrutinizing its performance in managing risk, and the suitability of its composition;
- undertook detailed In-Focus reviews on selected relevant and, current issues (see In-Focus Reviews section);
- reviewed and considered an assessment of the effectiveness of risk management more broadly, and reviewed summary reports from Sage Compliance on Group adherence to policies, including Conflicts of Interest, Anti-Money Laundering and Delegation of Authority;
- received reports from Sage Assurance and management on internal control and monitored the implementation of management actions to remediate issues identified and make improvements. 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 management actions to remediate any issues identified (see Incident Management, Fraud and Whistleblowing section below); and
- considered individual incidents and associated actions to assess whether they demonstrated a significant failing or weaknesses in internal controls.

In-Focus Reviews

The Committee uses in-depth reviews to consider relevant, current and important issues. During the year, in addition to monitoring the progress of preparations for IFRS 15, the Committee: (i) undertook a review of the Group's approach to managing compliance with sanctions laws; (ii) received briefings and updates on Sage's approach to achieving compliance with GDPR and provided review and challenge of these activities; (iii) reviewed and challenged a briefing received on the key bribery-related risks faced by Sage and the steps being taken to mitigate those risks; and (iv) reviewed papers on Sage's obligations relating to conflicts of interest and Sage's framework for approving and keeping a record of actual and potential conflicts of interest in order to ensure effective management of those conflicts.

Incident Management, Fraud and Whistleblowing

The Committee considered the suitability and alignment of the Incident Management and Whistleblowing policies and confirmed their effectiveness in facilitating appropriate disclosure to senior executive management and the Committee. At each meeting, the Committee received a summary report of any escalated incidents and instances of whistleblowing and, together with management, considered whether there were any thematic issues and identified remediating actions. As part of this reporting process, the Committee was notified of all whistleblowing matters raised, including those relating to financial reporting, the integrity of financial management and any allegations relating to fraud, bribery or corruption. The Committee was also notified of all non-whistleblowing incidents exceeding an agreed materiality threshold.

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 the Sage Assurance function.

The Internal Audit Charter outlines the objectives, authority, scope and responsibilities of Sage Assurance. The Charter, performance against it, and the effectiveness of Sage Assurance, is reviewed by the Committee on an annual basis. The review of the Charter was undertaken at the Committee's February meeting. The Committee also considers and evaluates the level of Sage Assurance resource and its quality, experience and expertise, supplemented as appropriate by third party support and subject matter 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 Sage Assurance, and the Sage Assurance 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 Sage Assurance's activities, including the quality and timeliness of management responses, is monitored at each meeting, with the more significant issues identified within Sage Assurance reports considered in detail by the Committee.

During the year, an external assessment of internal audit was carried out by KPMG which evaluated Sage Assurance against leading practices and Institute of Internal Auditors (IIA) standards. This review considered progress against recommended areas for improvement from the previous evaluation in 2015, along with progress made against the pillars of the Assurance strategy. The assessment confirmed compliance with the IIA standards and concluded that significant progress continued to be made and that Sage Assurance remains effective and meets the needs of the Group. Findings included the expansion of the existing use of data analytics and the continued development of an integrated assurance framework. This report was presented to the Committee, its findings were discussed, and the Committee endorsed this conclusion.

External auditor EY

Each year, the Committee makes a recommendation to the Board with regard to whether the external auditor should be re-appointed. In making its recommendation, the Committee considers the auditor's effectiveness, including its independence, objectivity and scepticism. The Committee also reviews the application of, and compliance with, the Group's Auditor Independence Policy, in particular with regard to any non-audit services provided by EY. The Committee also considers business relationships between the Group and EY, which primarily relate to EY's procurement of Sage products and applications.

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

EY has now been Sage's external auditor for four years since the formal tender process conducted in 2014. The current audit partner is Alison Duncan and she has been in the role for all four years since FY15. Audit partners are required to rotate every five years to safeguard the external auditor's independence with the 2019 audit being Alison Duncan's final year as the audit partner.

The Committee confirms that Sage has complied with the requirements of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, which relates to the frequency and governance of tenders for the appointment of the external auditor and the role of the Audit Committee. Under these requirements, and the terms of the order Sage must undertake a formal tendering process at least every ten years.

To fulfil its responsibility for oversight of the external audit process, the Committee reviewed and agreed:

- the terms, areas of responsibility, associated duties and scope of the audit as set out in the external auditor's engagement letter;
- the overall work plan and fee proposal;
- the issues that arose during the course of the audit and their resolution;
- key accounting and audit judgements;
- the level of errors identified during the audit; and
- control recommendations made by the external auditor.

The Committee monitored the effectiveness, objectivity and independence of the external auditor during the year. The Committee based its assessment of EY on its own observations and interactions with the external auditor, and consideration of a number of aspects of the auditor's performance, including:

- the experience and expertise demonstrated by the auditor in its direct communication with, and support to, the Committee;
- the content, quality of insight and added value provided by the auditor's reports;
- the scope of the agreed external audit plan and the external auditor's execution and fulfilment of the plan;
- the robustness and perceptiveness of the auditor in its handling of key accounting and audit judgements; and
- the interaction between management and the auditor.

Consistent with the previous year, the Committee received feedback from the businesses evaluating the performance of each assigned audit team. Management's report included a summary of the findings of a survey of key Sage colleagues on the quality of the auditor's delivery, communication 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.

The Committee holds private meetings with the external auditor after each Committee meeting to review key issues within their sphere of interest and responsibility and provide an opportunity for open dialogue and feedback from the external auditor without management being present. Also, the Chairman meets regularly with the external auditor outside of the formal Committee meeting schedule to facilitate effective and timely communication. Further, the Committee received a report from EY evaluating its independence and a formal statement of EY's 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 2019 AGM and the Board has accepted and endorsed this recommendation.

Non-audit services

The Committee is responsible for the development, implementation and monitoring of policies and procedures on the use of the external auditor for non-audit services, in accordance with professional and regulatory requirements. At Sage this is governed by the Auditor Independence Policy (the "Policy"). The Policy has been in place throughout the year. It 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 states that Sage will not use the external auditor for non-audit services, except in limited circumstances, and as permitted by the Ethical Standard, where 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 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 2018, the ratio of non-audit fees to audit fee was 4%, 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 evaluation of the Audit and Risk Committee for 2017/18 was completed as part of the annual Board evaluation process. An explanation of how this process was conducted, the conclusions arising from it and the action items identified is set out on page 83. The Committee has considered this in the context of the matters that are applicable to the Committee.

J.A. G Howell.

Jonathan Howell
Chairman of the Audit and Risk Committee

20 November 2018

Report of the Nomination Committee

Donald Brydon
Chairman of the Nomination Committee

Nomination Committee Membership

Donald Brydon (Chairman)
Attended 5 of 5 meetings

Drummond Hall
Attended 5 of 5 meetings

Soni Jiandani
Attended 4 of 5 meetings

Committee purpose and responsibilities

The purpose of the Nomination 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 76.

Committee meetings

This year the Committee's main activity was focused on reviewing the overall composition of the Board and, following our announcement on 31 August 2018 regarding Stephen Kelly, recruiting a new Chief Executive Officer. The Committee also considered Board succession planning more generally and the process of approving the next Board Associate. In addition to the formal Committee meetings there were frequent informal exchanges. Soni Jiandani was unable to attend one meeting, but received the papers and provided comments to the Chairman in advance. The Committee's annual evaluation was conducted internally and concluded that the Committee continues to function effectively in respect of its core purpose.

Board changes

The Board appointed Blair Crump as an additional Executive Director on 1 January 2018. As the head of Sage's sales organisation, Blair brings to the Board the management view of one of the largest parts of our organisation and complements the financial and operations focus of Steve Hare. On 31 August 2018, the Board announced that it had reached mutual agreement with Stephen Kelly, who stepped down from his role as a Director and Chief Executive Officer from that date. The Board appointed Steve Hare, Chief Financial Officer, to the additional post of Chief Operating Officer, on an interim basis. On 2 November 2018, Board announced that it had appointed Steve Hare to the role of Chief Executive Officer with immediate effect. The Board instructed the Committee to initiate a process to find a new Chief Financial Officer. It was agreed that Steve Hare will combine his duties as Chief Financial Officer with those as Chief Executive Officer, supported by senior finance colleagues, until a new Chief Financial Officer is appointed. The Committee instructed Egon Zehnder, who do not provide any other services to the Company, to assist in the search for the new Chief Executive Officer. Egon Zehnder presented to the Committee a longlist of potential candidates, which was considered by the Committee. As the external search progressed, the Committee also considered possibility of internal candidates and noted, in particular, Steve Hare's strong performance in the combined role of interim Chief Operating Officer and Chief Financial Officer. Following detailed discussion and careful consideration, the Committee recommended to the Board that Steve Hare be appointed to the role of Chief Executive Officer.

We will report on the selection process for a new Chief Financial Officer in our FY19 Annual Report and Accounts.

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. The appointment of Blair Crump to the Board together with two permanent Executive Committee appointments from within the internal pipeline (Ron McMurtrie and Amanda Cusdin) demonstrate the improved depth and breadth of skills and experience in our talent pool. This will continue to be an area of focus during FY19 and beyond.

Diversity & Inclusion

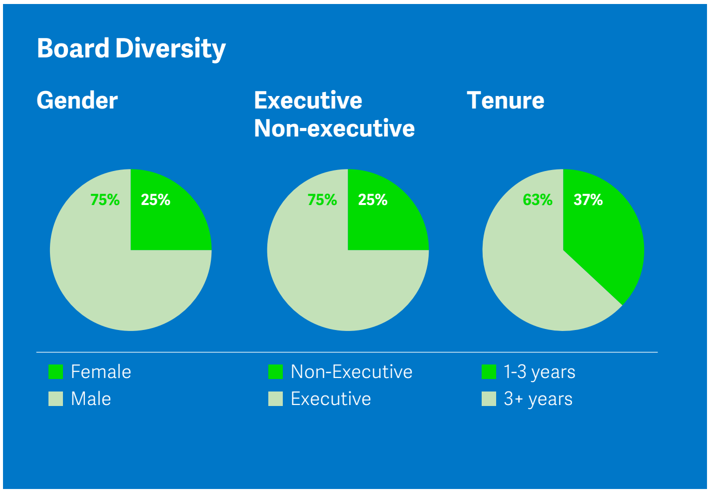
During FY18, Sage has won several awards for its diversity and inclusion programme. A diverse workforce brings a broader range of perspectives, and drives innovation which will support us in better understanding our customers and in creating amazing products and providing services which customers need. The Board and senior executives play a key role in setting the tone on diversity and inclusion, and the Nomination Committee applies the principles of Sage's written Diversity & Inclusion Policy when considering these appointments.

Specifically, the Policy states that we are committed to:

- Ensuring that the wording and images used in adverts and job descriptions reflect and appeal to all sections of society, are relevant and non-discriminatory
- Short-listing only those whose skills, qualifications and experience closely match the job requirements
- Asking fair, objective and consistent questions during the selection process. We use selection criteria that do not discriminate in any direct or indirect way for all of our roles.

When 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. During FY18 the Committee has made one Executive Director appointment, that of Blair Crump. His inclusion diversifies the Board's overall skills and experience, particularly in respect of knowledge of our sales organisation and our customer base. Blair also brings strong US geographic experience to a majority UK-based group of Directors. The Board and the Committee have noted the recommendations of the Hampton-Alexander Review in November 2016 to increase female board representation and also combined Executive Committee and direct report to Executive Committee representation to at least 33% by 2020. Sage has voluntarily submitted gender diversity data to the Hampton-Alexander Review since its inception and this year we reported that 35% of Sage's senior management population which, for the purposes of our Hampton – Alexander Submission includes members of the Executive Committee and their direct reports is female, an increase of 5% on FY17. Further details on diversity, including in our broader senior management team, are provided at page 41.

Sage has voluntarily submitted gender diversity data to the Hampton-Alexander Review since its inception.



Donald Brydon
Chairman of the Nomination Committee

20 November 2018

Remuneration Committee

"We are seeking shareholder approval for our new remuneration policy at our forthcoming AGM."

Drummond Hall
Chairman of the Remuneration Committee

Remuneration Committee Membership

Drummond Hall (Chairman)
Attended 8 of 8 meetings

Neil Berkett
Attended 6 of 8 meetings

Jonathan Howell
Attended 8 of 8 meetings

Cath Keers
Attended 8 of 8 meetings

Dear fellow shareholder,

It is my pleasure to present the Directors' Remuneration Report for the year ended 30 September 2018.

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.

The report is in two sections:

- **The Directors' remuneration policy (the "2019 Policy") (pages 108 to 115).**
- **The Directors' Annual Remuneration Report (pages 116 to 128).** This section sets out details of how our existing remuneration policy was implemented for the year ended 30 September 2018 and how we intend the 2019 Policy to apply for the year ending 30 September 2019.

Objectives and responsibilities

The Remuneration Committee's 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 Group's President, 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.

FY19 remuneration priorities

As outlined in the Strategic Report, we are focused on continuing our evolution to a SaaS business driven by Sage Business Cloud. Increasing acceleration of our move to a cloud business puts even greater emphasis on the operational execution required to realise the significant opportunity available to us.

To ensure that senior executive remuneration is aligned with this strategy, we are making a number of changes to FY19 remuneration arrangements.

Supporting subscription-focused execution

Given the criticality of driving behaviours to achieve a largely subscription-based business, we will focus incentives on recurring revenue in FY19:

- Recurring revenue growth will replace organic revenue growth as the Group financial measure within the FY19 annual bonus plan. Given the medium-term focus on driving underlying run rate, annualised recurring revenue (ARR) growth will be the specific measure used; and
- Recurring revenue growth will have an enhanced weighting of 70% for FY19 Performance Share Plan ("PSP") awards (50% for FY18 PSP awards). Again, ARR growth will be the specific measure used.

Rebalancing variable pay to match strategic timeframes

In recognition of the fact that we need to pick up the pace in the short term in order to drive future income as we accelerate to cloud-based products in our addressable market, we propose to alter the balance between senior executives' annual bonus and PSP incentive opportunity.

For the Executive Directors, this will involve increasing their FY19 annual bonus potential by 50% of salary and reducing their FY19 PSP award by 50% of salary. PSP awards will remain the largest element of the Executive Directors' potential remuneration.

Ensuring tight financial discipline for acquisitions

Following a number of recent acquisitions, particularly Intacct, the Board is conscious that Executives are focused on tight financial discipline and successful integration of those acquisitions.

In order to align executive and shareholders' interests on this issue, a Return on Capital Employed ("ROCE") target will be introduced as an underpin to the ARR element of FY19 PSP awards.

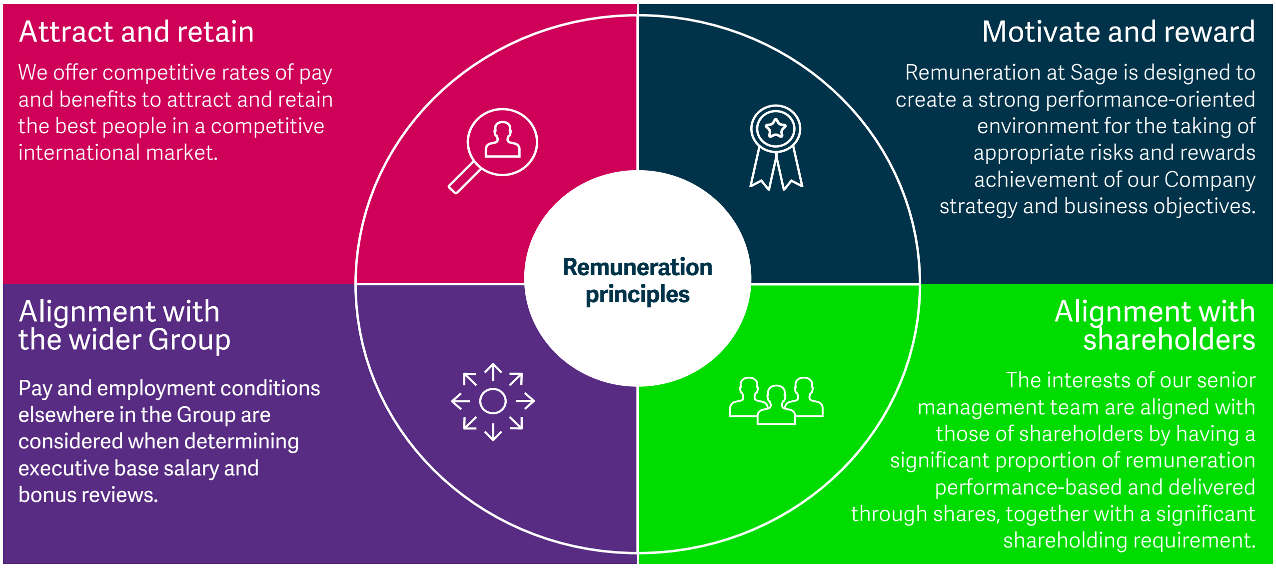
Directors' Remuneration Policy

At the AGM, shareholders will be asked to support our Directors' Remuneration Policy (the "2019 Policy") when it is subject to its triennial vote. The 2019 Policy is set out on pages 108 to 115 with the key amendments from the existing Policy outlined on page 108. As well as allowing the implementation of the aforementioned FY19 remuneration priorities, the 2019 Policy contains additional features, namely:

- The minimum level of shareholding guideline for Executive Directors will be increased to 250% of salary (from 200%); and
- A reduced maximum pension provision cap of 15% of salary (previously 25%) will apply to any Executive Director (including incumbent Directors).

Our remuneration principles

Our remuneration principles remain unchanged in our proposed Policy and are designed to drive the behaviours and results required to support our short and longer-term business strategy as outlined in the Strategic Report.



DIRECTORS' REMUNERATION REPORT CONTINUED

REMUNERATION AT A GLANCE

Delivering our remuneration principles in FY19

The table below summarises the remuneration arrangements for our current Executive Directors in FY19 subject to shareholder approval of the 2019 Policy.

Element of Policy	Purpose	Proposed Implementation in FY19
Base salary	Enables Sage to attract and retain Executive Directors of the calibre required to deliver the Group's strategy Salary increases are effective 1 January 2019	Steve Hare £770,000 (on appointment as CEO; around 5% less than predecessor) Blair Crump $700,000 (0% increase)
Pension	Provides a competitive post-retirement benefit, in a way that manages the overall cost to the Company	Steve Hare 15% of base salary (reduced from 25% of base salary) Blair Crump up to 3.5% of base salary
Benefits	Provide a competitive and cost-effective benefits package to executives to assist them in carrying out their duties effectively	Standard benefits package plus costs of travel, accommodation and subsistence for the Directors and their partners on Sage-related business if required. Sage covers the cost of Steve Hare's travel and accommodation for days on which he attends to Sage matters in the London office. Sage tax equalises that portion of Blair Crump's remuneration that is subject to UK tax for days on which he attends to Sage matters in the UK
Annual bonus	Rewards and incentivises the achievement of annual financial and strategic targets A minimum of one-third deferral into shares for three years is compulsory, with the remainder delivered in cash	Maximum 175% of base salary (pending shareholder approval of the 2019 Policy) 80% subject to ARR growth (with underlying operating profit margin underpin) and 20% subject to strategic goals
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 200% of base salary (pending shareholder approval of the 2019 Policy) 70% subject to ARR growth (with ROCE underpin) and 30% subject to relative Total Shareholder Return performance (pending shareholder approval of the 2019 Policy)
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 or US dollar equivalent
Chairman and Non-executive Director fees	Provide an appropriate reward to attract and retain high-calibre individuals	See page 125 of this report for a list of Non-executive Director fees
Shareholding guideline	The shareholding guideline for Directors is 250% of base salary (subject to shareholder approval of the 2019 Policy) and achievement of this is expected within a maximum of five years from the time the Director became subject to the guideline	Shareholding at 30 September 2018 Steve Hare 309% of base salary (336% including deferred shares net of tax)[1] Blair Crump 17% of base salary (23% including deferred shares net of tax)

Note:
1 Calculated based on Steve Hare's base salary for his substantive role at 30 September 2018, which was £522,000.

FY18 single figure for total remuneration summary:

Director	**2018 Total £'000**	2017 Total £'000
Executive Directors		
S Hare	**1,176**	2,316
B Crump[1]	**582**	–
S Kelly[2]	**1,563**	3,547
Non-executive Directors		
D Brydon	**407**	397
N Berkett	**60**	60
D Hall	**87**	83
J Howell	**77**	77
S Jiandani	**60**	35
C Keers	**60**	15

Notes:
1 Blair Crump was appointed to the Board on 1 January 2018. His remuneration is reported from that date. The single figure value for his remuneration is converted into GBP from US Dollars using the average exchange rate for the year, consistent with the basis of the presentation of financial performance in the accounts.
2 Stephen Kelly stepped down from the Board on 31 August 2018. His remuneration for 2018 is shown on a proportionate basis to that date, consistent with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2008 as amended 2013. Stephen Kelly's termination arrangements are set out below on page 122.

Key remuneration outcomes for FY18

2018 bonus: *no bonus payable*

The 2018 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% of bonus). As discussed in the Chairman of the Board's Statement, there has been inconsistent operational execution during the past year and financial bonus targets were not met. Consequently, no bonus was payable in respect of the financial performance measures. Steve Hare and Blair Crump were awarded 15% of salary and 6.25% of salary respectively under the personal strategic element of the bonus but both voluntarily waived these awards in light of Group financial and share price performance during the year. Stephen Kelly was awarded no bonus. More details on the bonus outcome are set out on pages 117 and 118.

2016 Performance Share Plan (PSP): *28.5% of total shares award vesting in March 2019*

PSP awards granted in 2016 were based on recurring revenue growth, and relative TSR performance measured over the three-year period to 30 September 2018. Overall, the Remuneration Committee determined that 28.5% of the maximum number of shares under award will vest in March 2019. Further detail is set out on pages 118 and 119.

Board changes in FY18

During the past year, the Remuneration Committee has considered remuneration issues arising from Board changes as follows:

- Steve Hare was appointed Interim COO & CFO on 31 August 2018 and then appointed Group CEO on 2 November 2018. Steve's remuneration on appointment to these roles is disclosed on pages 123 and 124 of the Annual Remuneration Report.
- Details of financial terms agreed with Stephen Kelly in connection with his departure are set out on page 122. These terms are in line with the Policy which was approved by shareholders at the 2016 AGM.
- Blair Crump was promoted to the Board in January 2018 on a standard Executive Director package.

Revised Corporate Governance Code

2018 saw the publication of the Financial Reporting Council's revised Corporate Governance Code and The Companies (Miscellaneous Reporting) Regulations 2018, which comes into effect for Sage's financial year starting 1 October 2019. Notwithstanding the applicability date, the Remuneration Committee is undertaking in the coming year a review of the adoption of the Code and the Regulations and will consider the appropriate timeframe for compliance.

I hope you find this report to be clear in understanding our remuneration practices and that you will be supportive of the resolutions relating to remuneration at the AGM. As ever, the Remuneration Committee welcomes any questions or comments from shareholders.

Drummond Hall
Chairman of the Remuneration Committee

Remuneration Committee meetings held in FY18

No one other than a member of the Remuneration 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 Remuneration Committee is required, in accordance with its terms of reference, to meet at least four times per year. During this financial year, the Remuneration Committee met eight times (twice in each of November and August), where it discussed the following key matters:

November

FY17 year-end review

- Reviewed the performance of the Group for the year, and the performance of the Executive Directors in order to determine bonus outcomes
- Reviewed the long-term performance of the Group over the last three years in order to determine vesting levels for the PSP granted in 2015
- Reviewed Executive Directors' salaries for 2018
- Approved share awards for FY18
- Approved the 2017 Directors' Remuneration Report

February

Review of trends in executive remuneration

- Reviewed remuneration market trends and corporate governance developments

2019 Remuneration Policy review

- Discussed scope of 2019 Remuneration Policy review

April

Consideration of the views of our shareholders

- Reviewed the feedback of our shareholders in the run up to the AGM and assessed the appropriateness of our remuneration policy and implementation principles

2019 Remuneration Policy review

- Reviewed initial proposals for the 2019 Remuneration Policy

FY18 progress review

- Reviewed the Company's progress against incentive performance metrics for FY18 plans

July

FY19 planning

- Reviewed the Remuneration Committee's terms of reference
- Discussed the application of the 2019 Remuneration Policy to the next level of management below the Board

Appointing executive talent

- Approved the remuneration package for the permanent appointment of the Chief Marketing Officer

2019 Remuneration Policy review

- Reviewed revised proposals for the 2019 Remuneration Policy
- Reviewed and approved increase to the Chairman's fees

August

Change in CEO

- Determined the exit arrangements for Stephen Kelly
- Determined remuneration for Steve Hare on appointment to role of Interim COO & CFO

September

FY19 planning

- Approved the discretionary share plan allocation policy for 2019

2019 Remuneration Policy review

- Approved the proposed changes to the 2019 Remuneration Policy and shareholder consultation letter outlining the 2019 policy

Appointing executive talent

- Approved the remuneration package for the permanent appointment of the Chief People Officer

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). As outlined in the Statement of the Remuneration Committee Chairman, the Remuneration Committee is proposing a number of changes to the current policy primarily to ensure consistency with our future strategic and operational implementation plans. Shareholder approval will be sought at the 2019 AGM for the new remuneration policy set out below (the "2019 policy"). Subject to shareholder approval, the new policy will take effect from the date of the AGM.

The key proposed changes from the current policy are as follows:

- There will be an increase in the maximum annual bonus potential to 175% of salary (from a previous maximum of 125% of salary). The minimum level of bonus to be determined by measures of Group financial performance will be set at 70%.
- Minimum shareholding guideline for Executive Directors has been increased to 250% of salary (previously 200%).
- The revised policy provides flexibility for the Remuneration Committee to use different performance measures for different PSP award cycles in order to ensure that awards are aligned with strategic objectives.
- There will be a reduction in the maximum level of pension provision for Executive Directors to 15% of salary (previously 25%).
- The revised policy clarifies payments that can be made in connection with a Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation or by way of a compromise or settlement of any claim arising in connection with the cessation of a Director's office or employment.
- If appropriate, Non-executive Directors may be paid an additional fee for membership of a Board Committee.

Remuneration policy table

The table below sets out the remuneration policy that the Company intends to apply, subject to shareholder approval, from 27 February 2019.

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
Base salary **Supports the recruitment and retention of Executive Directors of the calibre required to deliver the Group's strategy.** **Rewards executives for the performance of their role.** **Set at a level that allows fully flexible operation of our variable pay plans.**	Normally reviewed annually, with any increases applied from January. When determining base salary levels, consideration is given to the following: – Pay increases for other employees in major operating businesses of the Group; – The individual's skills and responsibilities; – Pay at companies of a similar size and international scope to Sage, in particular those within the FTSE 100 (excluding the top 30); – Corporate and individual performance.	Ordinarily, salary increases will be in line with increases awarded to other employees in major operating businesses of the Group. However, increases may be made above this level at the Remuneration Committee's discretion to take account of individual circumstances such as: – Increase in scope and responsibility; – Increase to reflect the individual's development and performance in role (e.g. for a new appointment where base salary may be increased over time rather than set directly at the level of the previous incumbent or market level); – Alignment to market level. Accordingly, no monetary maximum has been set.	None, although overall performance of the individual is considered by the Remuneration Committee when setting and reviewing salaries annually.
Pension **Provides 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.	Maximum pension provision of 15% of salary. No element other than base salary is pensionable.	None.

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
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 Remuneration Committee.	Set at a level which the Remuneration Committee considers: – Appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market; – Provides a sufficient level of benefit based on the role and individual circumstances, such as relocation. As the costs of providing benefits will depend on the Director's individual circumstances, the Remuneration Committee has not set a monetary maximum.	None.
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 creation.**	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 Remuneration 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 deferral period will usually be a minimum of three years.	175% of salary	– At least 70% of the bonus will be determined by measure(s) of Group financial performance; – No more than 30% 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 2019 are described in the Directors' Annual Remuneration Report.

Remuneration policy table continued

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
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 Remuneration 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 Remuneration 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 Remuneration Committee to consider that an amended or substituted performance condition would be more appropriate and not materially less difficult to satisfy, the Remuneration Committee may amend or substitute any performance condition.	Awards vest on the following basis: – Target performance: 20% of the maximum shares awarded; – Stretch performance: 80% of the maximum shares awarded; – Exceptional performance: 100% of the shares awarded with straight-line vesting between each level of performance; – Current annual award levels (in respect of a financial year of the Company) are 200% of salary for the Executive Directors. Overall individual limit of 300% of base salary under the rules of the plan. The Remuneration 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.	Vesting will be subject to performance conditions as determined by the Remuneration Committee on an annual basis. The performance conditions will initially be annualised recurring revenue growth (with a ROCE underpin) and relative TSR although the Remuneration Committee will retain discretion to include additional or alternative performance measures which are aligned to the corporate strategy. At its discretion, the Remuneration Committee may elect to add additional underpin performance conditions. Details of the targets that will apply for awards granted in 2019 are set out in the Directors' Annual Remuneration Report.
All-employee share plans **Provide an opportunity for Directors to voluntarily invest in the Company.**	UK-based Executive Directors are entitled to participate in a UK tax approved all-employee plan, The Sage Group Savings-Related Share Option Plan, under which they make monthly savings over a period of three or five years linked to the grant of an option over Sage shares with an option price which can be at a discount of up to 20% of the market value of shares on grant. Options may be adjusted to reflect the impact of any variation of share capital. Overseas-based Executive Directors are entitled to participate in any similar all-employee scheme operated by Sage in their jurisdiction.	UK participation limits are those set by the UK tax authorities from time to time. Currently this is £500 per month (or US Dollar equivalent). 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: – The Chairman is paid a single, consolidated fee; – The Non-executive Directors are paid a basic fee, plus additional fees for chairmanship (and, where appropriate, membership) of Board Committees and to the Senior Independent Director; – Fees are currently paid in cash but the Company may choose to provide some of the fees in shares. The Chairman has the use of a car and driver. Non-executive Directors may be eligible for benefits such as company car, use of secretarial support, healthcare or other benefits that may be appropriate including where travel to the Company's registered office is recognised as a taxable benefit in which case a Non-executive may receive the grossed-up costs of travel as a benefit.	Set at a level which: – Reflects the commitment and contribution that is expected from the Chairman and Non-executive Directors; – Is appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market, particularly companies of a similar size and international scope to Sage, in particular those within the FTSE 100 (excluding the top 30). Overall fees paid to Directors will remain within the limit stated in our articles of association, currently £1m. Actual fee levels are disclosed in the Directors' Annual Remuneration Report for the relevant financial year.	None.
Shareholding guideline **Aligns the interests of Executive Directors and shareholders and encourages a focus on long-term performance.**	The shareholding guideline is expected to be built up over five years from the Director's becoming subject to the guideline. The Remuneration Committee will review progress towards the guideline on an annual basis, and has the discretion to adjust the guideline in what it feels are appropriate circumstances.	The guideline for Executive Directors is a minimum shareholding worth 250% of salary.	None.

Notes:
– Annual bonus and PSP performance measures and targets are selected each year so as to align with key financial and operational objectives.
– 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 a 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 conduct), 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 release date of a PSP award or three years from the date a cash bonus is paid or a deferred share award is granted. Details of the proposed implementation of those provisions in the forthcoming year are set out in the Directors' Annual Remuneration Report.

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.

Illustration of our remuneration policy for 2019

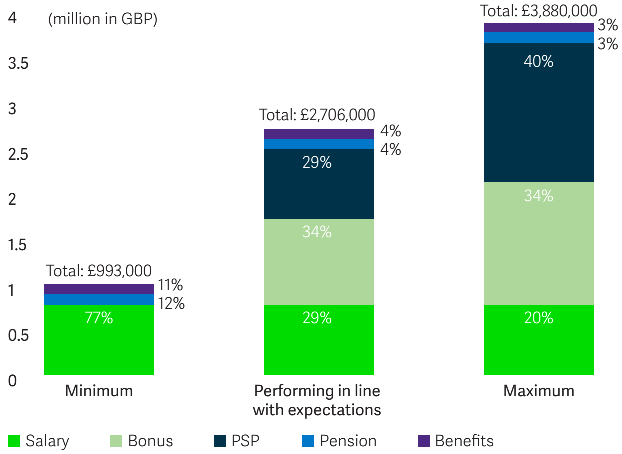
The charts below set out an illustration of the remuneration policy and include base salary, pension, benefits and incentives. The charts provide an illustration of the proportion of total remuneration made up of each component of pay and the total potential value available to the Directors under the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

In these illustrative charts, salaries are those applying from 1 January 2019, pension provision is assumed to be 15% of salary for the CEO and 1.8% of salary for the President of Sage and benefits have been estimated using the figure included in the 2018 single figure of remuneration (pro-rated for the President of Sage). Where relevant, values are converted into GBP using the average exchange rate for 2018, consistent with the basis of the presentation of financial performance in the accounts.

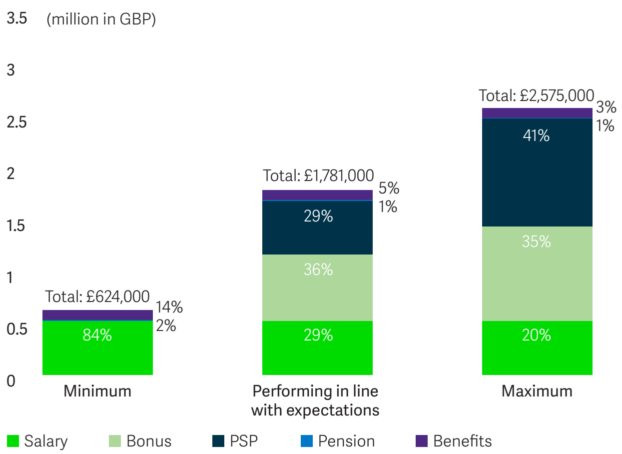
For illustrating the potential value from incentives, three scenarios have been illustrated for each Executive Director:

Below threshold performance	– No bonus payout. No vesting of PSP awards
Performing in line with expectations	– 122.5% of salary payout in annual bonus (70% of maximum opportunity). PSP vested shares equivalent to 100% of salary (50% of total shares available)
Maximum	– 175% of salary payout in annual bonus (100% of maximum opportunity). PSP vested shares equivalent to 200% of salary (100% of total shares awarded)

Chief Executive Officer



President of Sage



Note: Blair Crump's pension is £9,166 across all performance levels.

Development of our remuneration policy

Consistency with remuneration for the wider Group

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

Consideration of pay and conditions for the wider Group

The Remuneration Committee generally considers pay and employment conditions elsewhere in the Group when considering pay for the main Board Directors and the Executive Committee. When considering base salary increases, the Remuneration Committee reviews overall levels of base pay increases offered to other employees and other executives of the major geographies in which we operate. The Remuneration Committee also reviews information with regard to bonus payments and share awards made to management of the Group. Colleagues were not consulted in the formulation of the 2019 Policy.

Communication with our shareholders

The Remuneration Committee is committed to an ongoing dialogue with shareholders and seeks the views of significant shareholders when any major changes are being made to remuneration arrangements. The Remuneration Committee takes into account the views of significant shareholders and shareholder representative bodies such as Institutional Shareholder Services, the Investment Association and Glass Lewis when formulating and implementing the policy. A consultation process was undertaken with our largest shareholders and shareholder representative bodies ahead of the introduction of this revised policy.

Recruitment remuneration arrangements

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

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

- The executive received benefits at his previous employer which the Remuneration Committee considers it appropriate to offer;
- The Remuneration Committee may alter the performance measures, performance period and vesting period of the annual bonus or long-term incentive, subject to the rules of the plan, if the Remuneration Committee determines that the circumstances of the recruitment merit such alteration. The rationale will be clearly explained.

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

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

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

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

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

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

Change of control

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

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

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

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

Executive Director service contracts

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

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

Terms and conditions for Non-executive Directors

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

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

Payments to departing Directors

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

The Remuneration Committee reserves the right to make any other payments in connection with a Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a compromise or settlement of any claim arising in connection with the cessation of a Director's office or employment. Any such payments may include, but are not limited to, paying any fees for outplacement assistance and/or the Director's legal and/or professional advice fees in connection with his cessation of office or employment.

There is no automatic entitlement to annual bonus. Executive Directors may receive a bonus in respect of the financial year of cessation. The payment of any annual bonus will be at the Remuneration Committee's discretion, based on the individual circumstances, and would usually be pro-rated for the period of service and may be paid entirely in cash. In determining the level of bonus to be paid, the Remuneration Committee may, at its discretion, take into account performance up to the date of cessation or over the financial year as a whole based on appropriate performance measures as determined by the Remuneration Committee.

Where an Executive Director leaves by reason of death, disability or ill-health they would receive a pro-rata bonus for the year of cessation.

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

Deferred bonus plan

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

PSP

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

The extent to which awards vest in these circumstances will be determined by the Remuneration Committee taking into account the extent to which it determines the performance conditions have been satisfied at the end of the original performance period or following the Director's cessation of office or employment (as appropriate) and, unless the Remuneration Committee determines otherwise, the period of time that has elapsed between the grant of the award and the date of the cessation of office or employment as a proportion of three years (or such other period the Remuneration Committee considers to be appropriate).

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

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

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 2019

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 2017 and 2018.

	(a) Salary/fees[3] £'000		(b) Benefits[4] £'000		(c) Bonus[5] £'000		(d) Pension[6] £'000		(e) PSP awards[7] £'000		Total[8] £'000	
Director	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Executive Directors												
S Hare	**538**	519	**107**	103	**–**	125	**130**	130	**401**	1,436	**1,176**	2,313
B Crump[1]	**390**	–	**95**	–	**–**	–	**7**	–	**90**	–	**582**	–
S Kelly[2]	**743**	805	**116**	52	**–**	194	**186**	201	**518**	2,295	**1,563**	3,547
Non-executive Directors												
D Brydon	**369**	360	**38**	37	**–**	–	**–**	–	**–**	–	**407**	397
N Berkett	**60**	60	**–**	–	**–**	–	**–**	–	**–**	–	**60**	60
D Hall	**87**	83	**–**	–	**–**	–	**–**	–	**–**	–	**87**	83
J Howell	**77**	77	**–**	–	**–**	–	**–**	–	**–**	–	**77**	77
S Jiandani	**60**	35	**–**	–	**–**	–	**–**	–	**–**	–	**60**	35
C Keers	**60**	15	**–**	–	**–**	–	**–**	–	**–**	–	**60**	15

Notes:

1 Blair Crump was appointed as an Executive Director on 1 January 2018. His remuneration is shown on a proportionate basis from that date. Blair Crump is based in the USA and is paid in US Dollars. His remuneration has been converted into GBP at the average exchange rate for the year, consistent with the basis of the presentation of financial performance in the accounts.

2 Stephen Kelly stepped down from the Board on 31 August 2018. His remuneration for 2018 is shown on a proportionate basis to that date. For details of Stephen Kelly's remuneration arrangements on cessation as a Board Director, see page 122.

3 Details of salary progression since 2016 for the current Executive Directors are summarised in the Statement of implementation of remuneration policy in the following financial year on page 123.

Steve Hare's salary includes his acting-up allowance as Interim COO & CFO, which was paid from 1 September 2018 (further information is set out on page 123). It is not consolidated into salary for the purposes of pension and other salary related benefits. His bonus for the reporting period is based on his substantive salary over FY18, which was £522,000.

The fees for Donald Brydon were increased from £360,000 to £400,000 on 6 July 2018, the anniversary of the renewal of his service agreement, in recognition of his contribution to Sage since he became Chairman of the Board. His previous fee had been applied since his appointment as Chairman on 1 September 2012. Current fees for Non-executive Directors are set out on page 125.

4 Benefits provided to the Executive Directors included: car benefits or cash equivalent (UK-based executives only), 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 related 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. £83,000 of Stephen Kelly's benefits value related to the grossed-up cost of travel, accommodation and subsistence for his hosting Platinum Elite, a major internal event for high-performing colleagues, which is deemed by HMRC to be a taxable benefit. A portion of Blair Crump's benefits related to the payment of UK tax on his US income, which is payable under UK tax law for the days on which he is attending to Sage matters in the UK. Blair's permanent workplace is in the US. He receives assistance in the preparation of his tax returns. Donald Brydon receives a company car benefit.

5 In respect of the financial year FY18, Steve Hare and Blair Crump waived their entitlement to a bonus and Stephen Kelly did not receive a bonus. Further information about how the level of FY18 award was determined is provided in the additional disclosures below.

6 Pension emoluments for Stephen Kelly and Steve Hare were equal to 25% of base salary. Both elected to receive them as a cash allowance. Pension emoluments for Blair Crump were 1.8% of base salary, which were paid into a 401 (k) retirement account.

7 The 2018 PSP value is based on the PSP award granted in 2016 which is due to vest in March 2019. The awards included in the single figure table have the same performance conditions. The value is based on the number of shares vesting in 2019 multiplied by the average price of a Sage share between 30 June and 28 September 2018 (the last trading day of the year), which was £6.211, plus dividend equivalents accrued.

Stephen Kelly's and Steve Hare's 2015 PSP for 2017 has been updated. The change in value is as a result of changes in the share price reported in 2017 in line with the methodology set out in the 2013 reporting regulations (£6.896) and the share price actually achieved at vesting (£7.59478).

8 Total remuneration for Directors in 2018 was £4,072,000 compared to £6,527,000 in 2017 (updated from the 2017 Directors' Remuneration Report).

Additional disclosures for single figure for total remuneration table (audited information)

Annual bonus 2018

The bonus targets for FY18 were set by reference to the strategy for FY18, in particular the achievement of organic revenue growth taking into account the Company's annual budget and consensus in determining the payout curve. The Remuneration Committee has decided following discussions with the Board that it is appropriate to change the bonus disclosure policy to immediate retrospective disclosure in the year bonus outcomes are determined (previously bonus was disclosed after one year). This change is made as long as the financial performance measures for a given year are considered by the Board not to be commercially sensitive information, bearing in mind that many of our competitors are unlisted companies who do not provide this level of disclosure.

Bonus measure	% weighting	Threshold performance	Target performance	Stretch performance	Actual performance	% of maximum bonus payable
Organic revenue growth	80%	7.3% (24% of bonus payable)	8.1% (56% of bonus payable)	8.9% (80% of bonus payable)	6.9%	Zero
Strategic measures	20%	The assessment of strategic measures is set out below this table (between 2.4% and 20% of bonus payable)				Steve Hare (Interim COO & CFO): 12% of maximum Blair Crump (President of Sage): 5% of maximum Stephen Kelly (CEO): zero
Total						Steve Hare: 12% of maximum bonus (15% of salary) Blair Crump: 5% of maximum (6.25% of salary) Stephen Kelly: zero

Note:
– Organic revenue growth, underlying operating profit margin and recurring revenue growth are defined on pages 210 and 211. Organic targets, which were set at the beginning of the year, have been adjusted to remove the contribution of assets and liabilities held for sale at 30 September 2018 (see note 16.3 on page 196), so that targets and actuals are presented on a like-for-like basis. Actuals have been retranslated at Budget FX rates consistent with the basis on which the targets were set. Payment of a bonus for organic revenue growth was subject to the achievement of two underpin conditions: Group underlying operating margin and Group recurring revenue growth. The recurring revenue growth target of 9.0% was not met (FY18 actual: 6.8%); underlying operating profit margin target of 27.0% was not met (FY18 actual: 26.8%).

Steve Hare and Blair Crump waived their entitlement to a bonus in respect of the financial year ended 30 September 2018.

Executive Directors' personal strategic objectives

Executive Directors' personal strategic objectives were set by the Remuneration 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 Remuneration Committee in coming to its assessment of this measure are set out below:

Steve Hare, Interim COO & CFO

Steve Hare was assessed against objectives including business simplification, integration of acquisitions, risk management and G&A expense control. These objectives were all met or partially met with particular achievements taken into account by the Remuneration Committee being the successful integration of Sage People and Sage Intaact, significant progress against principal risks identified by the Audit and Risk Committee and a reduction in G&A expense below 13% of revenue demonstrating greater efficiency in the way Sage operates. The Remuneration Committee also noted the significant work done by Steve to develop talent and strengthen succession potential in the finance function and the leadership stability he provided during his period as Interim COO.

Overall, the Remuneration Committee determined that a bonus of 15% of salary (out of the maximum 25% of salary available) would be payable. However, Steve Hare voluntarily waived this payment in light of Group financial and share price performance during the year.

Blair Crump, President of Sage

Blair Crump was assessed against objectives including ARR and net promoter score growth in Sage Business Cloud, ARR growth in Sage Accounting and Sage Financials, enterprise growth, customer retention and deployment of a revised Sage Partner Programme in the UK and US. Performance against the objectives was mixed. Significant progress was made against the Partner Programme goals and Sage Business Cloud achieved its ARR growth target. However, other targets were not met.

Overall, the Remuneration Committee determined that a bonus of 6.25% of salary (out of the maximum 25% of salary available) would be payable. However, Blair Crump voluntarily waived this payment in light of Group financial and share price performance during the year.

Stephen Kelly, CEO

Stephen Kelly was assessed against objectives including customer retention, net promoter score, implementation of the strategic move to a subscription model and employee engagement. As the targets for these objectives were not met, the Remuneration Committee determined that no bonus was payable.

Disclosure of 2017 bonus targets

The target ranges for financial measures used to determine the 2017 bonus were not disclosed in last year's Annual Report and Accounts as this was considered by the Board to be commercially sensitive information. The table below therefore sets out the target ranges for the financial measures that were used to determine the 2017 bonus.

Bonus measure	% weighting	Threshold performance	Target performance	Stretch performance	Actual performance	% of maximum bonus payable
Organic revenue growth[1]	80%	6.2% (40% of bonus payable)	7.3% (56% of bonus payable)	8.3% (80% of bonus payable)	6.6%	46%, adjusted to zero for missing the recurring revenue growth underpin
Strategic measures	20%	The assessment of strategic measures was disclosed on page 93 of the 2017 Annual Report (between 2.4% and 20% of bonus payable)				CEO: 19% CFO: 19%
Total						CEO 19% of maximum bonus (24% of salary) CFO 19% of maximum bonus (24% of salary)

Note:
1 Organic revenue growth for the purposes of the 2017 bonus is defined on page 185 of the 2017 Annual Report. The Remuneration Committee considered the impact on the bonus outcomes of the disposal of the Sage Payments Solutions business ('SPS'), which was considered organic at the time the targets were approved, and determined that the targets would be adjusted upwards to account for the disposal, so that actual performance is assessed using targets prepared on a comparable basis. The targets presented above are after the upward adjustment for the SPS disposal. Additionally, two underpins had to be achieved for any bonus relating to organic revenue growth to pay out. The Group underlying operating margin was 27% (satisfying the target of 27%) and as reported on page 84 of the 2017 Annual Report recurring revenue growth at 9% did not meet the stretching target set (10%). As one of the underpins was not met, the financial element of the bonus did not pay out.

PSP awards

Awards granted under the PSP in 2016 vest depending on performance against two equally weighted measures, measured over three years, from 1 October 2015 to 30 September 2018:

- 50% recurring revenue growth with underpins for EPS growth and organic revenue growth
- 50% 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
Recurring revenue growth (Compound Annual Growth Rate ("CAGR")	Between 8.3% and 10.3% (with EPS growth CAGR of 8% p.a. and organic revenue growth of 6.3% p.a.)	Between 10.3% and 12.3% (or above) (with EPS growth CAGR of 8% p.a. and organic revenue growth of 6.3% p.a.)
Relative TSR	Between median and upper quartile	Between upper quartile and upper decile (or above)

Measure	Achieved	Vesting
Recurring revenue growth (CAGR)	8.3%	10.0%
Relative TSR	57th percentile	18.5%
Total		28.5%

The Remuneration Committee deemed the underpins to have been met. Organic revenue growth was 6.5% p.a. and basic underlying EPS growth was 10.2% p.a. over the period. Basic underlying EPS growth is defined on page 210.

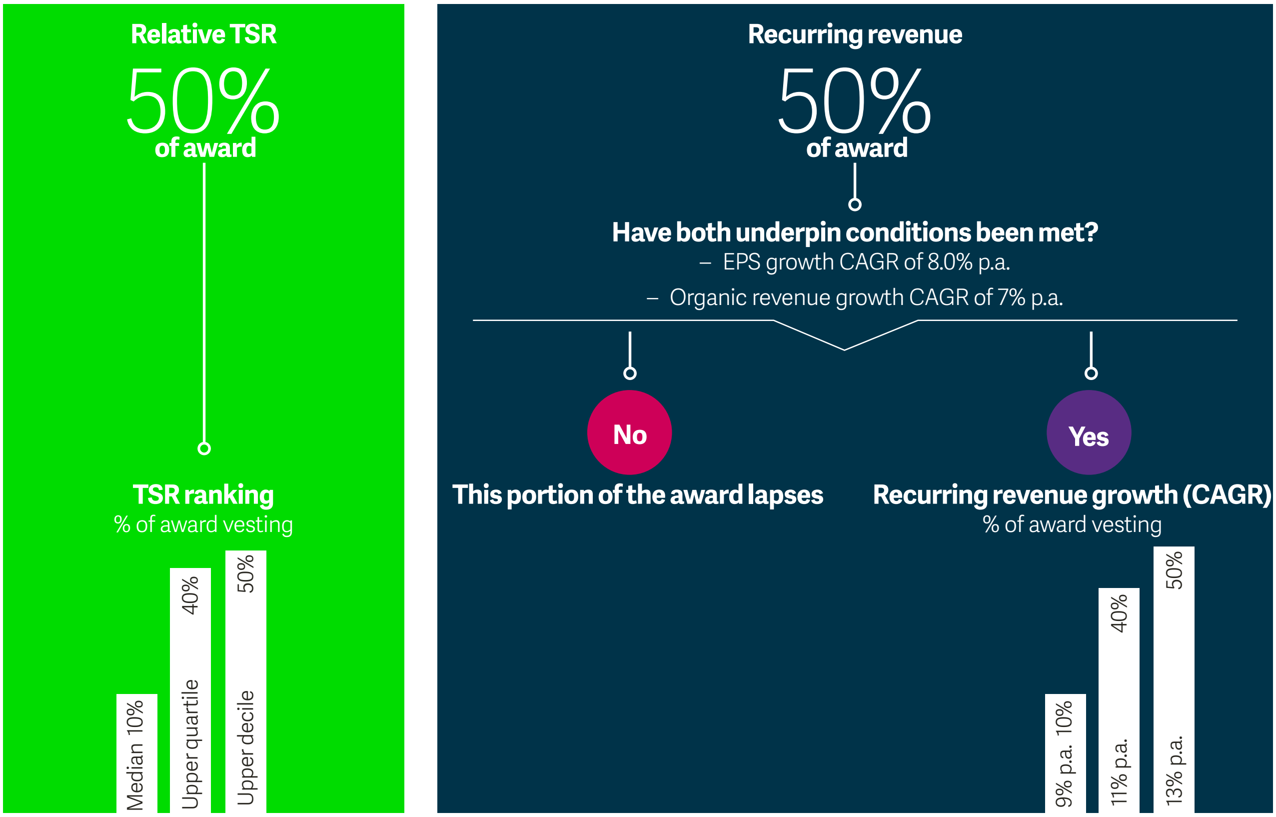
The definition of organic revenue was updated for FY18, part-way through the performance cycle as outlined on page 95 of the 2017 Annual Report. Consequently, the recurring revenue growth target and the organic revenue growth underpin were adjusted to reflect the updated definition of organic revenue which from FY18 includes Intacct and Fairsail (Sage People). The impact of the acquisitions was pro-rated across the FY16 PSP to reflect the proportionate contribution of the acquired businesses over the performance period (an increase of 0.3% p.a. respectively). The EPS underpin was not changed, aligning to the Company's commitment to maintain margin following the acquisitions. For the purposes of assessing performance under the 2016 PSP, recurring revenue includes processing revenue. Processing revenue is defined on page 211.

In assessing 2018 performance, the Remuneration Committee has determined that the most appropriate basis for assessing performance against underlying EPS growth is to neutralise part-year contributions to underlying EPS from Sage Intacct and Sage People in the prior comparative year of 2017 by imputing a full-year profit and loss impact using their respective closing operating margins. This measures organic revenue and EPS on a like-for-like basis.

No other adjustments to underlying EPS have been made. The Remuneration 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 continue to review the impact on incentives of future acquisitions and disposals on a case-by-case basis.

PSP awards granted in FY18 (audited information)

Awards were granted under the PSP on 7 December 2017 at a market value of £7.605 to selected senior employees, including the Executive Directors, in the form of conditional share awards. In alignment with our business strategy for FY18, performance conditions for awards granted in FY18 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 and organic revenue targets were set based upon the updated definition of organic revenue for FY18, as outlined on page 34 of the 2017 Annual Report.

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 7.0% 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. A holding period to the PSPs will apply for two years from the vesting date for Stephen Kelly and Steve Hare. No further performance conditions attach to the awards during the holding period. Blair Crump's appointment to the Board took place after the FY18 PSP grant and his award will not be subject to a holding period on vesting.

	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	266,272	£2,025,000	250%	20%	30 September 2020
Steve Hare	Performance shares	171,597	£1,305,000	250%	20%	30 September 2020
Blair Crump	Performance shares	171,814	£1,306,653	250%	20%	30 September 2020

Note:
1 The face value of the awards has been calculated using the market value (middle market quotation) of a Sage share on 6 December 2017 (the day prior to grant) of £7.605. The FX rate used to calculate Blair Crump's award was 1 GBP = 1.3393 USD. Blair was not an Executive Director at the time of grant.

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]	(0.4%)	5.9%
Taxable benefits[2]	140.4%	25.0%
Annual incentive[3]	(100%)	(51.5%)

Notes:
1 The CEO's salary in 2018 is the sum of Stephen Kelly's salary to his cessation as CEO and Steve Hare's salary including his "step-up" allowance from the date of his appointment as Interim COO & CFO compared to Stephen Kelly's salary in 2017. The percentage change for UK colleagues shown is the 2017 annual pay review and promotions/market adjustments during 2018. This is consistent with the basis of the disclosure in previous reports.
2 The CEO's taxable benefits in 2018 is the sum of Stephen Kelly's taxable benefits to his cessation as CEO and Steve Hare's taxable benefits from the date of his appointment as Interim COO & CFO compared to Stephen Kelly's taxable benefits in 2017. The increase for all UK employees is due to an increase in the cost of private medical insurance premiums.
3 Stephen Kelly did not receive a bonus in respect of FY18. Steve Hare waived his entitlement to a bonus.

Historical executive pay and Company performance

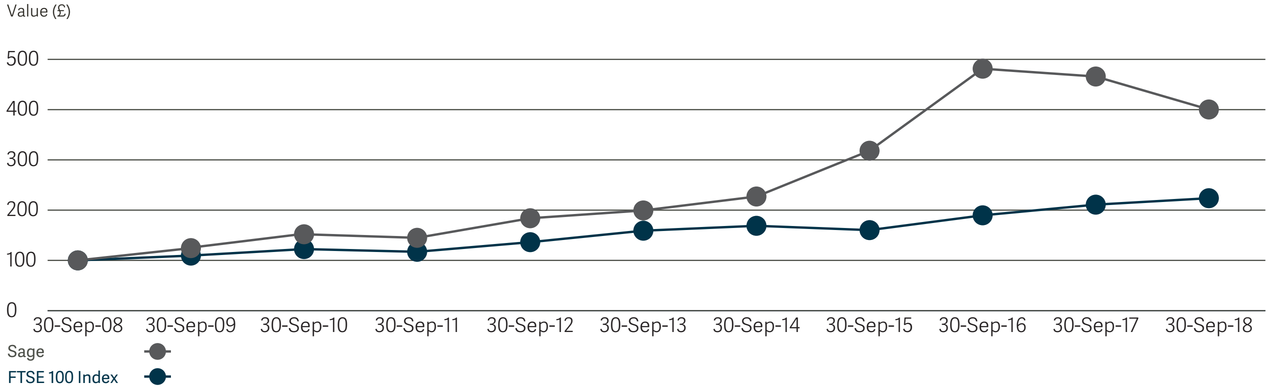
The table below summarises the Chief Executive Officer single figure for total remuneration, annual bonus payout and PSP vesting as a percentage of maximum opportunity for the current year and previous nine years.

	CEO	2009	2010	2011	2012	2013	2014	2015	2016	2017	**2018**
CEO single figure of remuneration (in £'000)	Steve Hare[1]	–	–	–	–	–	–	–	–	–	**98**
	Stephen Kelly[2]	–	–	–	–	–	–	1,521	1,723	3,547	**1,562**
	Guy Berruyer[3]	–	–	2,935	1,196	1,670	1,616	108	–	–	**–**
	Paul Walker[4]	1,797	2,196	–	–	–	–	–	–	–	**–**
Annual bonus payout (as % maximum opportunity)	Steve Hare	–	–	–	–	–	–	–	–	–	**0%[5]**
	Stephen Kelly	–	–	–	–	–	–	67%	69%	19%	**0%**
	Guy Berruyer	–	–	66%	21%	72%	55%	0%	–	–	**–**
	Paul Walker	38%	83%	–	–	–	–	–	–	–	**–**
PSP vesting (as % of maximum opportunity)	Steve Hare	–	–	–	–	–	–	–	–	–	**29%**
	Stephen Kelly	–	–	–	–	–	–	–	–	66%	**29%**
	Guy Berruyer	–	–	61%	0%	0%	0%	64%	–	–	**–**
	Paul Walker	74%	26%	–	–	–	–	–	–	–	**–**

Notes:
1 Steve Hare was appointed Interim COO & CFO on 31 August 2018. Whilst Steve Hare's job title at 30 September 2018 was Interim Chief Operating Officer & Chief Financial Officer, not Chief Executive Officer, he is regarded as being the equivalent of Chief Executive Officer for the purposes of the disclosure.
2 Stephen Kelly stepped down from the position of CEO on 31 August 2018.
3 Guy Berruyer stepped down from the position of CEO on 5 November 2014.
4 Paul Walker resigned as CEO on 1 October 2010.
5 Steve Hare waived his entitlement to a bonus in respect of 2018.

Historical Group performance against FTSE 100

The graph below shows the Total Shareholder Return of the Group and the FTSE 100 over the last ten 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 2018, 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)

As noted in the RNS announcement on 31 August 2018, Stephen Kelly stepped down as CEO on 31 August 2018 and remains employed until 31 May 2019, on which date his employment ceases. Until that date he will continue to be paid on a monthly basis his base salary of £810,000 p.a. and benefits (including car allowance, pension contributions, private medical insurance, permanent health insurance and life assurance), after which date he will receive in lieu of notice his base salary, pension contributions and car allowance that he would have received during the remaining three months of his notice period. Payments in lieu will be made in instalments and are subject to deductions for mitigation. He is not eligible to be considered for an FY19 bonus or to receive an FY19 Performance Share Plan (PSP) award.

Stephen Kelly retains interests in the Company's PSP and Deferred Bonus Plan (DBP). PSP awards will vest at the normal vesting dates, to the extent that the performance conditions are satisfied and the number of shares under award will be pro-rated by reference to the proportion of the applicable performance period that has elapsed by 31 May 2019. The performance conditions for Stephen Kelly's PSP awards are set out in the Annual Report for the year of grant.

His shares in the DBP will vest on their normal vesting dates and not be subject to time pro-rating.

Details of Stephen Kelly's share awards are set out below on pages 126 and 127.

Any unexercised options under the Company's Savings-Related Share Option Plan at the date of cessation of employment will lapse.

Stephen Kelly also received £11,000 plus VAT as contributions towards legal fees in connection with the arrangements relating to his departure. Stephen Kelly received no other termination-related payments.

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 buybacks for 2017 and 2018.

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

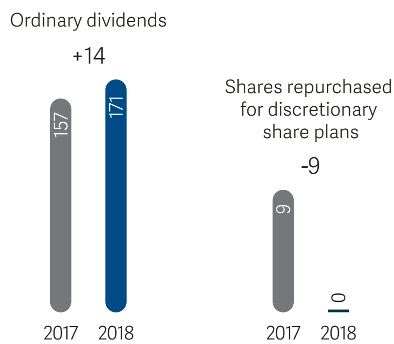
– Underlying PBT – Underlying profit before income tax taken from the consolidated income statement on page 144. Underlying PBT has been chosen as a measure of our operational profitability;

– Returns to shareholders – Total dividends taken from note 15.5 on page 194; share buyback taken from consolidated statement of changes in equity on page 147;

– Total employee pay – Total staff costs from note 3.3 on page 161, including wages and salaries, social security costs, pension and share-based payments.

Underlying PBT (£m)

Returns to shareholders (£m)



Total employee pay (£m)

Statement of implementation of remuneration policy in the following financial year

This section provides an overview of how the Remuneration Committee is proposing to implement our remuneration policy in 2019.

Base salary

An annual salary review was carried out by the Remuneration Committee in November 2018. Following that review, the Remuneration Committee approved the following:

	Salary 1 January 2019	Salary 1 January 2018	Salary 1 January 2017	Salary 1 January 2016
Steve Hare[1]	£770,000 (appointed CEO 2 Nov 2018)	£522,000 (0% increase)	£522,000 (2.5% increase)	£509,000 (3% increase)
Blair Crump[2]	$700,000 (0% increase)	$700,000	N/A	N/A

Notes:

1 Steve Hare was appointed CEO on 2 November 2018. For the period 1 September to 1 November, Steve Hare received a "step-up" allowance of £186,750 per annum in connection with his appointment to the post of Interim COO & CFO. This is in addition to his base salary as CFO. The allowance was payable until the appointment of a CEO and therefore ceased on Steve Hare's appointment as CEO.

2 Blair Crump was appointed to the Board on 1 January 2018.

Pension and benefits

UK-based Executive Directors will receive a reduced pension provision worth 15% of salary as a contribution to a defined contribution plan and/or as a cash allowance and our US-based Executive Director will receive a pension provision in line with our US benefits policy, currently up to 3.5% of salary. 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 FY18. 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. Sage will also continue to tax equalise that portion of Blair Crump's remuneration that is subject to UK tax for days on which he attends to Sage matters in the UK.

Annual bonus

Key features of the Executive Directors' annual bonus plan for 2019 are as follows:

- The maximum annual bonus potential is 175% 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 2019 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 include 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 conduct or gross misconduct which could have warranted an individual's summary dismissal.

The annual bonus for 2019 for Executive Directors will be determined as detailed below:

As a percentage of maximum bonus opportunity:

Measure	CEO	President of Sage
Annualised recurring revenue (ARR) growth[1]	80%	80%
Strategic goals	20%	20%

Note:
1 Payout is dependent upon the satisfaction of the underpin condition of underlying operating profit margin. ARR is defined on page 210.

The selection of measures and targets takes into account the Company's strategic priorities, its internal budgeting and consensus. The annualised recurring revenue growth measure is based on the definition of annualised recurring revenue set out on page 210. 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 in next year's Remuneration Report.

Performance Share Plan (PSP)

The Chief Executive Officer and President of Sage will be amongst the participants in the PSP award to be granted in March 2019. Awards will be of shares worth 200% 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 2021. A holding period to the PSPs granted for the financial year FY19 will apply for two years from the vesting date. No further performance conditions attach to the awards during the holding period.

Annualised recurring revenue growth ('ARR') performance condition (70% of award)

	ARR growth (CAGR)	% of award vesting[1]
Below target	Less than 8.0% p.a.	0%
Target	8.0% p.a.	14%
Stretch	10.0% p.a.	56%
Exceptional	11.0% p.a.	70%

Note:
1 For any of this portion of the PSP awards to vest, an underpin condition must be met: Return on Capital Employed (ROCE) of 12%. ROCE is defined on page 211.

Relative TSR performance condition (30% of award)

	TSR ranking	% of award vesting
Below target	Below median	0%
Target	Median	6%
Stretch	Upper quartile	24%
Exceptional	Upper decile	30%

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. PSP awards granted in 2019 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 conduct 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 2019. 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 2019.

	2019 fees
Chairman of the Board all-inclusive fee[1]	£400,000
Basic Non-executive Director fee	£60,000
Senior Independent Director additional fee	£10,000[2]
Audit and Risk Committee Chairman additional fee	£17,000
Remuneration Committee Chairman additional fee	£17,000

Notes:

1 The fees for Donald Brydon were increased from £360,000 to £400,000 on 6 July 2018, the anniversary of the renewal of his service agreement, in recognition of his contribution to Sage since he became Chairman of the Board. His previous fee had been applied since his appointment as Chairman on 1 September 2012.

2 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' shareholdings and share interests (audited information)

The shareholding guideline for Executive Directors is currently 200% of salary, increasing to 250% of salary in the new Remuneration Policy; the 200% of salary guideline has been effective from the 2016 AGM. Executive Directors are expected to build up the required shareholding within a five-year period of a Director's becoming subject to the guideline. As at 30 September 2018, Steve Hare held shares worth 336% of salary and Blair Crump held shares worth 23% 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 in the three months to 28 September 2018 (the last trading day of the financial year), which was £6.221, and the executive's basic salary on 30 September 2018, translated into GBP using the average middle foreign currency exchange rate for the same period used to calculate the share price.

Interests in shares

The interests as at 30 September 2018 of each person who was a Director of the Company during the year (together with interests held by his or her connected persons) were:

Director	**Ordinary shares at 30 September 2018 number**	**Ordinary shares at 30 September 2017 number[1]**
N Berkett[2]	**50,661**	50,729
D Brydon	**78,024**	78,024
B Crump[3]	**15,000**	15,000
D Hall	**10,000**	10,000
S Hare	**260,019**	147,397
J Howell	**31,000**	31,000
S Jiandani	**0**	0
S Kelly[4]	**401,193**	237,346
C Keers	**0**	0
Total	**845,897**	569,496

Notes:

1 2017 values contain a restatement for auto-reinvestment of dividends, as announced through the Regulatory News Service on 8 June 2018.

2 Neil Berkett's shareholding at 30 September 2017 was incorrectly reported in the 2017 Directors' Annual Remuneration Report due to an administrative error and has been restated, as announced through the Regulatory News Services on 26 October 2018.

3 Blair Crump was appointed to the Board on 1 January 2018.

4 Stephen Kelly stepped down from the Board on 31 August 2018. His 2018 shareholding is shown to that date.

– 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 2018 and the date of this report.

– Details of the Executive Directors' interests in outstanding share awards under the PSP, Deferred Bonus and all-employee share option 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. In addition, all Executive Directors are eligible to join the all-employee share plan, The Sage Save and Share Plan, on the same terms as all employees based in their respective local jurisdiction. See note 15.2 on page 192 for more detail of this plan. 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. Blair Crump was a participant in the 2017 Save & Share Plan. 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 2017 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	**Shares under option at 30 September 2018 number**	Date exercisable
S Hare	317p	9,463	–	–	–	**9,463**	1 August 2019– 31 January 2020
B Crump	610p	1,964	–	–	–	**1,964**	1 August 2019-1 September 2019
S Kelly	456p	6,578	–	–	–	**6,578**	1 August 2020 –31 January 2021
Total		**18,005**	**–**	**–**	**–**	**18,005**	

Notes:

- No performance conditions apply to options granted under the SRSOP and Save and Share Plans. For the 2015 SRSOP grant, the exercise price was set at £4.560, a 20% discount to the average share price of £5.70 on 18, 19 and 20 May 2015. For the 2014 SRSOP, the exercise price was set at £3.17, a 20% discount to the average share price on 15, 16 and 19 May 2014 of £3.9625.
- Blair Crump participated in the 2017 Save and Share Plan. Under the US Save and Share plan rules, the scheme has a two-year saving period. No performance conditions apply to options granted under this Plan. For the 2017 US Save and Share grant, the exercise price was set at £6.10, a 15% discount on the average share price on the three dealing days prior to grant which was on 1 June 2017.The market price of a share of the Company at 28 September 2018 (the last trading day of the financial year) was £5.864 (mid-market average) and the lowest and highest market price during the year were £5.702 and £8.214 respectively.
- Stephen Kelly's options will lapse on 31 May 2019, the date of cessation of his employment.

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 2017 number	Awarded during the year number	Vested during the year number	Lapsed during the year number	**Under award 30 September 2018 number**	Vesting date
S Hare	7 December 2017	–	171,597	–	–	**171,597**	7 December 2020
	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	–	(176,570)	(90,557)	**–**	12 January 2018
		686,783	**171,597**	**(176,570)**	**(90,557)**	**591,253**	
B Crump	7 December 2017	–	171,814	–	–	**171,814**	7 December 2020
	14 December 2016	196,379	–	–	–	**196,379**	14 December 2019
	22 September 2016	98,993	–	–	–	**98,993**	2 March 2019
		295,372	**171,814**	**–**	**–**	**467,186**	
S Kelly	7 December 2017	–	266,272	–	–	**266,272**	7 December 2020
	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	–	(282,142)	(144,700)	**–**	12 January 2018
	12 January 2015	213,421	–	–	–	**213,421**	12 January 2021
		1,291,396	**266,272**	**(282,142)**	**(144,700)**	**1,130,826**	
Total		**2,273,551**	**609,683**	**(458,712)**	**(235,257)**	**2,189,265**	

Notes:

- No variations were made in the terms of the awards in the year.
- The market price of a share on 6 December 2017, the day prior to the date of the awards made in the year ended 30 September 2018, was £7.605.
- The performance conditions for awards granted in January 2015, March 2016, September 2016 and December 2016 are set out in the respective Annual Reports for the year of grant and for awards granted in December 2017 on page 119.
- Stephen Kelly's awards will be pro-rated to the date of cessation of his employment, which is 31 May 2019.
- The performance conditions for Stephen Kelly's and Steve Hare's awards that vested during 2018 are set out on page 94 of the 2017 Annual Report.
- Awards for Steve Hare and Stephen Kelly granted in December 2017 are subject to a holding period of two years on vesting.

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 2017 number	Awarded during the year number	Vested during the year number	Lapsed during the year number	**Under award at 30 September 2018 number**	Vesting date
S Hare	7 December 2017	–	5,491	–	–	**5,491**	7 December 2019
	14 December 2016	23,528	–	–	–	**23,528**	14 December 2018
	9 December 2015	13,673	–	–	–	**13,673**	9 December 2018
	12 January 2015	11,047	–	(11,047)	–	**–**	12 January 2018
B Crump	7 December 2017	–	8,488	–	–	**8,488**	7 December 2019
S Kelly	7 December 2017	–	8,520	–	–	**8,520**	7 December 2019
	14 December 2016	36,503	–	–	–	**36,503**	14 December 2018
Total		**84,751**	**22,499**	**(11,047)**	**–**	**96,203**	

Notes:
- Awards are not subject to further performance conditions once granted. The market price of a share on 6 December 2017, the date prior to the date of the awards made in the year ended 30 September 2018, was £7.605.
- 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 15 November 2018 (the last practicable date prior to publication of this document) are set out below

Limit	Current position
5% of Group's share capital can be used for discretionary share schemes	2.38%
10% of Group's share capital can be used for all share schemes	3.19%

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.

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 Remuneration 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 2018, or on date of contract if later	Notice period under contract
Executive Directors			
S Hare	3 January 2014	12 months	12 months from the Company and/or individual
B Crump	1 January 2018	12 months	12 months from the Company and/or individual
Non-executive Directors			
N Berkett	1 July 2016	9 months	6 months from the Company or 1 month from individual
D Brydon	6 July 2017	1 year 9 months	6 months from the Company and/or individual
J Howell	15 May 2016	8 months	6 months from the Company or 1 month from individual
D Hall	1 January 2017	1 year 3 months	1 month from the Company or 1 month from individual
S Jiandani	28 February 2017	1 year 5 months	1 month from the Company or 1 month from individual
C Keers	1 July 2017	1 year 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:

- Drummond Hall (Chair);
- Neil Berkett;
- Jonathan Howell;
- Cath Keers.

The Remuneration Committee received assistance from Amanda Cusdin (Chief People Officer), Tina Clayton (Executive Vice President, Reward & Recognition), Vicki Bradin (General Counsel and Company Secretary) and Miranda Craig (Interim 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 Remuneration Committee after consultation with the Board. During the year, Deloitte's executive compensation advisory practice advised the Remuneration Committee on developments in market practice, corporate governance, institutional investor views, the development of the Company's incentive arrangements and the review of the remuneration policy. Total fees for advice provided to the Remuneration Committee during the year were £108,650.

The Remuneration 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 2018 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	832,945,959	98.12	15,946,831	1.88	848,892,790	996,239

Drummond Hall
Chairman of the Remuneration Committee

20 November 2018

DIRECTORS' REPORT

The Directors present their report together with the audited consolidated financial statements for the year ended 30 September 2018. The Annual Report and 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 132.

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	19 – In conversation with Steve Hare
Greenhouse gas emissions	51-53 – Environment section
Important events since the financial year end	76 – Appointment of Chief Executive Officer

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 80 to 102, 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 189 within the notes to the Group financial statements.

Results and dividends

The results for the year are set out from page 134. Full details of the proposed final dividend payment for the year ended 30 September 2018 are set out on page 194. The Board is proposing a final dividend of 10.85p per share following the payment of an interim dividend of 5.65p per share on 1 June 2018. The proposed total dividend for the year is therefore 16.5p 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; and
- 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 54 to 59.

Viability statement

The full viability statement, and the associated explanations made in accordance with provision C.2.2 of the UK Corporate Governance Code (April 2016), can be found on page 68.

Research and development

During the year, we incurred a cost of £192m (2017: £179m) in respect of research and development. Please see page 160 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 125. 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 76 to 77.

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 and consulting, where appropriate, with 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 40 to 43.

Major shareholdings

At 30 September 2018, the Company had been notified, in accordance with the DTRs, of the following interests in its ordinary share capital:

Name	Ordinary shares	% of capital[1]	Nature of holding
Blackrock, Inc.	64,068,202	5.90	Direct and Indirect
Lindsell Train Limited	54,140,022	5.01	Direct
Fundsmith LLP	53,635,451	5.00	Direct
Aviva Investors	54,011,329	4.98	Direct and Indirect

1 % as at date of notification. The DTRs require notification when the % voting rights held by a person reaches, exceeds or falls below an applicable threshold specified in the DTRs.
2 In the period from 30 September 2018 to the date of this report we received further notifications from Aviva Investors indicating that the holdings of Aviva Investors stood at 4.09% of capital.
3 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 209. The Company has a single class of share capital which is divided into ordinary shares of $1\frac{4}{77}$p each.

Rights and obligations attaching to shares

Voting

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

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

– 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 them if any call or other sum then payable by them 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 27 February 2019 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 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 on 28 February 2018 to buy back up to 108,310,042 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 an amount equal to 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 an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for ordinary shares on the trading venue where the purchase is carried out (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.

In the year under review no treasury shares were cancelled. Total share awards of 707,190 were made out of shares held by the Employee Benefit Trust. 16,907 of these shares were transferred from treasury to the trustee of the Employee Benefit Trust at nil cost, and the remainder were purchased in the market by the trustee of 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 has agreed not to vote any shares held in the Employee Benefit Trust 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$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 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 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$719 million and £135 million five-year multi-currency revolving credit facility agreement dated 7 February 2018 between, amongst others, Sage Treasury Company Limited and Lloyds Bank plc (as facility agent) and guaranteed by the Company, on a change of control, if any individual lender so requires and after having consulted with Sage Treasury Company Limited in good faith for not less than 30 days following the change of control, the facility agent shall, by not less than 10 business days' notice to Sage Treasury Company Limited, cancel the commitment of that lender and declare the participation of that lender in all outstanding loans, together with accrued interest and all other amounts accrued under the finance documents, immediately due and payable, whereupon the commitment of that lender will be cancelled and all such outstanding amounts will become immediately due and payable;
- Under a note purchase agreement dated 26 January 2015 relating to €55 million senior notes, Series H, due 26 January 2022, €30 million senior notes, Series I, due 26 January 2023 and US$200 million senior notes, Series J, due 26 January 2025 between Sage Treasury Company Limited and the note holders and guaranteed by the Company, on a change of control of the Company, the Company will not take any action that consummates or finalises a change of control unless at least 15 business days prior to such action it shall have given to each holder of notes written notice containing and constituting an offer to prepay all notes on the date specified in such offer which shall be a business day occurring subsequent to the effective date of the change of control which is not less than 30 days or more than 60 days after the date of notice of prepayments;

  Where a holder of notes accepts the offer to prepay, the prepayment shall be 100% of the principal amount of the notes together with accrued and unpaid interest thereon and any applicable net loss and, in each case, including the deduction of any applicable net gain and shall still be made on the proposed payment date. No prepayment under a change of control shall include any premium of any kind;

  Under the terms of all three 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; and
- 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 60 to 73 of the Strategic Report.

Disclaimer

The purpose of this Annual Report and Accounts is to provide information to the members of the Company. The Annual Report and 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 and 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 and Accounts and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report and Accounts should be construed as a profit forecast.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and 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; and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

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

Directors' statement

The Directors as at the date of this report, whose names and functions are listed in the Board of Directors on pages 76 to 77, 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 or loss of the Group; and
- 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; and
- 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 and 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

20 November 2018

The Sage Group plc.
Company number 02231246

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GROUP FINANCIAL STATEMENTS

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 2018 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.

Separate opinion in relation to IFRS as issued by the International Accounting Standards Board

As explained in note 1 to the consolidated financial statements, the Group, in addition to applying IFRS as adopted by the European Union, has also applied IFRS as issued by the International Accounting Standards Board (IASB). In our opinion the consolidated financial statements comply with IFRS as issued by the IASB.

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

Group	Parent Company
Consolidated balance sheet as at 30 September 2018	Company balance sheet as at 30 September 2018
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 60 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 60 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 129 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 68 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	• Revenue recognition • Revenue Recognition – disclosures on the expected impact of the initial application of IFRS 15 [New in 2018] • Allocation of goodwill arising from the acquisition of Intacct and recoverability of goodwill allocated to the Intacct CGU [New in 2018]
Audit scope	• We performed an audit of the complete financial information of 6 components and audit procedures on specific balances for a further 5 components. • The components where we performed full or specific audit procedures accounted for 100% of adjusted Profit before tax *, 89% of Revenue and 94% of Total assets.
Materiality	• Overall Group materiality of £20.4m which represents 5% of adjusted Profit before tax*.

* Profit before tax and 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 judgment, 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 95); and Notes 2.1 and 3.1 of the Group financial statements The Group has reported revenues of £1,846m (FY17: £1,715m). We identified 2 specific risks of fraud and error in respect of inappropriate revenue recognition given the nature of the Group's products and services as follows: • Inappropriate timing of revenue recognition, including cut-off and deferral; and; • Inappropriate measurement of revenue attributed to products and services provided. We have updated the risk description in current year to simplify and provide greater clarity over the nature of the risk. There is no change in the risk profile in the current year.	We performed the procedures below at full and specific scope audit locations with significant revenue streams. We highlight any significant variations in these procedures between locations. • We performed walkthroughs of each significant class of revenue transactions and assessed the design effectiveness of key controls. For 2 components we tested the operating effectiveness of controls as this was identified as the most efficient audit approach. • We assessed management's determination of whether the nature of the Group's products and services results in the transfer of risk and reward at a point in time or over a period of time. This included the assessment of new or one-off transactions. • For products and services where risks and rewards are transferred over a period of time, we tested a sample of transactions to ensure the amount of revenue recognised in the year was accurately calculated based on the state of completion of the contract. As part of this testing we also tested the appropriateness of the deferred revenue at the balance sheet date. • For bundled products, we tested on a sample basis, that (1) the calculation of the fair value attributed to each element of the bundle was reasonable, and (2) that the allocation of any discount was consistent with the relative fair value of each element of the bundle. • We performed other substantive, transactional testing and analytical procedures to validate the recognition of revenue throughout the year. Where practicable, at component level we performed testing over full populations of transactions using data analysis. • For revenue recorded through journal entries outside of normal business processes, we performed testing to establish whether a service had been provided or a sale had occurred in the financial year to support the revenue recognised. • Our procedures to assess the recoverability of trade receivables included assessment of whether the provision against, or write off of, impacted our view as to the initial recognition of the related revenue. We also considered the adequacy of the Group's disclosures for the accounting policies for revenue recognition in notes 1 and 3.1 respectively. The full and specific scope audit locations with significant revenue streams (8 components) where we performed the audit procedures set out above covered 89% of the Group's revenue. We also performed review procedures in 3 locations, which covered a further 4% 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 2018.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Revenue recognition – disclosures on the expected impact of the initial application of IFRS 15 [New in 2018] Refer to the Audit and Risk Committee Report (page 95); and Note 1 of the Group financial statements The Group is adopting IFRS 15 Revenue from Contracts with Customers ('IFRS 15') from 1 October 2018 and will apply the cumulative retrospective method to recognise the effect of the transition in equity at this date. The application of IFRS 15 is complex and involves management judgement and estimation. For Sage this complexity is increased as a result of diversity in products and services offered by the Group, and also in ways of selling these. Disclosure is required of the expected impact of IFRS 15 upon adoption on 1 October 2018. It expects that initial recognition will lead to an increase in retained earnings under equity of approximately £23m (after accounting for deferred taxes) as of 1 October 2018.	Our procedures in respect of the estimated impact of the initial adoption of IFRS 15 included: • We appraised the revisions to the Group's revenue recognition accounting policy under IFRS 15, including both its technical appropriateness and its completeness in reflecting the diversity of the Group's products and services; • We evaluated the impact analysis and the accounting judgements made based on the characteristics of the Group's products and their delivery to customers. • We assessed the appropriateness of the methods used to determine the estimated impact of the initial application of IFRS 15. We instructed component audit teams in all full and specific scope locations with significant revenue streams (eight locations), to perform: • audit procedures on a sample basis to test the accuracy and completeness of local management's analysis of product types, contract terms and sales channel mechanisms; and • substantive testing to support the quantitive information disclosed in the consolidated financial statements. We also considered the adequacy of the Group's disclosures on the estimated impact of the initial application of IFRS 15 set out in note 1.	Based on the procedures performed, the disclosure of the estimated impact was sufficiently documented and substantiated. The disclosure in note 1 of the impact of transition to IFRS 15 is appropriate.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Allocation of goodwill arising from the acquisition of Intacct and recoverability of goodwill allocated to the North America Intacct cash generating unit [New in 2018] Refer to the Audit and Risk Committee Report (page 96); and Note 6.1 of the Group financial statements During the year, £42m of the £508m of goodwill that arose on the acquisition of Intacct on 3 August 2017 has been allocated to other cash generating units (CGUs), including £36m to the UKI CGU. We focused on this • Due to the judgment involved in the allocation exercise and because of the risk of management bias given the low level of headroom when comparing value in use to net assets of the North America Intacct CGU; and • the directors' assessment of this 'value in use' involves judgement about the future performance of the newly acquired business and the discount rates applied to future cash flow forecasts.	**Allocation of goodwill arising from the acquisition of Intacct** We challenged management around the appropriateness of the approach taken to allocate goodwill arising from the acquisition of Intacct to other CGUs. Specifically: • We assessed management's basis for allocating goodwill to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination. We reviewed the board papers and public pronouncements in respect of this matter and discussed with members of the Board in order to understand the timing and maturity of the plan to internationalise the Intacct product. • We evaluated the appropriateness of the discounted cashflows technique used to allocate goodwill and tested the integrity of the model used. • We assessed the basis for key underlying assumptions for the cashflows included in the allocation model for the UKI CGU, including levels of new customer acquisition, average customer values and net customer churn rates. We considered their appropriateness compared to the performance of the Group's existing North America business and industry data for this market. • With assistance from EY valuation specialists, we evaluated the reasonableness of the discount rate applied in the allocation model, with specific consideration of the risk of a new product launch in the UK. **Recoverability of North America Intacct goodwill** We audited management's estimation of the recoverable value of the North America Intacct CGU. Specifically: • We tested the methodology applied in the value in use calculation as compared to the requirements of IAS 36, Impairment of Assets, including the appropriateness of the period of the forecast, and the mathematical accuracy of management's model. • We have evaluated management's forecasting for Intacct since acquisition through comparison of current year performance to forecast. • Where the forecasts differed from the original acquisition plan used in the purchase price allocation, we assessed for reasonableness the explanations provided by management. • We evaluated the key underlying assumptions used in the valuation including cash flow forecasts, discounts rates and long term growth rates. We considered evidence available to support these assumptions and their consistency with findings from other areas of our audit. • With assistance from EY valuation specialists, we performed audit procedures on the reasonableness of the discount rates and long term growth rates used by management, including comparison to economic and industry forecasts where appropriate. • We performed downside sensitivity analyses on key assumptions, including combinations thereof, in the model to understand the parameters that, should they arise, cause an impairment of goodwill. We considered the appropriateness of the related disclosures provided in note 6.1 in the Group financial statements, in particular the disclosure of forecast period used in the value in use calculation and additional sensitivity disclosures. The entire goodwill balance that arose from the acquisition of Intacct was subject to full scope audit procedures by the Primary audit team.	We concluded that: • the methodology applied is reasonable and we have not identified any evidence that the allocation of the Intacct goodwill is materially incorrect based on the forecasts and discount rate applied; • the allocation of the Intacct goodwill is however highly sensitive to key assumptions; and • we agree with management's conclusion that no impairment of Intacct goodwill is required in the current year and noted that the allocation exercise had no impact on this conclusion. We concur with management that additional sensitivity disclosures are required in note 6.1 of the Group financial statements on the basis that a reasonably possibly change in assumptions would result in a material impairment of goodwill in the Intacct Cash Generating Unit.

In the prior year, the key audit matters included within our auditor's report included risks in relation to the Intacct acquisition – provisional value of acquired intangible assets; carrying value of goodwill and classification of restructuring costs as non-recurring, as a result of the Group's business transformation. In the current year, these risks are no longer assessed as key audit matters on the basis that there were no significant adjustments in the finalisation of the purchase price allocation for Intacct, with the exception of the Intacct cash generating unit (CGU) there is sufficient headroom within the goodwill testing for the Group's other CGUs and no business transformation costs are reported as non-recurring in the year.

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 21 reporting components of the Group, we selected 11 components covering entities within 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 10 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.

	2018				2017		
Reporting components	**Number**	**% Group adjusted Profit before tax***	**% Group Revenue**	**See note**	Number	% Group adjusted Profit before tax	% Group Revenue
Full scope	**6**	**81%**	**60%**	**1,2**	6	68%	59%
Specific scope	**5**	**19%**	**29%**	**2,3**	5	30%	30%
Full and specific scope coverage	**11**	**100%**	**89%**		11	98%	89%
Remaining components	**10**	**0%**	**11%**	**4**	13	2%	11%
Total Reporting components	**21**	**100%**	**100%**		24	100%	100%

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 risk in relation to the allocation of goodwill arising from Intacct and recoverability of goodwill allocated to the Intacct CGU was subject to audit procedures by the Primary audit team on the entire balance.
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 10 components contributed a net (0)% of adjusted Profit before tax* and the individual contribution of these components ranged from 3% to (4)% of the Group's adjusted Profit before tax*. We instructed one component team to undertake specified procedures over certain cash balances and trade and other payables at one location and another component team to undertake specified procedures over trade receivables. For three components, including Asia, Australia and Middle East, the Primary audit team performed review scope procedures. For the remaining components, the Primary audit team performed other procedures, including overall 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.

* Profit before tax and non-recurring items as defined in the 'Our application of materiality' section of this report.

Changes from the prior year

The change in the total number of reporting components from 24 to 21 reflects the disposal of the North America payments business, the combination of Singapore and Malaysia into one component, and the removal of Sage Technologies as a separate 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 Group 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, Spain, North America and South Africa. These visits involved discussing the audit approach with the component team and any issues arising from their work, reviewing relevant 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. The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed relevant key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

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

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £20.4 million (2017: £21.4million), which is 5% (2017: 5%) of Profit before tax for both continuing and discontinued operations adjusted for non-recurring items reported by the Group. We believe that Profit before tax for both continuing and discontinued operations adjusted for non-recurring items provides us with the most relevant performance measure to the stakeholders of the entity. Non-recurring items are set out in Note 3.6 of the Group's financial statements.

Starting basis

Total profit before tax of £398m

Adjustments

Adjustments for non-recurring items:

- Loss on disposal of subsidiary £1m
- Litigation costs £4m
- Restructuring and exit costs £5m

Materiality

Totals £408m

Materiality of £20.4m (5% of materaility basis)

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.

We determined materiality for the Parent Company to be £28.7 million (2017: £28.9 million), which is 1% (2017: 1%) of equity. Equity is an appropriate basis to determine materiality. Any balances in the parent Company financial statements that were relevant to our audit of the consolidated group were audited using an allocation of group performance materiality.

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% (2017: 50%) of our planning materiality, namely £10.2m (2017: £10.8m). Our performance materiality percentage has remained at 50% to reflect the risk associated with the ongoing changes across the finance organisation that commenced during FY16, and which included in 2018 for Switzerland, Austria and Germany the implementation of their respective X3 ERP system for certain processes and the stabilisation of the Financial Shared Services Centres.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £1.0m to £5.7m (2017: £1.1m to £6.0m).

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 £1.0m (2017: £1.1m), 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 pages 2 to 133, 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 133 – 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 93 – 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 75 – 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 133, 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.

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 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 as well as consideration of the results of our audit procedures across the Group.

- 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 and on those specific areas of financial reporting more prevalent in whistleblowing incidences. We also considered performance targets and their propensity to influence on efforts made by management to manage earnings particularly in the light of the revised market guidance issued in April 2018. 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 or other risk of material misstatement. 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 and all full and specific scope management; and focused testing, as referred to in the key audit matters section above.

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

- We were appointed by the Company at the AGM on 28 February 2018 to audit the financial statements for the year ended 30 September 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is four years, covering the years ended 30 September 2015, 30 September 2016, 30 September 2017 and 30 September 2018.
- 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.

Use of our report

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.

Alison Duncan (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
20 November 2018

The following foot note should be added to the audit report when it is published or distributed electronically:

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 2018

	Note	**Underlying 2018 £m**	**Adjustments (note 3.6) 2018 £m**	**Statutory 2018 £m**	Underlying as reported* 2017 £m	Adjustments (note 3.6) 2017 £m	Statutory 2017 £m
Revenue	2.1, 3.1	**1,857**	**(11)**	**1,846**	1,720	(5)	1,715
Cost of sales		**(130)**	**–**	**(130)**	(114)	–	(114)
Gross profit		**1,727**	**(11)**	**1,716**	1,606	(5)	1,601
Selling and administrative expenses		**(1,223)**	**(66)**	**(1,289)**	(1,139)	(114)	(1,253)
Operating profit	2.2, 3.2, 3.3, 3.6	**504**	**(77)**	**427**	467	(119)	348
Share of loss of an associate	8	**–**	**–**	**–**	–	(1)	(1)
Gain on remeasurement of existing investment in an associate	3.6	**–**	**–**	**–**	–	13	13
Finance income	3.5	**4**	**1**	**5**	2	8	10
Finance costs	3.5	**(33)**	**(1)**	**(34)**	(27)	(1)	(28)
Profit before income tax		**475**	**(77)**	**398**	442	(100)	342
Income tax expense	4	**(123)**	**20**	**(103)**	(115)	30	(85)
Profit for the year – continuing operations		**352**	**(57)**	**295**	327	(70)	257
Profit on discontinued operations	16.3	**–**	**–**	**–**	18	25	43
Profit for the year		**352**	**(57)**	**295**	345	(45)	300
Profit attributable to:							
Owners of the parent		**352**	**(57)**	**295**	345	(45)	300
Earnings per share attributable to the owners of the parent (pence)							
From continuing operations							
– Basic	5	**32.51p**		**27.21p**	30.28p		23.86p
– Diluted	5	**32.35p**		**27.07p**	30.18p		23.78p
From continuing and discontinued operations							
– Basic	5	**32.51p**		**27.21p**	31.90p		27.80p
– Diluted	5	**32.35p**		**27.07p**	31.79p		27.71p

Note:

* Underlying as reported is at 2017 reported exchange rates.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September 2018

	Note	**2018 £m**	2017 £m
Profit for the year		**295**	300
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss:			
Actuarial gain on post-employment benefit obligations	11, 15.4	**–**	4
Deferred tax charge on actuarial gain on post-employment benefit obligations	4, 15.4	**–**	(1)
		–	3
Items that may be reclassified to profit or loss:			
Deferred tax credit on foreign currency movements	4, 15.3	**–**	2
Gain on available-for-sale fixed asset investment	14.1	**1**	–
Exchange differences on translating foreign operations	15.3	**15**	(26)
Exchange differences recycled through income statement on sale of foreign operations	15.3	**–**	(32)
		16	(56)
Other comprehensive income/(expense) for the year, net of tax		**16**	(53)
Total comprehensive income for the year		**311**	247
Total comprehensive income for the year attributable to:			
Owners of the parent		**311**	247

CONSOLIDATED BALANCE SHEET

As at 30 September 2018

	Note	2018 £m	2017 Restated* £m
Non-current assets			
Goodwill	6.1	**2,008**	2,002
Other intangible assets	6.2	**260**	274
Property, plant and equipment	7	**129**	133
Fixed asset investment	14.1	**17**	15
Other financial assets		**3**	2
Deferred income tax assets	12	**51**	61
		2,468	2,487
Current assets			
Inventories	9.1	**1**	3
Trade and other receivables	9.2	**459**	466
Current income tax asset		**4**	14
Cash and cash equivalents (excluding bank overdrafts)	13.3	**272**	231
Assets classified as held for sale	16.3	**113**	1
		849	715
Total assets		**3,317**	3,202
Current liabilities			
Trade and other payables	9.3	**(249)**	(337)
Current income tax liabilities		**(39)**	(18)
Borrowings	13.4	**(8)**	(55)
Provisions	10	**(26)**	(37)
Deferred income	3.1	**(620)**	(585)
Liabilities classified as held for sale	16.3	**(63)**	(1)
		(1,005)	(1,033)
Non-current liabilities			
Borrowings	13.4	**(913)**	(914)
Post-employment benefits	11	**(22)**	(22)
Deferred income tax liabilities	12	**(25)**	(25)
Provisions	10	**(11)**	(31)
Trade and other payables		**(8)**	(5)
Deferred income	3.1	**(6)**	(4)
		(985)	(1,001)
Total liabilities		**(1,990)**	(2,034)
Net assets		**1,327**	1,168
Equity attributable to owners of the parent			
Ordinary shares	15.1	**12**	12
Share premium		**548**	548
Other reserves	15.3	**146**	131
Retained earnings		**621**	477
Total equity		**1,327**	1,168

* 2017 restated for finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Sage Intacct, completed in 2017 (see notes 1 and 16.1).

The consolidated financial statements on pages 144 to 201 were approved by the Board of Directors on 20 November 2018 and are signed on their behalf by:

Steve Hare
Chief Executive Officer and Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2018

				Attributable to owners of the parent		
	Note	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 October 2017		**12**	**548**	**131**	**477**	**1,168**
Profit for the year		**–**	**–**	**–**	**295**	**295**
Other comprehensive income/(expense):						
Exchange differences on translating foreign operations	15.3	**–**	**–**	**15**	**–**	**15**
Gain on available-for-sale fixed asset investment	14.1, 15.4	**–**	**–**	**–**	**1**	**1**
Total comprehensive income for the year ended 30 September 2018		**–**	**–**	**15**	**296**	**311**
Transactions with owners:						
Employee share option scheme:						
– Value of employee services, net of deferred tax	15.4	**–**	**–**	**–**	**16**	**16**
Proceeds from issuance of treasury shares	15.4	**–**	**–**	**–**	**3**	**3**
Dividends paid to owners of the parent	15.4, 15.5	**–**	**–**	**–**	**(171)**	**(171)**
Total transactions with owners for the year ended 30 September 2018		**–**	**–**	**–**	**(152)**	**(152)**
At 30 September 2018		**12**	**548**	**146**	**621**	**1,327**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2017

				Attributable to owners of the parent		
	Note	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £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 gain 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	15.4	–	–	–	21	21
Purchase of treasury shares	15.4	–	–	–	(9)	(9)
Dividends paid to owners of the parent	15.4, 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 CASH FLOWS

For the year ended 30 September 2018

	Note	2018 £m	2017 £m
Cash flows from operating activities			
Cash generated from continuing operations	13.1	**487**	403
Interest paid		**(30)**	(24)
Income tax paid		**(64)**	(102)
Operating cash flows generated from discontinued operations	16.3	**–**	25
Net cash generated from operating activities		**393**	302
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash acquired	16.1	**(8)**	(693)
Proceeds on settlement of debt investment		**–**	7
Purchases of intangible assets	6.2	**(36)**	(22)
Purchases of property, plant and equipment	7	**(20)**	(30)
Proceeds from sale of property, plant and equipment		**2**	–
Interest received	3.5	**4**	2
Disposal of discontinued operations	16.3	**–**	158
Net cash used in investing activities		**(58)**	(578)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**–**	4
Proceeds from issuance of treasury shares		**3**	–
Purchase of treasury shares		**–**	(9)
Proceeds from borrowings		**330**	662
Repayments of borrowings		**(389)**	(275)
Movements in cash held on behalf of customers		**2**	5
Borrowing costs		**(3)**	(1)
Dividends paid to owners of the parent	15.5	**(171)**	(157)
Financing cash flows generated from discontinued operations	16.3	**–**	4
Net cash (used in)/generated from financing activities		**(228)**	233
Net increase/(decrease) in cash, cash equivalents and bank overdrafts (before exchange rate movement)		**107**	(43)
Effects of exchange rate movement	13.2	**2**	(4)
Net increase/(decrease) in cash, cash equivalents and bank overdrafts		**109**	(47)
Cash, cash equivalents and bank overdrafts at 1 October	13.2	**213**	260
Cash, cash equivalents and bank overdrafts at 30 September	13.2	**322**	213

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") and IFRS as issued by the International Accounting Standards Board ("IASB"). IFRS as adopted by the EU differs in certain respects from IFRS as issued by the IASB. The differences have no impact on the Group's consolidated financial statements for the years presented. 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 balance sheet and related notes have been restated for the finalisation of provisional amounts recognised in respect of the fair value of assets acquired and liabilities assumed related to the acquisition of Sage Intacct that completed on 3 August 2017. Details are set out in note 16.1.

All figures presented are rounded to the nearest £m, unless otherwise stated.

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 73.

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".

1 Basis of preparation and critical accounting estimates and judgements continued

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 35% 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.

A critical accounting estimate 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

A key judgement 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. The Group's management structure has evolved during the year and as a result certain CGUs have been grouped together for the purposes of goodwill monitoring and impairment testing. Subject to this change, it was determined that the use of CGUs based on geographical area of operation remains appropriate.

The allocation of goodwill on the acquisition of Sage Intacct to the CGUs expected to benefit from the acquisition, required significant judgement. This was made on the basis of where Sage Intacct products are expected to be introduced in these territories in future years.

The assumptions applied in calculating the value in use of the CGUs being tested for impairment is a source of estimation uncertainty. 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, and further information on the level at which goodwill is monitored and the allocation of goodwill from Sage Intacct, are disclosed in note 6.1.

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 the use of estimates. There have been no significant business combinations in the year which required significant use of estimates. During the prior year, the Group made two significant business combinations in which it acquired Sage Intacct (formerly Intacct Corporation) and Sage People (formerly Fairsail Limited). 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.

Amounts recognised for Intacct at 30 September 2017 were provisional due to the proximity of the acquisition date to the date of approval of the Annual Report. During the current year, these amounts have been finalised resulting in adjustments to the amount of deferred tax and goodwill arising on the acquisition. An explanation of the changes and the impact on the prior year consolidated balance sheet is set out in note 16. The note also includes an explanation of the accounting policy applied to business combinations.

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, all of which have been adopted by the EU, may have a material impact on the Group. They are currently issued but not effective for the Group for the year ended 30 September 2018:

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

IFRS 9

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, but the standard allows an option not to restate comparatives.

Transition to IFRS 9 will have only a limited impact for the Group arising from the change in impairment loss model applied to trade receivables. The Group will adopt the standard's simplified approach to provide for lifetime expected credit losses at the date of initial recognition. Currently credit losses are not recognised until there is an indicator of impairment. The Group will use a matrix approach to determine the provisions, with default rates assessed for each country in which the Group operates.

The Group has made the following elections on transition to IFRS 9:

- The Group will not restate comparatives and will recognise the cumulative impact of implementing the standard in equity at the date of transition;
- The Group will continue to apply the hedge accounting requirements of IAS 39 instead of those in IFRS 9;
- The Group will classify its unquoted equity investment as at fair value through other comprehensive income. As a result, changes in fair value will continue to be recognised in the statement of other comprehensive income when they arise, but the cumulative gain or loss will not be reclassified to profit or loss when the investment is derecognised.

The impact to be recognised in equity by the Group on transition to IFRS 9 is a £6m reduction in net assets arising from an increase in the impairment provision against trade receivables. No material impact is expected from implementing IFRS 9 on the consolidated income statement or on the consolidated statement of cash flows.

IFRS 15

IFRS 15 is effective for the Group starting 1 October 2018. The new standard prescribes a principle-based approach to accounting for revenue arising from contracts with customers as well as additional reporting disclosures. The standard replaces all previous revenue-related requirements under IFRS. In order to implement the new standard, a project has been undertaken across Sage's markets to develop new revenue recognition policies and adjust relevant business processes and systems for data collection and reporting where necessary.

The standard permits a choice of two possible transition methods for the initial application of the new requirements: (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 will adopt the cumulative catch-up approach and the practical expedient to apply the new standard only to contracts that had not been completed by 1 October 2018. The cumulative effect of initial application will be recognised as an adjustment to the balance of retained earnings at 1 October 2018.

1 Basis of preparation and critical accounting estimates and judgements continued

Differences between current accounting policies and IFRS 15

Several differences between the Group's current accounting policies and its IFRS 15 based policies have been identified. The most significant of these are as follows.

- *Unbundling of subscription software and related maintenance and support contracts for on-premise products*
  IFRS 15 introduces a new concept of performance obligations. This requires 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. As a result, the revenue recognition pattern changes for certain on-premise subscription contracts, which combine the delivery of software and support services and the obligation to deliver, in the future, unspecified software upgrades under a maintenance contract. Under current policies, the Group recognises the entire price as revenue on a straight-line basis over the subscription term. Under IFRS 15, a portion of the transaction price will be recognised upon delivery of the initial software at the outset of the arrangement with the remainder recognised over the term of the contract due to the fact that these are deemed to be separate performance obligations.
- *Non-refundable contract sign up fees*
  In some cases, customers pay a non-refundable contract sign-up fee when they enter into a new initial contract for a software product, and no equivalent fee is payable on subsequent renewals. As a result of paying the contract sign-up fee, the customer has an option to renew the contract and to pay a lower price on renewal than would have been the case had the contract sign-up fee not been paid. Under IFRS 15, the fee is considered to provide the customer with a material right that the customer would not receive without having entered into the initial contract. Therefore, the upfront fee is recognised as revenue over the anticipated period of benefit to the customer, which takes account of the likelihood of the customer renewing the contract. Under current policies, the full amount of the contract sign-up fee is recognised as revenue when it is paid by the customer at the start of the initial contract.
- *Costs of obtaining customer contracts*
  The Group incurs certain costs to obtain customer contracts. Typically, such costs are commissions paid either to third party business partners or to internal sales employees. Under IFRS 15, all incremental costs of obtaining a contract with a customer are recognised as an asset on the balance sheet if the Group expects to recover those costs. The costs are amortised over the period during which the related revenue is recognised, which may extend beyond the initial contract term where the Group expects to benefit from future renewals as a result of incurring the costs. Under current policies, costs to obtain a contract are recognised as assets and amortised only if they are payable to a third-party agent and relate to a contract where revenue is recognised over time. As a result, compared to current policies the amount recognised as an asset under IFRS 15 increases and the recognition of costs is deferred.
- *Business Partner Arrangements*
  Under IFRS 15, the Group is required to assess whether it controls a good or service before it is transferred to the end customer to determine whether it is principal or agent in that transaction. This is in contrast to the existing guidance which is focused on assessing whether the Group has the risks and rewards of a principal. For Sage, the application of IFRS 15 results in a change in principal versus agent assessment for a number of business partner arrangements. The Group has therefore identified an increase in the number of business partner arrangements where Sage is considered to be the principal under IFRS 15 with respect to the end customer. As a result, there will be an increase in gross revenue recognition for these arrangements as the amounts payable to business partners will be classified as a cost of sale rather than a deduction to revenue.

Other immaterial differences have been identified and separately disclosed in the table below.

Accounting judgements and estimates

The application of IFRS 15 to these and other aspects of accounting for revenue requires the Group to make certain judgements and estimates. The most significant are:

- The establishment of standalone selling prices that are used as the basis for the apportionment of the transaction price to separate performance obligations. This is a new concept introduced by IFRS 15 compared to current requirements and can impact the timing of revenue recognition. Judgement is sometimes required to determine the standalone selling price particularly in respect of on-premise subscription offerings. Where standalone selling prices for on-premise offerings are observable and consistent across the customer base, SSP estimates are derived from pricing history. Where there are no directly observable estimates available, comparable products are utilised as a basis of assessment.
- Determining the periods over which the costs of obtaining contracts are amortised and revenue from upfront fees is recognised. The periods reflect the expected contract life including renewals. Assumptions on renewals are based on historical renewal rates for the products and market concerned, adjusted for any identified likely change in renewal patterns.
- The assessment of whether to report revenue gross or net for business partner arrangements. The treatment depends on whether the business partner or the end user qualifies as Sage's customer.

Presentation and disclosures

The changes in revenue and cost recognition noted above which impact the consolidated income statement will have a corresponding effect on the consolidated balance sheet, most significantly relating to the inclusion of capitalised commissions costs. In addition, under IFRS 15 where amounts are invoiced in advance, the receivables and corresponding deferred income may not be recognised until the earlier of the service being provided and the payment falling due. Management is currently in the process of assessing the extent of the impact and this reduction is not currently disclosed within the quantitative impact disclosure below.

In the year ending 30 September 2019, the cumulative effect of initial application will be recognised as an adjustment to the balance of retained earnings at the start of the year. The adjustments arising from applying IFRS 15 rather than the current standard (IAS 18) for the year ending 30 September 2019 will be disclosed for each line item in the financial statements. The notes to the financial statements will contain additional quantitative and qualitative disclosures, as well as information on the accounting estimates and judgements made in respect of certain aspects of IFRS 15.

IFRS 15 is not expected to have any impact on net cash generated from operating activities.

Quantitative impact

The Group's current estimate of the financial impact of the changes arising from IFRS 15 on the consolidated balance sheet on initial application is as follows.

								30 September 2018
	As previously reported £m	Unbundling of subscription software £m	Non-refundable contract sign-up fees £m	Costs of obtaining customer contracts £m	Other adjustments £m	Tax impact £m	Total IFRS 15 adjustments £m	Restated on adoption of IFRS 15 £m
Total assets	3,317	–	–	37	–	–	37	3,354
Total liabilities	(1,990)	22	(21)	–	(6)	(9)	(14)	(2,004)
Net assets	1,327	22	(21)	37	(6)	(9)	23	1,350
Equity – retained earnings	1,327	22	(21)	37	(6)	(9)	23	1,350

* The table above does not reflect the potential balance sheet presentation adjustments, currently being assessed by management, as discussed above.

Amounts are inclusive of tax movements but do not include the impact of adopting IFRS 9.

This impact is based on the assessments performed to date and may be revised as further analysis is performed before the reporting of financial information for periods including the date of initial application.

The impact on the Group's financial statements in the period of initial application will significantly depend on its business and go-to-market strategy in the year ending 30 September 2019 and beyond.

IFRS 16

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 as an operating expense.

The Group will adopt IFRS 16 on its effective date and the first financial year reported under the new standard will be the year commencing 1 October 2019. The Group is currently reviewing the implications that this will have on its consolidated financial statements. All of the Group's leases are currently accounted for as operating leases, and the most significant leases, by value, are those for rented office buildings. The main impact on transition to the new standard will be a significant increase in the Group's total liabilities due to the recognition of a liability for the present value of future lease payments on these leases, and a corresponding increase in total assets for the right to use lease asset. Information on the Group's operating lease commitments is disclosed in note 3.4, and the amount of operating lease rentals payable recognised as an expense within operating profit from continuing operations is included in note 3.2.

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 statutory and underlying 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 amounts are translated at current year exchange rates, so that exchange rate impacts do not distort comparisons. Prior year underlying amounts at prior year exchange rates are "underlying as reported"; prior year and current year amounts at current year exchange rates are "underlying".

- Organic is a non-GAAP measure. The contributions from discontinued operations, disposals and assets held for sale of standalone businesses in the current and prior period are removed so that results can be compared to the prior year on a like-for-like basis. Results from acquired businesses are excluded in the year of acquisition. Adjustments are made to the comparative period to present prior period acquired businesses as if these had been part of the Group throughout the 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.

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.

The Group is organised into nine key operating segments: Northern Europe (UK and Ireland), Central Europe (Germany, Austria and Switzerland), France, Iberia (Spain and Portugal), North America (excluding Intacct) (US and Canada), North America Intacct, Africa and the Middle East, Asia (including Australia) and Latin America. With effect from 1 October 2017, the previous operating segment of Southern Europe was split into two key operating segments, France and Iberia, as part of the continued focus to get closer to customers. For reporting under IFRS 8, the Group is divided into three reportable segments. These segments are as follows:

- Northern Europe
- Central and Southern Europe (Central Europe, France and Iberia)
- North America (North America (excluding Intacct) and North America Intacct)

The remaining operating segments of Africa and the Middle East, Asia (including Australia) 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, France and Iberia, 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, France and Iberia 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 and therefore share the same economic characteristics. 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.

2 Segment information continued

2.1 Revenue by segment

	Year ended 30 September 2018					Change		
	Statutory £m	**Underlying adjustments £m**	**Underlying £m**	**Organic adjustments* £m**	**Organic £m**	Statutory	Underlying	Organic
Recurring revenue by segment								
Northern Europe	**297**	**1**	**298**	**–**	**298**	1.7%	2.5%	1.6%
Central and Southern Europe	**475**	**–**	**475**	**–**	**475**	5.5%	4.2%	4.4%
North America	**468**	**10**	**478**	**(7)**	**471**	20.5%	28.6%	12.9%
International	**197**	**–**	**197**	**–**	**197**	(1.8%)	5.7%	6.2%
Recurring revenue	**1,437**	**11**	**1,448**	**(7)**	**1,441**	8.1%	11.0%	6.7%
Software and software related services ("SSRS") revenue by segment								
Northern Europe	**44**	**–**	**44**	**–**	**44**	12.8%	9.6%	7.2%
Central and Southern Europe	**150**	**–**	**150**	**–**	**150**	15.1%	13.7%	13.9%
North America	**75**	**–**	**75**	**(1)**	**74**	3.5%	9.9%	4.0%
International	**55**	**–**	**55**	**–**	**55**	(9.4%)	(4.2%)	(2.5%)
SSRS revenue	**324**	**–**	**324**	**(1)**	**323**	6.7%	8.8%	7.6%
Processing revenue by segment								
Northern Europe	**39**	**–**	**39**	**–**	**39**	4.2%	4.0%	4.0%
Central and Southern Europe	**–**	**–**	**–**	**–**	**–**	0.0%	0.0%	0.0%
North America	**31**	**–**	**31**	**(30)**	**1**	(1.9%)	4.1%	(2.4%)
International	**15**	**–**	**15**	**–**	**15**	8.6%	13.0%	13.0%
Processing revenue	**85**	**–**	**85**	**(30)**	**55**	2.6%	5.5%	6.2%
Total revenue by segment								
Northern Europe	**380**	**1**	**381**	**–**	**381**	3.3%	3.4%	2.5%
Central and Southern Europe	**625**	**–**	**625**	**–**	**625**	7.7%	6.3%	6.5%
North America	**574**	**10**	**584**	**(38)**	**546**	16.7%	24.3%	11.6%
International	**267**	**–**	**267**	**–**	**267**	(3.0%)	3.9%	4.7%
Total revenue	**1,846**	**11**	**1,857**	**(38)**	**1,819**	7.6%	10.3%	6.8%

	Year ended 30 September 2017						
	Statutory £m	Underlying adjustments £m	Underlying as reported £m	Impact on foreign exchange £m	Underlying £m	Organic adjustments* £m	Organic £m
Recurring revenue by segment							
Northern Europe	292	–	292	(1)	291	3	294
Central and Southern Europe	450	–	450	6	456	(1)	455
North America	388	5	393	(22)	371	46	417
International	201	–	201	(13)	188	(2)	186
Recurring revenue	1,331	5	1,336	(30)	1,306	46	1,352
Software and software related services ("SSRS")							
Northern Europe	39	–	39	2	41	1	42
Central and Southern Europe	130	–	130	2	132	–	132
North America	72	–	72	(4)	68	3	71
International	60	–	60	(4)	56	(1)	55
SSRS revenue	301	–	301	(4)	297	3	300
Processing revenue by segment							
Northern Europe	37	–	37	–	37	–	37
Central and Southern Europe	–	–	–	–	–	–	–
North America	32	–	32	(2)	30	(29)	1
International	14	–	14	(1)	13	–	13
Processing revenue	83	–	83	(3)	80	(29)	51
Total revenue by segment							
Northern Europe	368	–	368	1	369	4	373
Central and Southern Europe	580	–	580	8	588	(1)	587
North America	492	5	497	(28)	469	20	489
International	275	–	275	(18)	257	(3)	254
Total revenue	1,715	5	1,720	(37)	1,683	20	1,703

* Adjustments relate to the disposal of XRT and assets held for sale in the current year (note 16). The prior year adjustments also include the 2017 acquisitions of Intacct and Sage People.

2.2 Operating profit by segment

	Year ended 30 September 2018					Change	
	Statutory £m	Underlying adjustments £m	Underlying £m	Organic adjustments £m	Organic £m	Statutory	Underlying
Operating profit by segment							
Northern Europe	**130**	**11**	**141**	**–**	**141**	(3.6%)	(12.0%)
Central and Southern Europe	**174**	**10**	**184**	**–**	**184**	35.2%	12.1%
North America	**94**	**55**	**149**	**1**	**150**	44.0%	44.6%
International	**29**	**1**	**30**	**–**	**30**	51.2%	(15.4%)
Total operating profit	**427**	**77**	**504**	**1**	**505**	22.7%	8.9%

	Year ended 30 September 2017				
	Statutory £m	Underlying adjustments £m	Underlying as reported £m	Impact of foreign exchange £m	Underlying £m
Operating profit by segment					
Northern Europe	135	25	160	–	160
Central and Southern Europe	129	33	162	2	164
North America	65	44	109	(6)	103
International	19	17	36	–	36
Total operating profit	348	119	467	(4)	463

The results by segment from continuing operations were as follows:

Year ended 30 September 2018	Note	Northern Europe £m	Central and Southern Europe £m	North America £m	Total reportable segments £m	International £m	Group £m
Revenue		**380**	**625**	**574**	**1,579**	**267**	**1,846**
Segment statutory operating profit		**130**	**174**	**94**	**398**	**29**	**427**
Finance income	3.5						**5**
Finance costs	3.5						**(34)**
Profit before income tax							**398**
Income tax expense	4						**(103)**
Profit for the year – continuing operations							**295**

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	**141**	**184**	**149**	**474**	**30**	**504**
Amortisation of acquired intangible assets (note 3.6)	**(3)**	**(5)**	**(26)**	**(34)**	**(1)**	**(35)**
Other acquisition-related items (note 3.6)	**(4)**	**–**	**(28)**	**(32)**	**–**	**(32)**
Non-recurring items (note 3.6)	**(4)**	**(5)**	**(1)**	**(10)**	**–**	**(10)**
Statutory operating profit	**130**	**174**	**94**	**398**	**29**	**427**

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 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							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 as reported	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

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	**2018 £m**	2017 £m
UK	**353**	343
France	**292**	278
USA	**486**	414
Other individually immaterial countries	**715**	680
	1,846	1,715

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	**2018 £m**	2017 Restated* £m
UK	**416**	387
France	**243**	244
USA	**1,348**	1,419
Other individually immaterial countries	**390**	359
	2,397	2,409

* 2017 restated for finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Sage Intacct, completed in 2017 (see notes 1 and 16.1).

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 items 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 Subscription contracts Maintenance and support contracts	Recurring revenue is revenue earned from customers for the provision of a good or service, where risks and rewards are transferred to the customer over the term of a contract, with the customer being unable to continue to benefit from the full functionality of the good or service without ongoing payments. Subscription revenue is revenue earned from customers for the provision of a good or service, where the risk and rewards are transferred to the customer over the term of a contract. In the event that the customer stops paying, they lose the legal right to use the software and the Company has the ability to restrict the use of the product or service. (Also known as 'Pay to play'). Subscription revenue and maintenance and support revenue 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 Upgrades to perpetual licences Professional services Training Hardware and stationery	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. Other product revenue (which includes hardware and stationery) is recognised as the products are shipped to the customer. Other services revenue (which includes the sale of professional services and training) is recognised when delivered, or by reference to the stage of completion of the transaction at the end of the reporting period. This assessment is made by comparing the proportion of contract costs incurred to date to the total expected costs to completion.
Processing revenue Payment processing services Payroll processing services	Processing revenue is revenue earned from customers for the processing of payments or where Sage colleagues process our customers' payroll. Processing revenue is recognised at the point that the service is rendered on a per transaction basis.

When products are bundled together before being sold to the customer, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. The associated revenue is allocated between the constituent parts of the bundle on a relative fair value basis. When customers are offered discounts on bundled products and/or services, the combined discount is allocated to the constituent elements of the bundle, based upon publically available list prices.

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	2018 £m	2017 £m
Staff costs		**837**	768
Depreciation of property, plant and equipment	7	**20**	22
Amortisation of intangible assets	6.2	**48**	36
Loss/(gain) on disposal of subsidiary	3.6	**1**	(3)
Other operating lease rentals payable		**27**	24
Other acquisition-related items	3.6	**32**	27

The Group within both continuing and discontinued operations incurred £192m (2017: £179m) of research and development expenditure in the year, of which £174m (2017: £154m) relates to total Group staff costs included above. See note 6.2 for the research and development accounting policy. The Group also incurred £nil (2017: £73m) 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:

	2018 £m	2017 £m
Fees payable to the Group's auditor for the audit of the Plc's companies and the consolidated accounts	**2**	2
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**	4
Tax compliance services	**–**	–
Tax advisory services	**–**	–
Other non-audit services	**–**	–
Total fees	**4**	4

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 100.

3.3 Employees and Directors

Average monthly number of people employed (including Directors)	2018 number	2017 number
By segment:		
Northern Europe	**3,109**	2,934
Central and Southern Europe	**4,396**	4,429
North America	**2,704**	2,627
International	**3,451**	3,805
	13,660	13,795

Staff costs (including Directors on service contracts)	Note	2018 £m	2017 £m
Wages and salaries		**706**	674
Social security costs		**100**	93
Post-employment benefits	11	**13**	12
Share-based payments	15.2	**18**	10
		837	789

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	2018 £m	2017 £m
Salaries and short-term employee benefits	**4**	5
Post-employment benefits	**–**	–
Share-based payments	**2**	3
	6	8

Key management personnel are deemed to be members of the Executive Committee as shown on pages 78 to 79. 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.

Total future minimum lease payments under non-cancellable operating leases falling due for payment as follows:	2018 Property, vehicles, plant and equipment £m	2017 Property, vehicles, plant and equipment £m
Within one year	**30**	28
Later than one year and less than five years	**89**	93
After five years	**32**	37
	151	158

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.

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.

	2018 £m	2017 £m
Finance income:		
Interest income on short-term deposits	**4**	2
Foreign currency movements on intercompany balances	**1**	1
Fair value adjustments to debt-related financial instruments	**–**	7
Finance income	**5**	10
Finance costs:		
Finance costs on bank borrowings	**(14)**	(7)
Finance costs on US senior loan notes	**(17)**	(19)
Fair value adjustments to debt-related financial instruments	**(1)**	(1)
Amortisation of issue costs	**(2)**	(1)
Foreign currency movements on intercompany balances	**–**	–
Finance costs	**(34)**	(28)
Finance costs – net	**(29)**	(18)

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 2018 £m	Non-recurring 2018 £m	Total 2018 £m	Recurring 2017 £m	Non-recurring 2017 £m	Total 2017 £m
M&A activity-related items						
Amortisation of acquired intangibles	**35**	**–**	**35**	22	–	22
Loss/(gain) on disposal of subsidiary	**–**	**1**	**1**	–	(3)	(3)
Adjustment to acquired deferred income	**11**	**–**	**11**	5	–	5
Other M&A activity-related items	**21**	**–**	**21**	22	–	22
Other items						
Litigation items	**–**	**4**	**4**	–	–	–
Restructuring costs	**–**	**5**	**5**	–	–	–
Business transformation costs	**–**	**–**	**–**	–	73	73
Total adjustments made to operating profit	**67**	**10**	**77**	49	70	119
Fair value adjustments	**1**	**–**	**1**	(6)	–	(6)
Gain on remeasurement of existing investment in an associate	**–**	**–**	**–**	–	(13)	(13)
Amortisation of acquired intangibles	**–**	**–**	**–**	1	–	1
Foreign currency movements on intercompany balances	**(1)**	**–**	**(1)**	(1)	–	(1)
Total adjustments made to profit before income tax	**67**	**10**	**77**	43	57	100

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.

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 prior year acquisition of Intacct Corporation and Sage People Limited and acquisitions in the year, see note 16.

The fair value adjustments comprise a charge of £1m (2017: £1m) in relation to an embedded derivative asset which relates to contractual terms agreed as part of the US private placement debt. In 2017 there was a credit of £7m relating to a fair value adjustment of financial assets.

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 (2017: credit of £1m) 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 £10m (2017: £57m).

The adjustment relating to litigation costs of £4m (2017: £nil) relates to two specific employment related matters that, based on the Group's experience, are one-off in nature. Both cases were agreed post year-end, with settlement expected within the next financial year. All other litigation costs which have been incurred through the normal course of business are included within underlying operating profit.

Restructuring costs of £5m (2017: £nil) relate to costs arising from the restructure of parts of the senior leadership team. The restructuring charge related to the costs incurred in the consolidation and reduction of certain layers of the Group's management structure. Costs relating to all other workforce rationalisation and replacement are included within underlying operating profit.

Charges of £nil (2017: £73m) have been incurred as a result of the implementation of the business transformation strategy, which completed by 30 September 2017. The prior year charge comprised people-related reorganisation charges of £32m, net property exit costs of £14m and other directly attributable costs, mainly relating to consultancy, contractor and asset write downs, of £27m. These charges were one-off in nature as they were incurred to deliver the transformation.

Total cash paid in relation to the business transformation strategy totalled £31m (2017: £72m) in the year.

Details of loss on disposal of subsidiary can be found in note 16.3.

In the prior year, the gain on disposal of subsidiary related to the sale of Syska, and the gain on remeasurement of existing investment in an associate related to the acquisition of Sage People (formerly Fairsail).

See note 4 for the tax impact of these adjustments.

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 recognise liabilities or benefits that are 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, in the statement of comprehensive income or in equity 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	**2018 £m**	2017 £m
Current income tax			
– Current tax on profit for the year		**103**	98
– Adjustment in respect of prior years		**–**	(8)
Current income tax on continuing operations		**103**	90
Current income tax on discontinued operations		**–**	13
		103	103
Deferred tax			
Origination and reversal of temporary differences		**–**	(7)
Impact of rate changes		**(4)**	–
Adjustment in respect of prior years		**4**	2
Deferred tax	12	**–**	(5)
The current year tax expense is split into the following:			
Underlying tax expense		**123**	115
Tax credit on adjustments between the underlying and statutory operating profit		**(17)**	(30)
Tax only adjustments between the underlying and statutory operating profit		**(3)**	–
Income tax expense on continuing operations		**103**	85
Income tax expense on discontinued operations		**–**	13
Income tax expense reported in income statement		**103**	98

	2018 £m	2017 £m
Tax on items credited to other comprehensive income		
Deferred tax charge on actuarial gain on post-employment benefit obligations	**–**	1
Deferred tax credit on foreign exchange movements	**–**	(2)
Total tax on items credited to other comprehensive income	**–**	(1)

Deferred tax charge relating to share options of £2m (2017: charge of £1m) has been recognised directly in equity.

The tax for the year is higher (2017: higher) than the rate of UK corporation tax applicable to the Group of 19% (2017: 19.5%). The differences are explained below:

	2018 £m	2017 £m
Profit before income tax from continuing operations	**398**	342
Profit before income tax from discontinued operations	**–**	56
Total profit before income tax	**398**	398
Statutory profit before income tax multiplied by the rate of UK corporation tax of 19% (2017: 19.5%)	**76**	78
Tax effects of:		
Adjustments in respect of prior years	**4**	(6)
Foreign tax rates in excess of UK rate of tax	**26**	38
US tax reform	**(3)**	–
Tax on disposals	**–**	(9)
Non-deductible expenses and permanent items	**(1)**	1
Other corporate taxes (withholding tax, business tax)	**5**	1
Tax incentive claims	**(5)**	(2)
Recognition of tax losses and amortisation	**1**	(3)
At the effective income tax rate of 26% (2017: 25%)	**103**	98
Income tax expense reported in the income statement	**103**	85
Income tax attributable to discontinued operations	**–**	13
	103	98

The effective tax rate on statutory profit before tax was 26% (2017: 25%), whilst the effective tax rate on underlying profit before tax on continuing operations was 26% (2017: 26%).

The effective tax rate is higher than the UK corporation tax rate applicable to the Group primarily due to the geographic profile of the Group, the inclusion of local business taxes in the corporate tax expense offset by innovation tax credits for registered patents and research and development activities which are government tax incentives in a number of operating territories.

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 £27m as at 30 September 2018 (2017: £25m).

The carrying amount is sensitive to a number 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 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.

US Reform

On 22 December 2017, the US President signed the Tax Cuts and Jobs Act, which provides for significant and wide-ranging changes to the taxation of corporations. The reforms are complex and regulations are required to prescribe their application. Whilst the headline change is a reduction in the federal income tax rate from 35% to 21%, a significant number of additional measures have been incorporated into the US law which increase taxes payable. The most material tax adjustment included within these financial statements, as a result of the reduction in the Federal tax rate, is the recognition of a tax benefit of £4m due to a re-measurement of US deferred tax assets and liabilities at the new lower 21% federal tax rate. This credit is offset by a transition charge of £1m. The net credit of £3m is excluded from underlying earnings as a non-recurring credit. The provisions and the regulations will continue to be monitored and evaluated as and when they are issued.

EU State Aid

The Group is monitoring developments in relation to EU State Aid investigations including the EU Commission's announcement on 26 October 2017 that it will be opening a State Aid investigation into the UK's Controlled Foreign Company regime. The Group may be affected by the final outcome of the Commission's review, as will other UK-based multinational groups that have financing arrangements in line with the UK's current legislation. We have calculated our maximum potential liability excluding penalties and interest to be £35m if the European Commission's review concludes that the Group Financing Exemption presents unlawful state aid and there are no successful appeals against the position. Based upon advice taken, we consider that no provision is required at this time. We will continue to monitor the position as the review develops.

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, and the Group's internal measure of performance, underlying profit. See note 3.6 for details of the adjustments made between statutory and underlying profit, and note 4 for the tax impact on these adjustments.

Accounting policy

Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the parent by the weighted average number of ordinary shares in issue during the year, excluding those held as treasury shares, which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares, exercisable at the end of the year. The Group has one class of dilutive potential ordinary shares. They are share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

Reconciliations of the earnings and weighted average number of shares	Underlying 2018	Underlying as reported 2017	Underlying 2017	Statutory 2018	Statutory 2017
Earnings attributable to owners of the parent – Continuing operations (£m)					
Profit for the year	**352**	327	324	**295**	257
Number of shares (millions)					
Weighted average number of shares	**1,083**	1,080	1,080	**1,083**	1,080
Dilutive effects of shares	**6**	4	4	**6**	4
	1,089	1,084	1,084	**1,089**	1,084
Earnings per share attributable to owners of the parent – Continuing operations					
Basic earnings per share (pence)	**32.51**	30.28	29.95	**27.21**	23.86
Diluted earnings per share (pence)	**32.35**	30.18	29.85	**27.07**	23.78

Reconciliations of the earnings and weighted average number of shares	Underlying 2018	Underlying as reported 2017	Underlying 2017	Statutory 2018	Statutory 2017
Earnings attributable to owners of the parent – Continuing and discontinued operations (£m)					
Profit for the year	**352**	345	340	**295**	300
Number of shares (millions)					
Weighted average number of shares	**1,083**	1,080	1,080	**1,083**	1,080
Dilutive effects of shares	**6**	4	4	**6**	4
	1,089	1,084	1,084	**1,089**	1,084
Earnings per share attributable to owners of the parent – Continuing and discontinued operations					
Basic earnings per share (pence)	**32.51**	31.90	31.45	**27.21**	27.80
Diluted earnings per share (pence)	**32.35**	31.79	31.34	**27.07**	27.71

Reconciliation of earnings – Continuing operations	2018 £m	2017 £m
Earnings – Statutory profit for the year attributable to owners of the parent	**295**	257
Adjustments:		
– Amortisation of acquired intangible assets and adjustment to acquired deferred income	**46**	28
– Fair value adjustments to debt-related financial instruments	**1**	(6)
– Loss/(gain) on disposal of subsidiary	**1**	(3)
– Foreign currency movements on intercompany balances	**(1)**	(1)
– Other M&A activity-related items	**21**	22
– Restructuring costs and litigation-related items	**9**	–
– Transformation costs	**–**	73
– Gain on remeasurement of existing investment in an associate	**–**	(13)
– Taxation on adjustments between underlying and statutory profit before tax	**(20)**	(30)
Net adjustments	**57**	70
Earnings – underlying profit for the year (before exchange movement)	**352**	327
Exchange movement	**–**	(4)
Taxation on exchange movement	**–**	1
Net exchange movement	**–**	(3)
Earnings – underlying profit for the year (after exchange movement) attributable to owners of the parent	**352**	324

Reconciliation of earnings – Continuing and discontinued operations	2018 £m	2017 £m
Earnings – Statutory profit for the year attributable to owners of the parent	**295**	300
Adjustments:		
– Amortisation of acquired intangible assets and adjustment to acquired deferred income	**46**	28
– Fair value adjustments to debt-related financial instruments	**1**	(6)
– Loss/(gain) on disposal of subsidiaries	**1**	(30)
– Foreign currency movements on intercompany balances	**(1)**	(1)
– Other M&A-related items	**21**	22
– Restructuring costs and litigation-related items	**9**	–
– Transformation costs	**–**	73
– Gain on remeasurement of existing investment in an associate	**–**	(13)
– Taxation on adjustments between underlying and statutory profit before tax	**(20)**	(28)
Net adjustments	**57**	45
Earnings – underlying profit for the year (before exchange movement)	**352**	345
Exchange movement	**–**	(6)
Taxation on exchange movement	**–**	1
Net exchange movement	**–**	(5)
Earnings – underlying profit for the year (after exchange movement) attributable to owners of the parent	**352**	340

Exchange movement relates to the retranslation of prior year results to current year exchange rates as shown in the table on page 59 within the financial review.

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. Goodwill is assessed for the purpose of impairment testing, at either the individual CGU level or group of CGUs, consistent with the level at which goodwill is monitored internally. Impairment is determined by assessing the recoverable amount of each CGU or group of CGUs to which the goodwill relates. When the recoverable amount of the CGU or group of CGUs is less than its carrying amount, an impairment loss is recognised.

At recognition, goodwill is allocated to those CGUs expected to benefit from the synergies of the combination.

	Note	2018 £m	2017 Restated* £m
Cost at 1 October		**2,115**	1,773
– Additions		**–**	572
– Disposals		**–**	(189)
– Transfer to held for sale	16.3	**(32)**	–
– Exchange movement		**17**	(41)
At 30 September		**2,100**	2,115
Impairment at 1 October		**113**	114
– Exchange movement		**(21)**	(1)
At 30 September		**92**	113
Net book amount at 30 September		**2,008**	2,002

* 2017 restated for finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Sage Intacct, completed in 2017 (see notes 1 and 16.1).

Goodwill additions in the prior year relate to the acquisitions of Intacct Corporation (£502m) and Sage People Limited (formerly Fairsail Limited) (£70m).

Goodwill disposed in the prior year related to North American Payments business.

Cash generating units

The following table shows the allocation of the carrying value of goodwill at the end of the reporting period by CGUs or group of CGUs:

	2018 £m	2017 Restated* £m
France	**225**	222
UK & Ireland	**287**	251
Sage Pay Europe	**26**	26
Central Europe	**85**	84
Iberia	**135**	134
North America		
– Sage Business Solutions Division (SBS)	**705**	717
– Sage Intacct	**466**	495
Africa and the Middle East	**32**	30
Australia	**28**	25
Asia	**19**	18
	2,008	2,002

* 2017 restated for finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Sage Intacct, completed in 2017 (see notes 1 and 16.1).

The grouping of CGUs has been updated in the year reflecting how the businesses are managed and the level at which goodwill is monitored. Germany (2017: £38m), Switzerland (2017: £39m) and Poland (2017: £7m) are now monitored as a group of CGUs referred to as "Central Europe". Spain (2017: £128m) and Portugal (2017: £6m) are now monitored as a group of CGUs referred to as "Iberia". South Africa (2017: £30m) and the Middle East (2017: £nil) are now monitored as a group of CGUs referred to as "Africa and the Middle East".

Following the acquisition of Sage Intacct in 2017, an exercise has been performed to allocate the goodwill recognised on the acquisition of Sage Intacct to the CGUs that are expected to benefit from the acquisition. The result of the allocation is to increase goodwill for the UK and Ireland CGU by £36m, Africa and the Middle East group of GCUs by £2m and Australia CGU by £4m with a decrease of £42m for the Sage Intacct GCU.

Annual goodwill impairment tests

The recoverable amount of a CGU or group of CGUs 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 2018. In all cases, the 2019 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 or group of CGUs with an extension of a further seven years for the Sage Intacct CGU to reflect the planned growth following its acquisition in 2017. Beyond the three-year Group plan period and additional seven-year period for the Sage Intacct CGU 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 (2017: five) years. The average medium-term revenue growth rate applied to CGUs reflects the specific rates for each territory.
- Long-term growth rates of net operating cash flows are assumed to be equal to the long-term growth rate in the gross domestic product of the country in which the CGU's operations are undertaken reflecting the specific rates for each territory.

Range of rates used across the different CGUs	**2018**	2017
– Average medium-term revenue growth rates*	**4%-22%**	4%-13%
– Long-term growth rates to net operating cash flows	**1%-4%**	1%-4%

* Average medium-term revenue growth rate is calculated on value in use projections that exclude intercompany revenue.

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 and groups of CGUs where significant goodwill is held. These are deemed by management to be CGUs or groups of 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 these are shown below:

2018	**Local discount rate (post-tax)**	**Approximate local discount rate (pre-tax) equivalent**	**Long-term growth rate**	**Average medium-term revenue growth rate***
– UKI	**7.9%**	**9.1%**	**2.1%**	**4.5%**
– France	**7.7%**	**9.8%**	**1.7%**	**5.2%**
– North America – SBS	**8.9%**	**11.6%**	**1.9%**	**5.8%**
– North America – Sage Intacct	**10.5%**	**12.5%**	**1.9%**	**21.7%**

2017	Local discount rate (post tax)	Approximate local discount rate (pre-tax) equivalent	Long-term growth rate	Average medium-term revenue growth rate*
– 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%
– North America – Sage Intacct**	n/a	n/a	n/a	n/a

* Average medium-term revenue growth rate is calculated on value in use projections that exclude intercompany revenue.

** Sage Intacct was acquired subsequent to the annual impairment test on 30 June 2017. Management concluded there was no trigging event or indicator that could have led to an impairment.

Discount rate

The Group uses a discount rate based on a local Weighted Average Cost of Capital ("WACC") for each CGU or group of CGUs, applying local government yield bonds and tax rates to each CGU or group of CGUs on a geographical basis. The discount rate applied to a CGU or group of CGUs represents a post-tax rate that reflects the market assessment of the time value of money as at 30 June 2018 and the risks specific to the CGU or group of CGUs. The post-tax discount rates applied to CGUs or group of CGUs were in the range of 7.2% (2017: 6.9%) to 15.3% (2017: 15.3%), reflecting the specific rates for each territory.

Sensitivity analysis

A sensitivity analysis was performed for each of the significant CGUs or group of CGUs and other than for the Sage Intacct CGU management concluded that no reasonably possible change in any of the key assumptions would cause the carrying value of the CGU or group of CGUs to exceed its recoverable amount.

For the Sage Intacct CGU, a reasonably possible change in the average medium-term revenue growth rate by 4% p.a. for the initial five years would reduce the value in use by £268m down to its carrying value. The Group has concluded that no reasonably possible change in discount rate or long-term growth rate would reduce the recoverable amount to below its carrying value.

Impairment charge

The Group performed its annual test for impairment on 30 June 2018. The recoverable amount exceeded the carrying value for each CGU or group of CGUs.

6.2 Other intangibles

Accounting policy

Intangible assets arising on business combinations are recognised initially at 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; and
- 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 2017	**42**	**195**	**4**	**106**	**187**	**534**
– Additions	**–**	**12**	**–**	**27**	**–**	**39**
– Acquisitions	**–**	**11**	**–**	**–**	**–**	**11**
– Disposals	**–**	**–**	**–**	**(1)**	**–**	**(1)**
– Transfer to held for sale	**–**	**(34)**	**–**	**–**	**(6)**	**(40)**
– Exchange movement	**(1)**	**3**	**–**	**3**	**2**	**7**
At 30 September 2018	**41**	**187**	**4**	**135**	**183**	**550**
Accumulated amortisation at 1 October 2017	**33**	**102**	**4**	**67**	**54**	**260**
– Charge for the year	**3**	**18**	**–**	**13**	**14**	**48**
– Disposals	**–**	**–**	**–**	**–**	**–**	**–**
– Transfer to held for sale	**–**	**(19)**	**–**	**–**	**(1)**	**(20)**
– Exchange movement	**(1)**	**(2)**	**–**	**5**	**–**	**2**
At 30 September 2018	**35**	**99**	**4**	**85**	**67**	**290**
Net book amount at 30 September 2018	**6**	**88**	**–**	**50**	**116**	**260**

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 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

All amortisation charges in the year have been charged through selling and administrative expenses.

7 Property, plant and equipment

This note details the physical assets used by the Group to operate the business and generate revenues and profits. Assets are shown at their purchase price less depreciation, which is an expense that is charged over the useful life of these assets to reflect annual usage and wear and tear, and impairment.

Accounting policy

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation on property, plant and equipment is provided on a straight-line basis to write down an asset to its residual value over its useful life as follows:

Freehold buildings	– 50 years
Long leasehold buildings and improvements	– over period of lease
Plant and equipment	– 2 to 7 years
Motor vehicles	– 4 years
Office equipment	– 2 to 7 years

Freehold land is not depreciated.

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 2017	**93**	**120**	**58**	**271**
– Additions	**1**	**13**	**6**	**20**
– Disposals	**(2)**	**(4)**	**(3)**	**(9)**
– Exchange movement	**–**	**1**	**(1)**	**–**
At 30 September 2018	**92**	**130**	**60**	**282**
Accumulated depreciation at 1 October 2017	**17**	**83**	**38**	**138**
– Charge for the year	**1**	**15**	**4**	**20**
– Disposals	**–**	**(4)**	**(2)**	**(6)**
– Exchange movement	**–**	**–**	**1**	**1**
At 30 September 2018	**18**	**94**	**41**	**153**
Net book amount at 30 September 2018	**74**	**36**	**19**	**129**

	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)
– Exchange movement	–	(3)	–	(3)
At 30 September 2017	17	83	38	138
Net book amount at 30 September 2017	76	37	20	133

All depreciation charges in the year have been charged through selling and administrative expenses.

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.

The Group had no investments in associates at 30 September 2018 or 30 September 2017. Prior to 17 March 2017, the Group held an investment in an associate that comprised 100% of the C Ordinary Shares of Fairsail Limited (Fairsail). On that date, the Group acquired in a business combination the remaining share capital of Fairsail, which subsequently changed its name to Sage People Limited. During the year ended 30 September 2017, the Group recognised a gain of £13m on the remeasurement to fair value of the investment in the associate at the acquisition date, and a loss of £1m for the Group's share of the associate's total comprehensive income for the period 1 October 2016 to 17 March 2017, comprising losses from continuing operations.

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 note 14.6.

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.

	2018 £m	2017 £m
Materials	**–**	1
Finished goods	**1**	2
	1	3

The Group consumed £12m (2017: £7m) 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.

Amounts falling due within one year:	**2018 £m**	2017 £m
Trade receivables	**390**	415
Less: provision for impairment of receivables	**(20)**	(21)
Trade receivables – net	**370**	394
Other receivables	**23**	24
Prepayments and accrued income	**66**	48
	459	466

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.

Trade and other receivables (excluding prepayments and accrued income) by geographical location:	**2018 £m**	2017 £m
Northern Europe	**102**	126
Central and Southern Europe	**177**	168
North America	**53**	55
International	**61**	69
	393	418

9 Working capital continued

9.2 Trade and other receivables continued

Movements on the Group provision for impairment of trade receivables were as follows:	2018 £m	2017 £m
At 1 October	**21**	21
Increase in provision for receivables impairment	**7**	14
Receivables written off during the year as uncollectable	**(6)**	(7)
Unused amounts reversed	**(5)**	(6)
Exchange movement	**3**	(1)
At 30 September	**20**	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.

Included in selling and administrative expenses in the income statement is £16m (2017: £12m) in relation to receivables impairment. Amounts charged to the provision are generally written off when there is no expectation of recovering additional cash.

At 30 September 2018, trade receivables of £22m (2017: £30m) were either partially or fully impaired.

The ageing of these receivables was as follows:	2018 £m	2017 £m
Not due	**–**	–
Less than six months past due	**2**	7
More than six months past due	**20**	23
	22	30

Trade receivables which were past their due date but not impaired at 30 September 2018 were £82m (2017: £73m).

The ageing of these receivables was as follows:	2018 £m	2017 £m
Less than six months past due	**67**	54
More than six months past due	**15**	19
	82	73

The maximum exposure to credit risk at the end of the reporting period is the fair value of each class of receivables mentioned above. The Group held no collateral as security. The Directors estimate that the carrying value of trade receivables approximated their fair value.

9.3 Trade and other payables

Accounting policy

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Trade and other payables can be analysed as follows:	2018 £m	2017 £m
Trade payables	**29**	38
Other tax and social security payable	**52**	48
Other payables	**31**	28
Cash held on behalf of customers (see note 13.3)	**19**	75
Accruals	**118**	148
	249	337

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 2017	**21**	**10**	**34**	**3**	**68**
– Additional provision in the year	**1**	**7**	**–**	**–**	**8**
– Provision utilised in the year	**(20)**	**(3)**	**(10)**	**(1)**	**(34)**
– Unused amounts reversed	**–**	**(3)**	**(2)**	**–**	**(5)**
At 30 September 2018	**2**	**11**	**22**	**2**	**37**

	Restructuring £m	Legal £m	Building £m	Other £m	Total £m
Maturity profile					
< 1 year	**2**	**8**	**14**	**2**	**26**
1 – 2 years	**–**	**1**	**3**	**–**	**4**
2 – 5 years	**–**	**2**	**1**	**–**	**3**
> 5 years	**–**	**–**	**4**	**–**	**4**
At 30 September 2018	**2**	**11**	**22**	**2**	**37**

Restructuring provisions are for the estimated costs of Group restructuring activities and relate mainly to employee severance which remain unpaid at the balance sheet date. 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. This includes the non-recurring litigation costs which remained unpaid at the balance sheet date (see note 3.6). 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	**2018 £m**	2017 £m
Defined contribution schemes		**11**	10
Defined benefit plans		**2**	2
	3.3	**13**	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 2018.

Weighted average principal assumptions made by the actuaries	2018 %	2017 %
Rate of increase in pensionable salaries	**2.0**	2.0
Discount rate	**1.0**	0.9
Inflation assumption	**2.0**	2.0

Mortality rate assumptions made by the actuaries	2018 Years	2017 Years
Average life expectancy for 65-year-old male	**21**	21
Average life expectancy for 65-year-old female	**23**	24
Average life expectancy for 45-year-old male	**40**	40
Average life expectancy for 45-year-old female	**43**	44

Amounts recognised in the balance sheet	2018 £m	2017 £m
Present value of funded obligations	**(41)**	(43)
Fair value of plan assets	**19**	21
Net liability recognised in the balance sheet	**(22)**	(22)

Major categories of plan assets as a percentage of total plan assets	2018 £m	2018 %	2017 £m	2017 %
Bonds (quoted)	**6**	**29**	7	34
Equities (quoted)	**6**	**34**	7	33
Other (unquoted)	**7**	**37**	7	33
	19	**100**	21	100

Expected contributions to post-employment benefit plans for the year ending 30 September 2019 are £1m (2017: expected contributions year ending 30 September 2018: £1m).

Amounts recognised in the income statement	2018 £m	2017 £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	2018 £m	2017 £m
At 1 October	**(43)**	(46)
Exchange movement	**–**	2
Service cost	**(2)**	(2)
Plan participant contributions	**(1)**	(1)
Benefits paid	**3**	2
Actuarial gain – demographic assumptions	**1**	–
Actuarial gain – financial assumptions	**1**	2
At 30 September	**(41)**	(43)

11 Post-employment benefits continued

Changes in the fair value of plan assets	2018 £m	2017 £m
At 1 October	**21**	21
Exchange movement	**–**	(2)
Employer's contributions	**1**	1
Plan participant contributions	**1**	1
Benefits paid	**(2)**	(2)
Actuarial gain on plan assets	**(2)**	2
At 30 September	**19**	21

Analysis of the movement in the balance sheet liability	2018 £m	2017 £m
At 1 October	**(22)**	(25)
Total expense as recognised in the income statement	**(2)**	(2)
Benefits paid	**1**	–
Contributions paid	**1**	1
Actuarial gain	**–**	4
At 30 September	**(22)**	(22)

Sensitivity analysis on significant actuarial assumptions		2018 £m	2017 £m
Discount rate applied to scheme obligations	+/- 0.5% pa	**2**	2
Salary increases	+/- 0.5% pa	**1**	1

12 Deferred income tax

Deferred income tax is an accounting adjustment to recognise liabilities or benefits that are 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:	2018 £m	2017 Restated* £m
At 1 October	**36**	45
Income statement (charge)/credit	**–**	5
Acquisition of subsidiaries	**(3)**	(8)
Disposal of subsidiaries	**–**	(6)
Transfer to held for sale	**1**	–
Other balance sheet reclassification	**(1)**	–
Exchange movement	**(5)**	2
Other comprehensive income/equity movement in deferred tax	**(2)**	(2)
At 30 September	**26**	36

* 2017 restated for finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Sage Intacct, completed in 2017 (see notes 1 and 16.1).

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. All underlying temporary differences where a deferred tax liability arising from investments in subsidiaries and associates have been appropriately recognised where it is probable the temporary difference will reverse in the foreseeable future.

In particular, there are tax losses carried forward in respect of Brazilian entities generating a potential net tax asset of £36m. An element of this asset has been recognised in the financial statements (£12m) with the remainder of the asset being unrecognised (£24m). 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.

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 £36m (2017: £34m) includes various balances in relation to accounting provisions/accruals (asset £31m) (2017: £38m), goodwill amortisation (liability £13m) (2017: £30m), deferred revenue (asset £16m) (2017: £16m) and other sundry amounts (asset £2m) (2017: £10m).

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.

Deferred tax assets	Intangible assets £m	Tax losses £m	Other £m	Total £m
At 1 October 2017	**(5)**	**12**	**54**	**61**
Income statement credit/(debit)	**1**	**(1)**	**(6)**	**(6)**
Other balance sheet reclassification	**–**	**–**	**(1)**	**(1)**
Exchange movement	**1**	**(1)**	**(3)**	**(3)**
At 30 September 2018	**(3)**	**10**	**44**	**51**
Deferred tax liabilities				
At 1 October 2017	**(55)**	**47**	**(17)**	**(25)**
Income statement credit/(debit)	**21**	**(26)**	**11**	**6**
Acquisition/disposal	**(3)**	**–**	**–**	**(3)**
Transferred to assets held for sale	**8**	**(7)**	**–**	**1**
Other comprehensive income/equity movement in deferred tax	**–**	**–**	**(2)**	**(2)**
Exchange movement	**(2)**	**–**	**–**	**(2)**
At 30 September 2018	**(31)**	**14**	**(8)**	**(25)**
Net deferred tax (liability)/asset at 30 September 2018	**(34)**	**24**	**36**	**26**

Deferred tax assets	Intangible assets £m	Tax losses £m	Other £m	Total restated* £m
At 1 October 2016	(8)	5	61	58
Income statement credit/(debit)	2	6	(3)	5
Reclassification to deferred tax liability	1	–	(4)	(3)
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	(43)	36	(7)	(14)
Other comprehensive income/equity in deferred tax	–	–	(2)	(2)
Exchange movement	2	(2)	1	1
At 30 September 2017	(55)	47	(17)	(25)
Net deferred tax (liability)/asset at 30 September 2017	(60)	59	37	36

* 2017 restated for finalisation of the fair value of assets acquired and liabilities assumed in the acquisition of Sage Intacct, completed in 2017 (see notes 1 and 16.1).

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 consolidated statement of cash flows. 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, 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

Reconciliation of profit for the year to cash generated from continuing operations	2018 £m	2017 £m
Profit for the year	**295**	257
Adjustments for:		
– Income tax	**103**	85
– Finance income	**(5)**	(10)
– Finance costs	**34**	28
– Share of loss of an associate	**–**	1
– Amortisation and impairment of intangible assets	**48**	36
– Depreciation and impairment of property, plant and equipment	**20**	22
– Loss on disposal of tangible assets	**1**	–
– R&D tax credits	**(6)**	(1)
– Equity-settled share-based transactions	**18**	11
– Gain on re-measurement of existing investment in an associate	**–**	(13)
– Loss/(gain) on disposal of subsidiary	**1**	(3)
– Exchange movement	**–**	1
Changes in working capital (excluding effects of acquisitions and disposals of subsidiaries):		
– Decrease/(increase) in inventories	**1**	(1)
– Decrease/(increase) in trade and other receivables	**6**	(46)
– (Decrease)/increase in trade and other payables and provisions	**(61)**	4
– Increase in deferred income	**32**	32
Cash generated from continuing operations	**487**	403

13.2 Net debt

Reconciliation of net cash flow to movement in net debt	2018 £m	2017 £m
Increase/(decrease) in cash in the year (pre-exchange movements)	**107**	(20)
Cash outflow/(inflow) from movement in loans, and cash held on behalf of customers	**60**	(396)
Change in net debt resulting from cash flows	**167**	(416)
Acquisitions	**–**	(9)
Disposals	**–**	(3)
Non-cash movements	**(2)**	–
Exchange movement	**(20)**	13
Movement in net debt in the year	**145**	(415)
Net debt at 1 October	**(813)**	(398)
Net debt at 30 September	**(668)**	(813)

13 Cash flow and net debt continued

13.2 Net debt continued

Analysis of change in net debt	At 1 October 2017 £m	Cash flow £m	Reclassification as held for sale £m	Non-cash movements £m	Exchange movement £m	At 30 September 2018 £m
Cash and cash equivalents	231	**98**	**(58)**	**–**	**1**	**272**
Bank overdrafts	(18)	**9**	**–**	**–**	**1**	**(8)**
Cash amounts included in held for sale	–	**–**	**58**	**–**	**–**	**58**
Cash, cash equivalents and bank overdrafts including cash held for sale	213	**107**	**–**	**–**	**2**	**322**
Liabilities arising from financing activities						
Loans due within one year	(37)	**38**	**–**	**–**	**(1)**	**–**
Loans due after more than one year	(914)	**24**	**–**	**(2)**	**(21)**	**(913)**
Cash held on behalf of customers	(75)	**(2)**	**58**	**–**	**–**	**(19)**
Cash held on behalf of customers included in held for sale	–	**–**	**(58)**	**–**	**–**	**(58)**
	(1,026)	**60**	**–**	**(2)**	**(22)**	**(990)**
Total	(813)	**167**	**–**	**(2)**	**(20)**	**668**

Included in cash above is £77m (2017: £75m) 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 and cash amounts included in held for sale)

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.

	2018 £m	2017 £m
Cash at bank and in hand	**252**	143
Cash held on behalf of customers	**19**	75
Short-term bank deposits	**1**	13
	272	231

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 2018, 80% (2017: 79%) 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

Interest-bearing borrowings are recognised initially at fair value less attributable issue costs, which are amortised over the period of the borrowings. 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.

Current	2018 £m	2017 £m
Bank overdrafts	**8**	18
US senior loan notes – unsecured	**–**	37
	8	55

Non-current	2018 £m	2017 £m
Bank loans – unsecured	**416**	429
US senior loan notes – unsecured	**497**	485
	913	914

Included in loans above is £913m (2017: £951m) of unsecured loans (after unamortised issue costs).

In the table above, bank loans and loan notes are stated net of unamortised issue costs of £2m (2017: £2m). Unsecured bank loans attract an average interest rate of 2.1% (FY17: 1.5%).

Borrowings	Year issued	Interest coupon	Maturity	Loan value 2018 £m	Loan value 2017 £m
US private placement					
– USD 50m loan note	2013	2.60%	20-May-18	**–**	37
– USD 150m loan note	2013	3.08%	20-May-20	**115**	112
– USD 150m loan note	2013	3.71%	20-May-23	**115**	112
– USD 50m loan note	2013	3.86%	20-May-25	**38**	37
– EUR 55m loan note	2015	1.89%	26-Jan-22	**49**	48
– EUR 30m loan note	2015	2.07%	26-Jan-23	**27**	26
– USD 200m loan note	2015	3.73%	26-Jan-25	**153**	150

There were £418m drawings (2017: £318m) under the multi-currency revolving credit facility of £686m (2017: £603m) expiring in February 2023, which consists both of US$719m/£551m (2017: US$551m/£411m) and of £135m (2017: €218m/£192m) tranches.

14 Financial instruments

This note shows details of the fair value and carrying value of short and long-term borrowings, trade and other payables, trade and other receivables, short-term bank deposits 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 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.

		2018		2017	
	Note	**Book value £m**	**Fair value £m**	Book value £m	Fair value £m
Long-term borrowing	13.4	**(913)**	**(906)**	(914)	(924)
Short-term borrowing	13.4	**(8)**	**(8)**	(55)	(56)

The carrying amounts of trade receivables (note 9.2) and cash and cash equivalents (note 13.3) represent the Group's maximum exposure to credit risk.

The Group has a US$ fixed asset investment in an unquoted equity instrument which is classified as an available-for-sale financial asset and carried at its fair value of £17m (2017: £15m). The fair value of the investment has been determined using a discounted cash flow valuation technique. The main inputs to the calculation for which assumptions have been made are the discount rate, the timing of future cash flows and the period over which the investment will continue to be held. The gain on revaluation of £1m (2017: £nil) is recognised in other comprehensive income. The remaining movement is due to foreign currency exchange. This is a level 3 fair value as defined within IFRS 13.

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:

			2018
	Borrowings £m	**Trade and other payables excluding other tax and social security £m**	**Total £m**
In less than one year	**36**	**197**	**233**
In more than one year but not more than two years	**144**	**3**	**147**
In more than two years but not more than five years	**667**	**5**	**672**
In more than five years	**202**	**–**	**202**
	1,049	**205**	**1,254**

14.2 Maturity of financial liabilities continued

	2017 Borrowings £m	2017 Trade and other payables excluding other tax and social security £m	2017 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

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:

	2018 £m	2017 £m
Expiring in more than two years but not more than five years	**268**	285

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.

	2018		2017	
	Income (losses)/gains £m	**Equity (losses)/gains £m**	Income (losses)/gains £m	Equity (losses)/gains £m
1% increase in market interest rates	**(3)**	**(3)**	(1)	(1)
1% decrease in market interest rates	**3**	**3**	1	1
10% strengthening of sterling versus the US Dollar	**(6)**	**(11)**	(3)	(53)
10% strengthening of sterling versus the Euro	**(14)**	**(44)**	(10)	(37)
10% weakening of sterling versus the US Dollar	**7**	**12**	4	59
10% weakening of sterling versus the Euro	**15**	**49**	11	41

14 Financial instruments continued

14.5 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 2018 were USD 468m and EUR 88m (2017: USD 562m and EUR 128m). 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.

In the prior year, on disposal of the North American Payments business, an exchange difference of £32m related to hedge instruments was recycled through the income statement in proportion to the disposed net investment.

14.6 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 Group 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 2018, the Group had £272m (2017: £231m) 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 2018, the Group's borrowings comprised US private placement loan notes of £497m (2017: £522m), which have an average fixed interest rate of 3.31% (2017: 3.26%); and unsecured bank loans of £416m (2017: £429m), comprising mainly the bank revolving credit facility, which have an average fixed interest rate of 2.1% (2017: 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 2018 and 30 September 2017, 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.

Issued and fully paid ordinary shares of 14/77 pence each	**2018 shares**	**2018 £m**	2017 shares	2017 £m
At 1 October	**1,120,638,121**	**12**	1,119,480,363	12
Shares issued	**151,174**	**–**	1,157,758	–
At 30 September	**1,120,789,295**	**12**	1,120,638,121	12

Issues of ordinary shares

Under the Executive Share Option Scheme, 23,179 14/77 p ordinary shares were issued during the year for aggregate proceeds of £nil.

Under the Savings-related Share Option Scheme, 127,995 14/77 p ordinary shares were issued during the year for aggregate proceeds of £nil.

15 Equity continued

15.2 Share-based payments

Accounting policy

Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest allowing for the effect of non market-based vesting conditions.

Fair value is measured using the Black-Scholes or the Monte Carlo pricing models, based on observable market prices. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

All outstanding Sage Performance Share Plans ("PSPs") 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 £18m (2017: £11m), all of which related to equity-settled share-based payment transactions.

Scheme	2018 £m	2017 £m
Performance Share Plan	**1**	6
Restricted Share Plan	**9**	2
Share options	**8**	3
Total	**18**	11

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 2,704,069 (2017: 3,198,162) 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 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.

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 2017**	**May 2018**
Share price at grant date	**£7.59**	**£6.73**
Number of employees	**84**	**14**
Shares under award	**2,561,092**	**142,977**
Vesting period (years)	**3**	**3**
Expected volatility	**20.9%**	**21.4%**
Award life (years)	**3**	**3**
Expected life (years)	**3**	**3**
Risk-free rate	**0.95%**	**0.83%**
Fair value per award	**6.10**	**4.64**

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

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.

15 Equity continued

15.2 Share-based payments continued

A reconciliation of award movements over the year is shown below:

	2018 Number '000s	2018 Weighted average exercise price £	2017 Number '000s	2017 Weighted average exercise price £
Outstanding at 1 October	**7,627**	**–**	10,035	–
Awarded	**2,704**	**–**	3,198	–
Forfeited	**(2,392)**	**–**	(3,775)	–
Exercised	**(1,694)**	**–**	(1,831)	–
Outstanding at 30 September	**6,245**	**–**	7,627	–
Exercisable at 30 September	**–**	**–**	–	–

	2018 Weighted average remaining life years		2017 Weighted average remaining life years	
Range of exercise prices	**Expected**	**Contractual**	Expected	Contractual
N/A	**1.3**	**1.3**	1.3	1.3

The Sage Group Restricted Share Plan

The Group's Restricted Share Plan is a long-term incentive plan used in limited circumstances and usually on a one-off basis, under which contingent share awards 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 2,609,526 (2017: 847,491) 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 578-761p.

A reconciliation of award movements over the year is shown below:

	2018 Number '000s	2018 Weighted average exercise price £	2017 Number '000s	2017 Weighted average exercise price £
Outstanding at 1 October	**740**	**–**	537	–
Awarded	**2,610**	**–**	847	–
Forfeited	**(226)**	**–**	(215)	–
Exercised	**(390)**	**–**	(429)	–
Outstanding at 30 September	**2,734**	**–**	740	–
Exercisable at 30 September	**–**	**–**	–	–

	2018 Weighted average remaining life years		2017 Weighted average remaining life years	
Range of exercise prices	**Expected**	**Contractual**	Expected	Contractual
N/A	**1.6**	**1.6**	1.2	1.2

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 of the Group and is available to employees in the majority of countries in which the Group operates. 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, 1,363,310 (2017: 2,209,518) 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 nil (2017: 6,580,801) options being granted in the year with exercise prices ranging from £nil (2017: 22-681p). The awards granted in 2017 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:

	2018		2017	
	Number '000s	**Weighted average exercise price £**	Number '000s	Weighted average exercise price £
Outstanding at 1 October	**6,542**	**1.85**	–	–
Awarded	**–**	**–**	6,581	1.85
Forfeited	**(292)**	**2.93**	(33)	1.39
Exercised	**(931)**	**1.09**	(6)	1.33
Outstanding at 30 September	**5,319**	**1.92**	6,542	1.85
Exercisable at 30 September	**3,396**	**1.34**	379	1.87

	2018		2017	
	Weighted average remaining life years		Weighted average remaining life years	
Range of exercise prices	**Expected**	**Contractual**	Expected	Contractual
22p-681p	**1.1**	**7.0**	1.1	7.9

15.3 Other reserves

	Translation reserve £m	Merger reserve £m	Total other reserves £m
At 1 October 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**
Exchange differences on translating foreign operations	**15**	**–**	**15**
At 30 September 2018	**85**	**61**	**146**

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 Equity continued

15.4 Retained earnings

Retained earnings	2018 £m	2017 £m
At 1 October	**477**	310
Profit for the year	**295**	300
Actuarial gain on post-employment benefit obligations (note 11)	**–**	4
Deferred tax charge on actuarial gain on post-employment obligations	**–**	(1)
Gain on available-for-sale fixed asset investment	**1**	–
Value of employee services net of deferred tax	**16**	9
Value of employee services on acquisition	**–**	21
Purchase of treasury shares	**–**	(9)
Proceeds from issuance of treasury shares	**3**	–
Dividends paid to owners of the parent (note 15.5)	**(171)**	(157)
Total	**621**	477

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 agreed to satisfy the vesting of certain share awards, utilising a total of 3,022,375 (2017: nil) treasury shares. The Group gifted nil shares (2017: 1,019,166) to the Employee Share Trust.

At 30 September 2018 the Group held 35,480,890 (2017: 38,503,265) 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 254,525 ordinary shares in the Company (2017: 961,715) at a cost of £2m (2017: £6m) and a nominal value of £nil (2017: £nil).

During the year, the Trust agreed to satisfy the vesting of certain share awards, utilising a total of 707,190 (2017: 2,450,345) shares held in the Trust. The Trust received £nil (2017: £9m) additional funds to purchase shares in the market (2017: 1,376,583 shares purchased).

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 2018 was £1m (2017: £7m).

15.5 Dividends

Accounting policy

Dividends are recognised through equity when approved by the Company's shareholders or on payment, whichever is earlier.

	2018 £m	2017 £m
Final dividend paid for the year ended 30 September 2017 of 10.20p per share	**110**	–
(2017: final dividend paid for the year ended 30 September 2016 of 9.35p per share)	**–**	101
Interim dividend paid for the year ended 30 September 2018 of 5.65p per share	**61**	–
(2017: interim dividend paid for the year ended 30 September 2017 of 5.22p per share)	**–**	56
	171	157

In addition, the Directors are proposing a final dividend in respect of the financial year ended 30 September 2018 of 10.85p per share which will absorb an estimated £118m of shareholders' funds. It will be paid on 1 March 2019 to shareholders who are on the register of members on 8 February 2019. These financial statements do not reflect this dividend payable.

OTHER NOTES

16 Acquisitions and disposals

The following note outlines acquisitions and disposals during the year and the accompanying accounting policies. Each acquisition or disposal during the year is discussed and the effects on the results of the Group are highlighted. 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 are 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 share 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.

16 Acquisitions and disposals continued

16.1 Acquisitions

Measurement adjustments to business combinations reported using provisional amounts

In the financial statements for the year ended 30 September 2017, the acquisition of Intacct Corporation was accounted for using provisional fair values as the initial accounting for acquired intangible assets and goodwill was incomplete due to the short period between the acquisition date and the approval of the Annual Report. During the current year, the accounting for the acquisition has been finalised, resulting in the following revisions to the provisional amounts:

Fair value of identifiable net assets acquired	Previously reported provisional fair values £m	Measurement adjustments £m	Final fair values £m
Intangible assets	142	–	142
Property, plant and equipment	5	–	5
Cash	2	–	2
Trade and other receivables	14	–	14
Other financial assets	1	–	1
Trade and other payables	(10)	–	(10)
Deferred income	(18)	–	(18)
Borrowings	(9)	–	(9)
Deferred tax liability	(23)	21	(2)
Fair value of identifiable net assets acquired	104	21	125
Goodwill	523	(21)	502
Total consideration	627	–	627

The adjustments arise as a result of new information that has been obtained that would have affected the measurement of the provisional amounts. Therefore, the prior year financial statements have been restated so that they are presented as if the final fair values were recognised as at the date of the acquisition, 3 August 2017. The adjustments to deferred tax and goodwill identified above are reflected in the restated balance sheet for the year ended 30 September 2017.

Acquisitions made during the current year

On 28 March 2018, the Group acquired 100% of the equity capital of Budgeta Inc., a provider of a budgeting and forecasting solution, for cash consideration of £8m. The value of net assets acquired was £8m, comprising intangible technology assets of £11m and deferred tax liabilities of £3m. When the Group reported its results for the six months ended 31 March 2018, 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 £8m, with a corresponding decrease in the amount of goodwill. The increase in net assets acquired relates to the recognition of the intangible assets and deferred tax liabilities identified above.

16.2 Costs relating to business combinations in the year

Costs directly relating to completion of the business combinations in the year of £1m (2017: £10m) 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

On 30 November 2017, the Group sold its subsidiary Sage XRT Brasil Ltda ("XRT"). Net assets divested were £1m, and the transaction resulted in a loss on disposal of £1m. The assets and liabilities of XRT were presented as held for sale in the Group's financial statements for the year ended 30 September 2017. Prior to disposal, the business formed part of the Group's International reporting segment.

Discontinued operations and assets and liabilities held for sale

The Group had no discontinued operations during the year ended 30 September 2018. Assets and liabilities held for sale relate to the subsidiaries forming the Group's US-based payroll outsourcing business, which was classified as held for sale during the year. The sale is expected to be finalised during the year ending 30 September 2019. The business forms part of the Group's North America reportable segment. Upon disposal, the income in relation to cumulative foreign exchange differences that have been recognised in other comprehensive income relating to the assets and liabilities of the business from the date of its acquisition to the date of disposal will be recycled to the income statement. Assets and liabilities held for sale at 30 September 2017 relate to the Group's subsidiary Sage XRT Brasil Ltda which was sold on 30 November 2017.

Assets and liabilities held for sale comprise:

	2018 £m	2017 £m
Goodwill	**32**	–
Other intangible assets	**20**	–
Trade and other receivables	**3**	1
Cash and cash equivalents	**58**	–
Total assets	**113**	1
Trade and other payables	**(62)**	(1)
Deferred tax liabilities	**(1)**	–
Total liabilities	**(63)**	(1)
Net assets	**50**	–

Discontinued operations in the year ended 30 September 2017 relate to the subsidiaries that formed the Group's North American Payments business. The North America Payments business was sold during the second half of the year ended 30 September 2017.

Profit from discontinued operations for the year ended 30 September 2017 is analysed as follows:

	Underlying as reported 2017 £m	Adjustments 2017 £m	Statutory 2017 £m
Revenue	119	–	119
Cost of sales	(11)	–	(11)
Gross profit	108	–	108
Selling and administrative expenses	(79)	–	(79)
Operating profit/profit before income tax	29	–	29
Income tax expense	(11)	–	(11)
Profit after income tax	18	–	18
Gain on disposal of discontinued operations	–	27	27
Tax on disposal	–	(2)	(2)
Profit on discontinued operations	18	25	43

Cash flow from discontinued operations for the year ended 30 September 2017 is analysed as follows:

Cash flows from:	2017 £m
Operating activities	25
Net proceeds on disposal of business	158
Financing activities	4
	187

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 and its key management personnel, which comprises the Group's Executive Committee members. Prior to 17 March 2017, related parties also included the Group's investment in its associated undertaking (see note 8). 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 other related party transactions occurred during the current year or the prior year.

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 pages 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, NSW 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
Budgeta Technologies Ltd	Derech Menachem Begin, 144 Floor 50, Tel Aviv 9492102	Israel	Sage Bäurer GmbH	Josefstraße 10, 78166 Donauerschingen	Germany
Computer Resources (Research) 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 (Software) 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 (Supplies) Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland	Sage Brazilian Investment One Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Computer Resources Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland	Sage Brazilian Investment Two 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 Budgeta, Inc.	300 Park Avenue, Suite 1400, San Jose CA 95110	USA
eWare GmbH	Untere Weidenstr. 5, c/o RAè Becker & Koll., 81543 München	Germany	Sage Business Solutions Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy, Chatswood, NSW 2067 Australia	Australia
Handisoft Software Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy, Chatswood, NSW 067 Australia	Australia	Sage CRM Solutions GmbH	Franklinshasse 30a, 60486 Frankfurt am Main	Germany
Intacct Development Romania SRL	No 77, 1st Floor, The Office building, C section, 400604 Cluj-Napoca, Romania	Romania	Sage CRM Solutions Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Intacct Software Pvt Limited	3rd 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
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

Name	Registered address	Country	Name	Registered address	Country
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	Franklinshasse 30a, 60486 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	Nivina Towers, 1st Floor, Westlands Road, Nairobi, Kenya	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, NSW 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

18 Group undertakings continued

Name	Registered address	Country	Name	Registered address	Country
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.	Moraleja Building One – Planta 1, Parque Empresarial de La Moraleja, Avenida de Europa no19, 28108 Alcobendas, Madrid, Spain	Spain
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	Sagesoft	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Sage Payments (UK) Ltd	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Snowdrop Systems Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Sage People Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom	Snowdrop Systems Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy, Chatswood, NSW 2067 Australia	Australia
Sage People, Inc.	271 17th Street NW, Suite 1100 Atlanta, Georgia 30363	United States	Softline Australia Holdings Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy, Chatswood, NSW 2067 Australia	Australia
Sage Portugal – Software, S.A.	Edifício Olympus II, Av. Dom Afonso Henriques 1462, 4450, Matosinhos, Portugal	Portugal	Softline Holdings USA, Inc.	6561 Irvine Centre Drive, Irvine, California, 92618	United States
Sage S.A.	Buro & Design Center, Esplanade 1, 1020 Brussels	Belgium	Softline Software Holdings Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland
Sage SAS	Atrium Defense, Paris la Defense, 10 Place de Belgique, 92250, Le Garenne Colombes, Paris	France	Softline Software Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland
Sage Schweiz AG	Platz 10, Root D4, CH-6039, Switzerland	Switzerland	Softline Software USA, LLC	271 17th Street NW, Suite 1100, Atlanta, Georgia, 30363	United States
Sage Services GmbH	Karl-Heine-Straße 109-111, 04229, Leipzig	Germany	Softline Software, Inc.	271 17th Street NW, Suite 1100, Atlanta, Georgia, 30363	United States
Sage Singapore Holdings Pte. Ltd	12 Marina View, #25-02/03 Asia Square Tower 2, 01896, Singapore	Singapore	Sytax 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	Tour Crystal 1, Niveau 9, Bd Sidi Mohammed Ben Abdellah, Casablanca, 20030, Morocco	Morocco	TAS Software Limited	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland

Name	Registered address	Country	Name	Registered address	Country
Sage Software Asia Pte. Limited	12 Marina View, #25-02/03 Asia Square Tower 2, 01896, Singapore	Singapore	TAS Software Limited	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Sage Software Australia Pty Ltd	Level 11, The Zenith Tower B, 821 Pacific Hwy, Chatswood, NSW 2067 Australia	Australia	Tetra Limited*	North Park, Newcastle upon Tyne, NE13 9AA	United Kingdom
Sage Software Botswana (Proprietary) Limited	Plot 127, Kgale Court Unit 13, Gaborone International Finance Park, Gaborone	Botswana	Tonwomp Unlimited Company	Number One Central Park, Leopardstown, Dublin 18, Ireland	Ireland
Sage Software Canada Holdings Ltd	3100, 111 – 5th Avenue SW, Calgary, Alberta T2P 5L3	Canada	Ulysoft	Immeuble Mélika, rez de chausse, rue Lac Windermere, Berges du Lac, 1053	Tunisia
Sage Software Canada Ltd	3100, 111 – 5th Avenue SW, Calgary, Alberta T2P 5L3	Canada			

* Direct subsidiary

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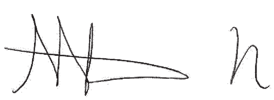
COMPANY BALANCE SHEET

At 30 September 2018

	Note	2018 £m	2017 £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 £378m (2017: £353m)	4	**1,052**	968
		1,053	969
Creditors: amounts falling due within one year			
Trade and other payables	5	**(1,219)**	(1,088)
Net current liabilities		**(166)**	(119)
Total assets less current liabilities		**2,922**	2,969
Net assets		**2,922**	2,969
Capital and reserves			
Called up share capital	7.1	**12**	12
Share premium account		**548**	548
Other reserves	7.2	**(94)**	(107)
Profit and loss account		**2,456**	2,516
Total shareholders' funds		**2,922**	2,969

The Company's profit for the year was £103m (2017: £229m).

The financial statements on pages 203 to 209 were approved by the Board of Directors on 20 November 2018 and are signed on its behalf by:



Steve Hare
Chief Executive Officer and Chief Financial Officer

COMPANY STATEMENT OF CHANGES IN EQUITY

	Called up share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total equity £m
	Attributable to owners of the parent				
At 1 October 2017	**12**	**548**	**(107)**	**2,516**	**2,969**
Profit for the year	**–**	**–**	**–**	**103**	**103**
Total comprehensive income for the year ended 30 September 2018	**–**	**–**	**–**	**103**	**103**
Transactions with owners:					
Employee share option scheme:					
– Value of employee services, net of deferred tax	**–**	**–**	**–**	**18**	**18**
Utilisation of treasury shares	**–**	**–**	**13**	**(13)**	**–**
Proceeds of issuance of treasury shares	**–**	**–**	**–**	**3**	**3**
Dividends paid to owners of the parent	**–**	**–**	**–**	**(171)**	**(171)**
Total transactions with owners for the year ended 30 September 2018	**–**	**–**	**13**	**(163)**	**(150)**
At 30 September 2018	**12**	**548**	**(94)**	**2,456**	**2,922**

	Called up share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total equity £m
	Attributable to owners of the parent				
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

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 FRS 102, 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)	**2018 number**	2017 number
By segment:		
Northern Europe	**112**	305

Staff costs (including Directors on service contracts)	**2018 £m**	2017 £m
Wages and salaries	**10**	10
Social security costs	**2**	1
Post-employment benefits	**1**	–
Share-based payments	**2**	3
	15	14

Staff costs are net of recharges to other Group companies. During the year a number of employees transferred to another Group company. In the prior year their costs were recharged to other Group companies.

Auditor's remuneration

The audit fees payable in relation to the audit of the financial statements of the Company are £30,000 (2017: £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 103 to 128.

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

	2018 £m	2017 £m
Final dividend paid for the year ended 30 September 2017 of 10.20p per share	**110**	–
(2017: final dividend paid for the year ended 30 September 2016 of 9.35p per share)	**–**	101
Interim dividend paid for the year ended 30 September 2018 of 5.65p per share	**61**	–
(2017: interim dividend paid for the year ended 30 September 2017 of 5.22p per share)	**–**	56
	171	157

In addition, the Directors are proposing a final dividend in respect of the financial year ended 30 September 2018 of 10.85p per share which will absorb an estimated £118m of shareholders' funds. It will be paid on 1 March 2019 to shareholders who are on the register of members on 8 February 2019. These financial statements do not reflect this dividend payable.

2 Fixed assets: investments

Equity interests in subsidiary undertakings are as follows:

	£m
Cost	
At 1 October 2017	3,224
At 30 September 2018	**3,224**
Provision for diminution in value	
At 1 October 2017	136
At 30 September 2018	**136**
Net book value	
At 30 September 2018	3,088
At 30 September 2017	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 2018, 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

	2018 £m	2017 £m
Cash at bank and in hand	**1**	1

4 Debtors

	2018 £m	2017 £m
Prepayments and accrued income	**1**	1
Amounts owed by Group undertakings	**1,051**	967
	1,052	968

Of amounts owed by Group undertakings £378m (2017: £353m) 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 Trade and other payables

	2018 £m	2017 £m
Amounts owed to Group undertakings	**1,216**	1,077
Accruals and deferred income	**3**	11
	1,219	1,088

Amounts owed to Group undertakings are unsecured and attract a rate of interest of between 0.0% and 8.3% (2017: 0.0% and 8.3%).

6 Obligations under operating leases

	2018	2017
Total future minimum lease payments under non-cancellable operating leases falling due for payment as follows:	**Property, vehicles, plant and equipment £m**	Property, vehicles, plant and equipment £m
Within one year	**1**	1
Later than one year and less than five years	**5**	7
After five years	**3**	5
	9	13

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

7 Equity

7.1 Called up share capital

Issued and fully paid ordinary share of 14/77 pence each	**2018 shares**	**2018 £m**	2017 shares	2017 £m
At 1 October	**1,120,638,121**	**12**	1,119,480,363	12
Proceeds from shares issued	**151,174**	**–**	1,157,758	–
At 30 September	**1,120,789,295**	**12**	1,120,638,121	12

7.2 Other reserves

	Treasury shares £m	**Merger reserve £m**	**Capital redemption reserve £m**	**Total other reserves £m**
At 1 October 2017	**(170)**	**61**	**2**	**(107)**
Utilisation of treasury shares	**13**	**–**	**–**	**13**
At 30 September 2018	**(157)**	**61**	**2**	**(94)**

	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

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 agreed to satisfy the vesting of certain share awards, utilising a total of 3,022,375 (2017: nil) treasury shares. The Group gifted nil shares (2017: 1,019,166) to the Employee Share Trust.

At 30 September 2018 the Group held 35,480,890 (2017: 38,503,265) 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 254,525 ordinary shares in the Company (2017: 961,715) at a cost of £2m (2017: £6m) and a nominal value of £nil (2017: £nil).

During the year, the Trust agreed to satisfy the vesting of certain share awards, utilising a total of 707,190 (2017: 2,450,345) shares held in the Trust. The Trust received £nil (2017: £9m) additional funds to purchase shares in the market (2017: 1,376,583 shares purchased).

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 2018 was £1m (2017: £7m).

Non-GAAP measures

Measure/Description	Why we use it
Underlying	
Underlying measures are adjusted to exclude items which would distort the understanding of the performance for the year or comparability between periods: – Recurring items purchase price adjustments including amortisation of acquired intangible assets and adjustments made to reduce deferred income arising on acquisitions, acquisition-related items, FX on intercompany balances and fair value adjustments; and – Non-recurring items that management judge to be one-off or non-operational such as gains and losses on the disposal of assets, impairment charges and reversals, and restructuring related costs. All prior period underlying measures (revenue and profit) 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. 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.
Organic	
In addition to the adjustments made for underlying measures, organic measures exclude the contribution from discontinued operations, disposals and assets held for sale of standalone businesses in the current and prior period and include acquired businesses from the beginning of the financial year following their year of acquisition. Adjustments are made to the comparative period to present acquired businesses as if these had been part of the Group throughout the 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. Please note that organic operating profit margin as reported is not necessarily comparable from period to period.	Organic measures allow management and investors to understand the like-for-like revenue and current period margin performance of the continuing business.
Underlying cash flow from operating activities	
Underlying cash flow from operating activities is underlying operating profit adjusted for underlying non-cash items, net capex (excluding business combinations and similar items) and changes in working capital.	To calculate underlying cash conversion which informs management and investors about the cash operating cycle of the business and how efficiently operating profit is converted into cash.
Free cash flow	
Underlying cash flow from operating activities plus non-recurring cash items, less cash interest and cash tax.	As an indicator of the ability of the company to turn revenue into cash and therefore the quality of revenue.
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.
EBITDA	
EBITDA is defined as underlying operating profit excluding depreciation, amortisation and share-based payments.	As a measure of operating profit excluding major non-cash items. EBITDA is used to calculate our net debt leverage.
Adjusted EPS	
The Adjusted EPS is the underlying basic EPS adjusted for the impact of significant acquisitions and disposals by excluding current period acquisitions and current and prior period disposals and by including prior year acquisitions in the comparable period based on the margin achieved by the acquired business in the prior year for the post-acquisition period.	The Adjusted EPS measure allows management and investors to compare performance without the distorting effects arising from significant acquisitions and disposals.
Annualised recurring revenue ("ARR")	
Annualised recurring revenue ("ARR") is the normalised reported recurring revenue in the last month of the reporting period, adjusted consistently period to period, multiplied by twelve. Adjustments to normalise reported recurring revenue include those components that management has assessed should be excluded in order to ensure the measure reflects that part of the contracted revenue base which (subject to ongoing use and renewal) can reasonably be expected to repeat in future periods (such as non-refundable contract sign-up fees).	As a forward looking revenue measure that represents the annualised value of that part of the current revenue base will be carried into future periods. We will start to disclose more ARR measures during the course of FY19 as it is a good indicator of the momentum of the business.

Measure/Description	Why we use it
Annual contract value	
Annual contact value (ACV) is the value of recurring and renewable bookings that will be generated over a twelve-month period under a given contract or contracts.	As a measure of new recurring bookings that can be compared across different contract durations (monthly, annual, multi-year) and types (maintenance and subscription).
Return on Capital Employed	
ROCE is calculated as underlying operating profit reduced by the amortisation of acquired intangibles, divided by Capital Employed.	As an indicator of the current period financial return on the capital invested in the Company. ROCE will be used as an underpin to the ARR element of the FY19 PSP awards.
Capital Employed	
Capital Employed is calculated as the average (of the opening and closing balance for the period) total net assets, excluding net debt, provisions for non-recurring costs and tax assets or liabilities.	As the basis for calculating ROCE.

Revenue Type	Description
Recurring revenue	
Subscription contracts Maintenance and support contracts	Recurring revenue is revenue earned from customers for the provision of a good or service, where risks and rewards are transferred to the customer over the term of a contract, with the customer being unable to continue to benefit from the full functionality of the good or service without ongoing payments. Subscription revenue is revenue earned from customers for the provision of a good or service, where the risk and rewards are transferred to the customer over the term of a contract. In the event that the customer stops paying, they lose the legal right to use the software and the Company has the ability to restrict the use of the product or service. (Also known as 'Pay to play'). Subscription revenue and maintenance and support revenue 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 Upgrades to perpetual licences Professional services Training Hardware and stationery	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. Other product revenue (which includes hardware and stationery) is recognised as the products are shipped to the customer. Other services revenue (which includes the sale of professional services and training) is recognised when delivered, or by reference to the stage of completion of the transaction at the end of the reporting period. This assessment is made by comparing the proportion of contract costs incurred to date to the total expected costs to completion.
Processing revenue	
Payment processing services Payroll processing services	Processing revenue is revenue earned from customers for the processing of payments or where Sage colleagues process our customers' payroll. Processing revenue is recognised at the point that the service is rendered on a per transaction basis.

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 Guidance 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

Financial calendar

Annual General Meeting	
Dividend payments	
Final payable – year ended 30 September 2018	1 March 2019
Interim payable – period ending 31 March 2019	TBC June 2019
Results announcements	
Interim results – period ending 31 March 2019	8 May 2019
Final results – year ending 30 September 2019	20 November 2019

Shareholder information online

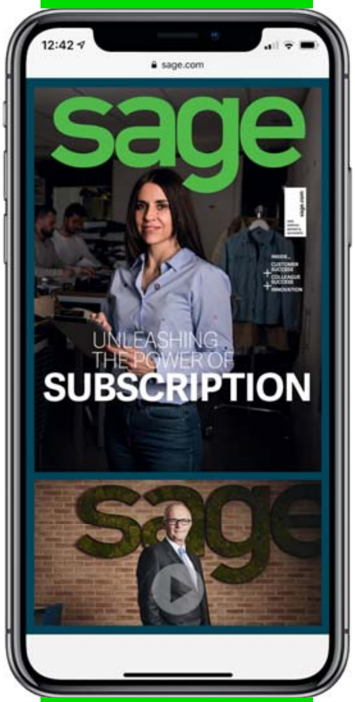
The Sage Group plc's registrars are able to notify shareholders by email of the availability of an electronic version of shareholder information. Whenever new shareholder information becomes available, such as The Sage Group plc's interim and full year results, Equiniti will notify you by email and you 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 "email" 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



Advisers

Corporate brokers and financial advisers

Citigroup Global Markets,
33 Canada Square, Canary Wharf, London, E14 5LB

Solicitors

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

Principal Bankers

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

Independent auditors

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

Registrars

Equiniti
Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA
www.shareview.co.uk

Tel: 0371 384 2859
(from outside the UK: +44 (0)121 415 7047)

Fax: 0371 384 2100
(from outside the UK: +44 (0)1903 698403)

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

Information for investors

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

Investor enquiries

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

Tel: +44 (0)191 294 3457

The Sage Group plc

Registered office:

North Park
Newcastle upon Tyne,
NE13 9AA

Registered in England
Company number 2231246

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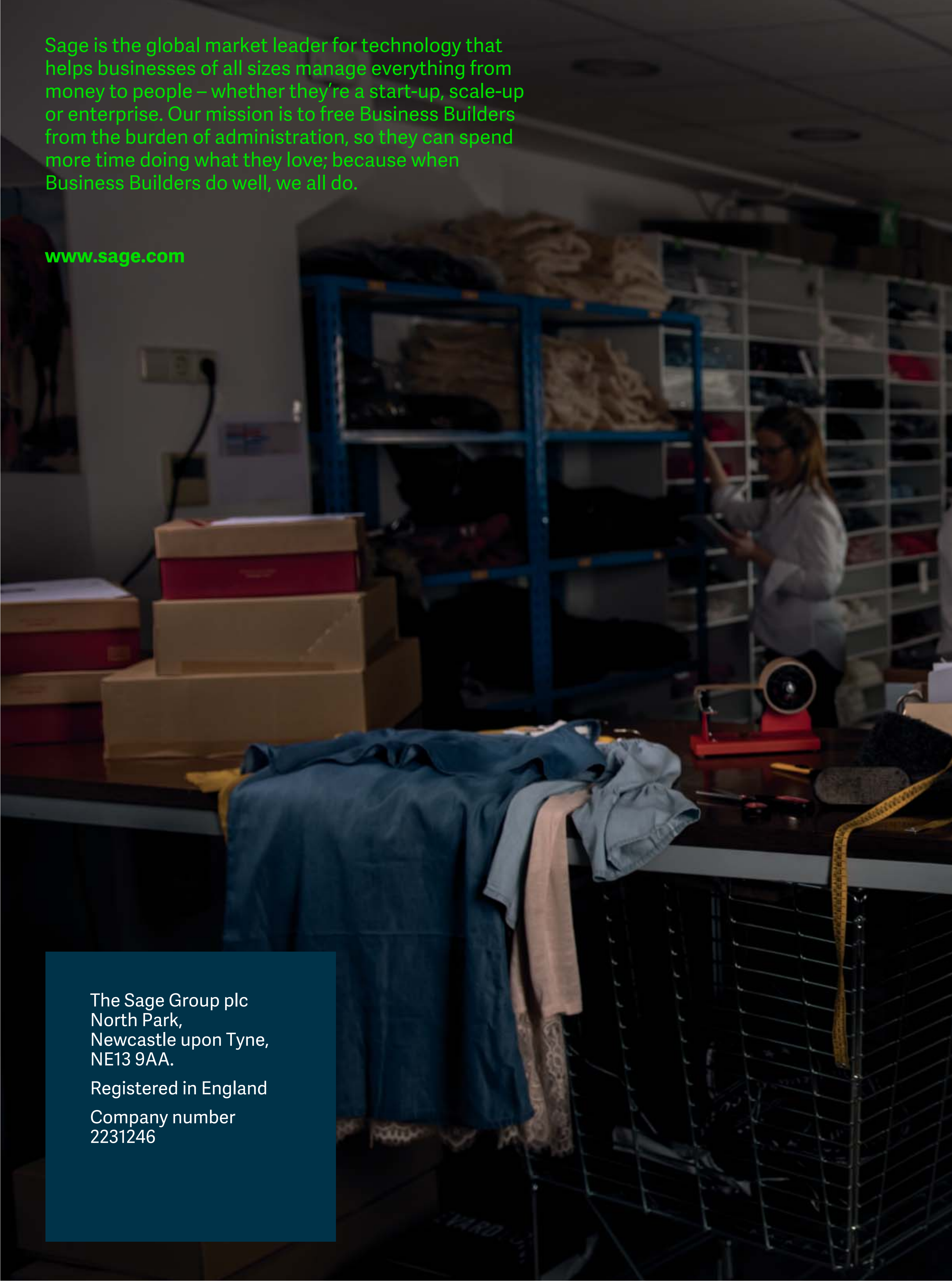

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The Sage Group plc
North Park,
Newcastle upon Tyne,
NE13 9AA.

Registered in England

Company number
2231246