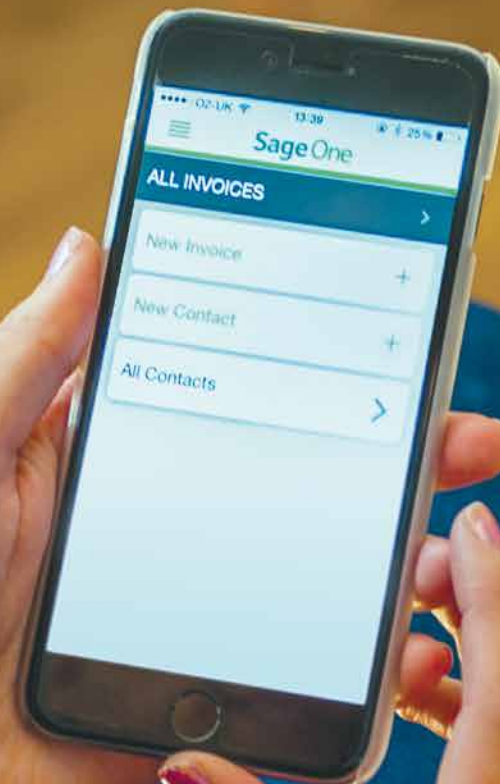


The Sage Group PLC

Annual Report and Accounts 2015



RE-IMAGINING BUSINESS



Strategic report

Performance highlights

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Discover more about Sage online

www.sage.com

All images used within this Annual Report and Accounts are those of real customers and colleagues.

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 – underlying measures exclude certain one-off and non-operational items, and prior year underlying measures are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations. Underlying measures allow management and investors to compare performance without the potentially distorting effects of foreign exchange movements.

Organic – in addition to the adjustments made to underlying measures, organic measures exclude part-year contributions from acquisitions, disposals and products held for sale in the current and/or prior years. This allows management and investors to understand the like-for-like performance of the business.

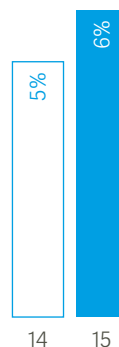
Reconciliations of statutory revenue, operating profit and basic earnings per share to their underlying and organic equivalents are in the Financial and operating review starting on page 44.

During the year we have made several revenue reporting changes. You can read about these changes and non-GAAP definitions on pages 44 and 163 respectively.

2015 Financial highlights

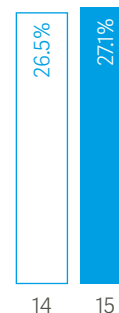
Organic revenue growth

6%



Organic operating margin

27.1%



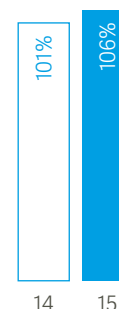
Underlying basic EPS growth

12.6%



Underlying cash conversion

106%



Strategic progress

- Winning in the market with global products:
 - Increased paying subscriptions for Sage One to 173,000 (FY14: 86,000)
 - Increased Sage X3 organic revenue by 11%
 - Sage Live developed in 26 weeks from idea to launch
- Growing software subscription revenues organically by 29%, demonstrating traction in our transition to higher quality, sustainable revenue growth
- Supporting customers for life with the contract renewal rate increasing to 84%

WE ENERGISE THE SUCCESS OF BUSINESSES

supporting the ambitions of the world's
entrepreneurs as they power the global economy.

Read our feature on product strategy on page 30
to discover how we meet business needs

What we do and where

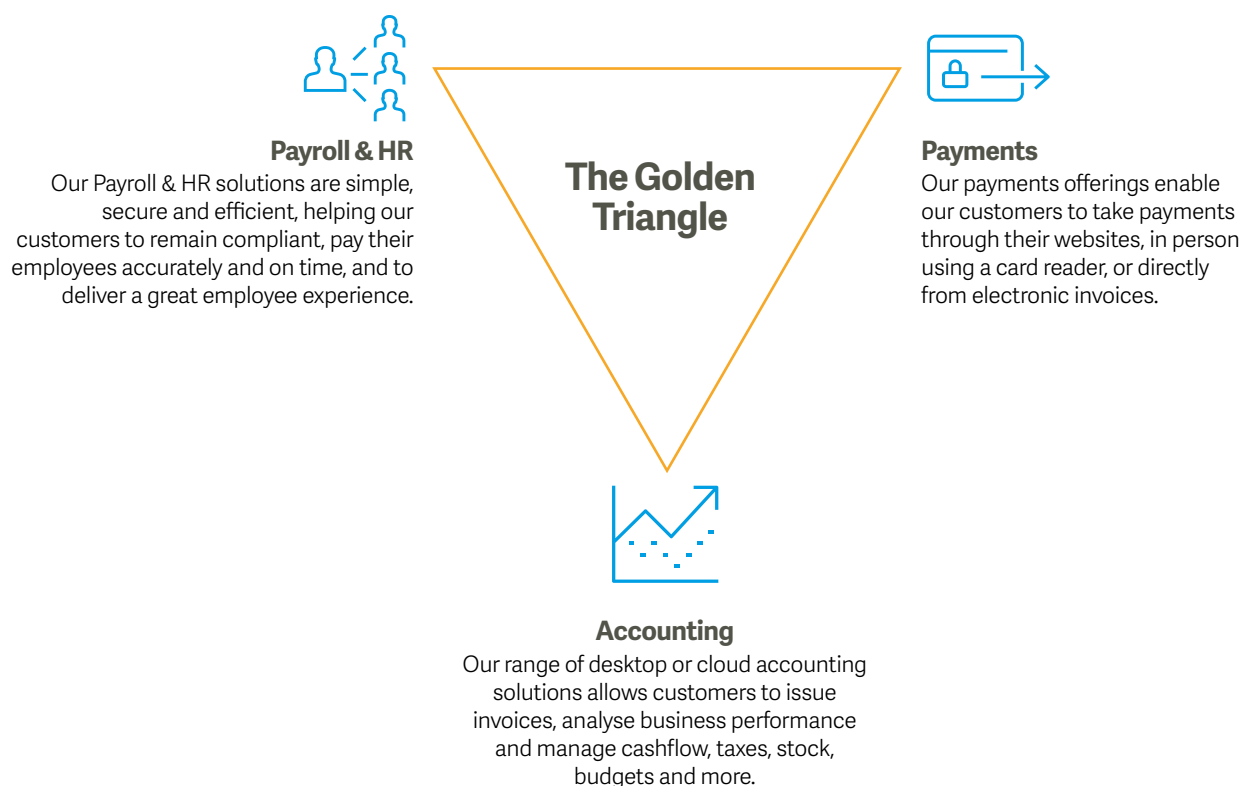
As a global technology company we energise the success of businesses and their communities around the world through the use of smart technology and the imagination of our people. We work with a thriving community of accountants, partners, developers and entrepreneurs, the engine room of economies around the world.

OUR PRODUCT FOCUS

The "Golden Triangle" represents the strong value proposition we can provide to our customers in three mission critical areas – Accounting, Payroll & HR and Payments – through solutions that are seamlessly integrated to automate workflow and the movement of money. Our ecosystem enables integration with our other applications, including mobile applications and features as a service so that customers can tailor our offering to their needs.

Developing ever closer integration of our growth products is a key focus of our investment. We are also investing in products with open application programming interface ("API"), such as Sage Live, so that independent software vendors ("ISVs") can develop their applications to integrate with our core product as standard, maximising customer choice and driving customer experience.

More information online at
[sage.com/products](https://www.sage.com/products)



SMALL & MEDIUM BUSINESSES

We are focused on delivering a consistently exceptional experience to all of our four million customers, working to provide the most appropriate products and services to suit their needs. We don't believe in labelling customers but we do think it is helpful to understand the characteristics of different sizes of business in order to better serve them:

0 to 9 employees

Ranging from sole traders to small employers, these entities constitute the vast majority of all businesses in our top geographies, numbering around 68 million. It is estimated that only around one in ten of these businesses uses a packaged software solution to manage their business. Adoption of software in this size range is being driven by affordable, mobile ready, easy-to-use cloud solutions like Sage One.

10 to 200 employees

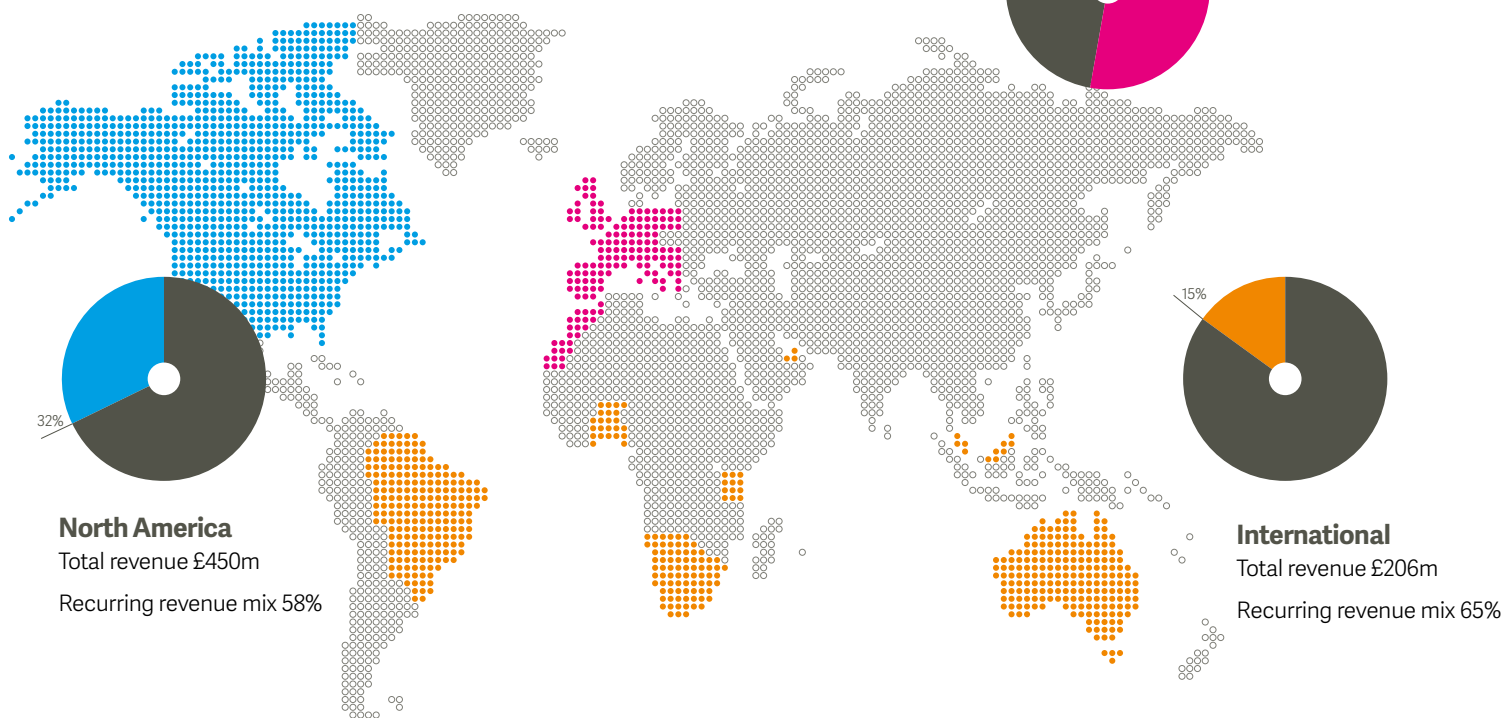
Ranging from small owner managed businesses to larger entities with multiple layers of organisational structure, adoption of software to manage finances is much more common in this size range where the population of entities is around four million in our top geographies. Businesses typically rely on software to maintain appropriate records and to perform multiple functions with a number of packaged solutions being run, either independently or integrated. Data sharing between functions can be particularly powerful in organisations of this size and Sage Live is designed with that in mind.

200+ employees

Larger businesses, where their scale and organisational complexity mean they practically all use business management solutions in some form. The packaged solutions used by these entities may be more extensive, performing additional functions of business management and potentially required to deal with cross-border operations. Sage X3 is our global product for businesses with these characteristics where modules can be used to perform everything from monitoring the sales pipeline and customer relationships to managing inventory.

OUR GLOBAL REACH

Our established market positions and presence in 23 countries around the world provides a platform to bring products and services to both new and existing customers. Our investment focuses on our growth product portfolio which consists of our cloud deployable global products and our local growth products (see page 30 for more on product portfolio management).



* Charts represent regional proportion of group organic revenue

The model we apply to create value

Our business model is the means by which we can deliver on our strategic objectives. As with everything we do, the customer is at the heart of our business model which aligns with the customer journey and experience.

KEY INPUTS TO OUR BUSINESS MODEL

Our business model operates effectively utilising key inputs that are fundamental to our success as follows:

Talented people
We rely on the collaboration and technology expertise of over 13,000 of our people around the world.

Trusted brand
Small & Medium Businesses are at the heart of our economies and Sage is their champion.

Market and technology insight
Our constant focus on technology over the last 30 years has developed a deep understanding of what is important to our customers.

Resource allocation
Focusing our resources on growth products enriches the functionality of our flagship products and maximises the technology opportunity.

Local knowledge
Our deep knowledge of the regulatory landscapes we operate in not only ensures our customers remain compliant but lets us plan for new legislation on the horizon.

VALUE CREATED FROM OUR BUSINESS MODEL

Group Organic Revenue Growth

Organic Revenue

£1,400m

Revenue streams:

- **Recurring:** Revenue on a contract basis predominantly for maintenance and support services or bundled subscription services
- **Software and related services (SSRS):** Software licences and related products and services (e.g. training, implementation or hardware)
- **Processing:** Revenue for processing services which is volume driven (e.g. payments or payroll processing)

Full definitions of our revenue streams are on page 163

Organic Operating Profit

£380m

Shareholder Returns

Dividends and share repurchases

£146m

Society

Tax charge for the year

£90m

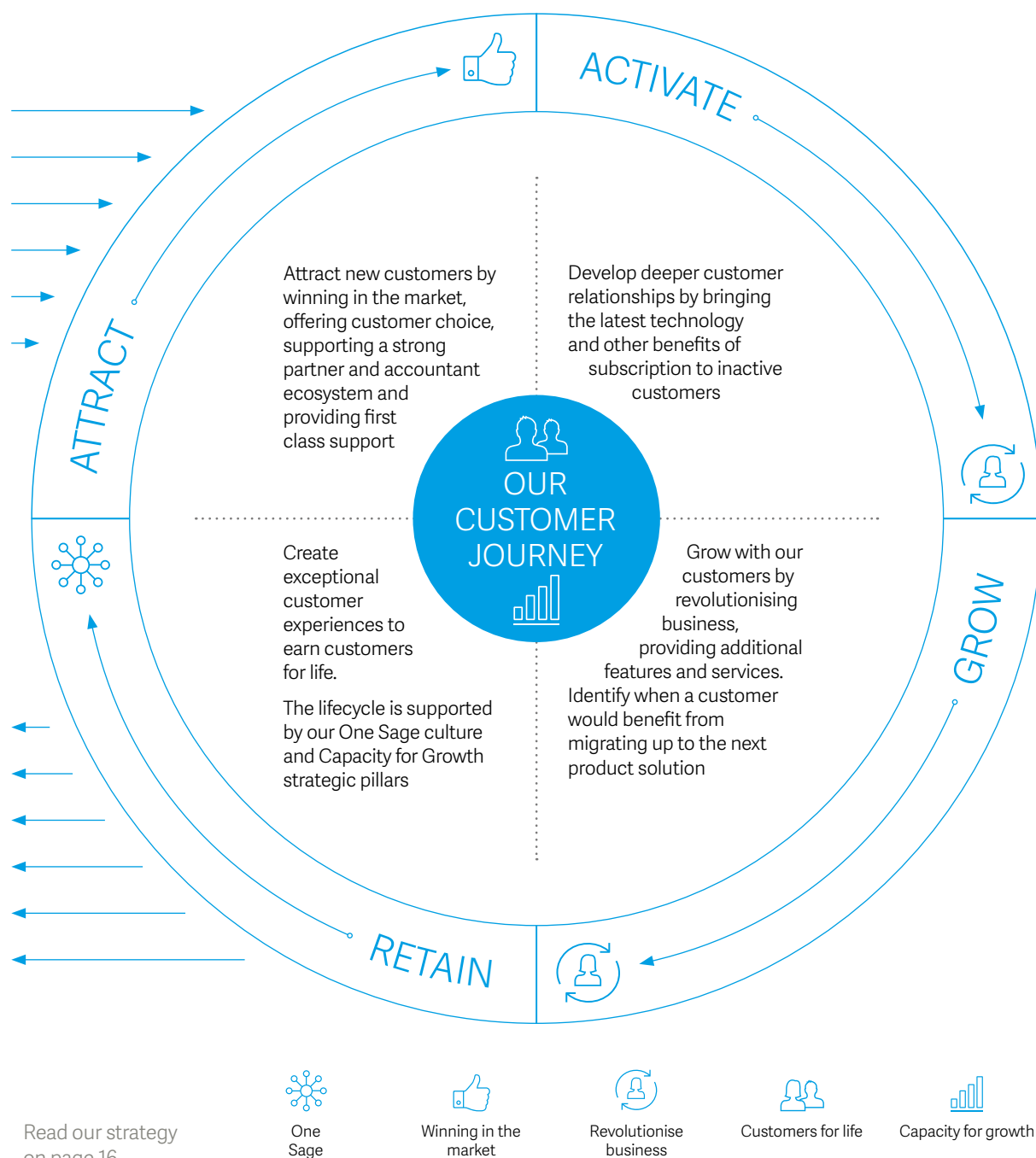
Community

Employees enabled to volunteer

5 days per annum

Routes to market

Our multi-channel approach is supported by a network of direct sales channels, business partners and accountants.



Our investment case

We believe in delivering superior shareholder returns through a commitment to doing business the right way.

A GLOBALLY RECOGNISED BRAND

We have established a strong and trusted local brand in each of our markets as the champion of Small & Medium Businesses, the lifeblood of our economies. Millions of customers trust Sage to support them based on our understanding of the Small & Medium Business space and local regulatory landscapes, gained through over 30 years of operational experience.

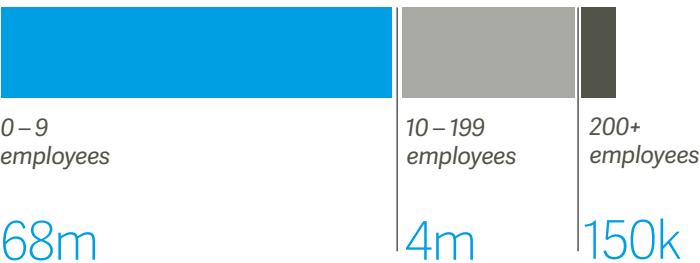
23 countries

Supporting millions of customers globally from our presence in 23 countries and generating revenues of £1.4 billion

IN A MARKET WITH ENORMOUS POTENTIAL

There are 72 million Small & Medium Businesses in our current geographies* and an estimated 10% of them use packaged software solutions to manage their business. The opportunity to expand the addressed market through intuitive, smart technology solutions is vast.

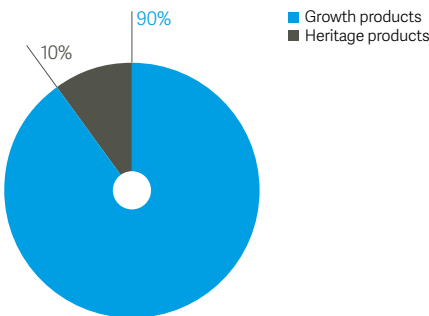
72 million potential customers



FOCUSING INVESTMENT IN OUR CUSTOMER VALUE PROPOSITION

Our product focus is on Accounting, Payroll & HR and Payments solutions and we seek to maximise our customer value proposition through our portfolio investment strategy. By concentrating our resources on growth products, including global products and local growth products, we seek to ensure that functionally rich solutions exist for all customers, regardless of how they choose to deploy their software.

R&D and S&M spend in FY15



* Analysis covering Sage current top ten geographies measured by physical presence

GENERATING SUSTAINABLE REVENUE GROWTH

We have increased our organic revenue growth rate since FY12 from 2% to 6% in FY15. As we continue to transition towards a higher quality revenue model, we have confidence in maintaining our revenue growth by attracting new customers and delivering greater value, functionality and features to our existing customers.

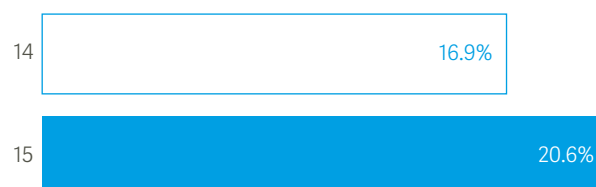


STRONG FREE CASH FLOW

Our attention to underlying cash conversion and a disciplined approach to capital expenditure yields strong levels of free cash flow ("FCF"). Generating strong FCF is important in order to fund shareholder returns and we aim to generate FCF as a proportion of revenue in the 15% to 20% range.

FCF to revenue

20.6%



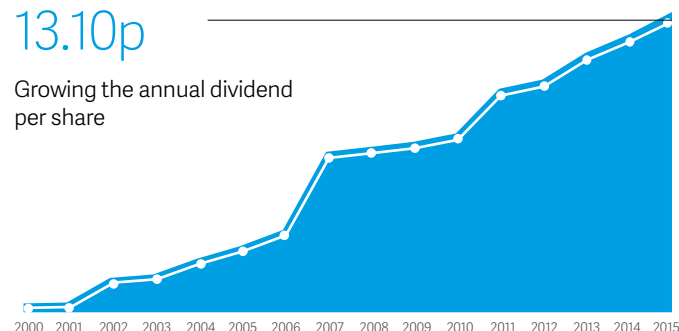
AND A PROGRESSIVE DIVIDEND

We remain focused on shareholder returns and believe that sustainable earnings growth, a disciplined approach to capital allocation and progressive dividend policy, will drive superior returns for shareholders. Central to our shareholder returns is the annual dividend which has increased every year since we joined the FTSE 100.

15 year dividend history

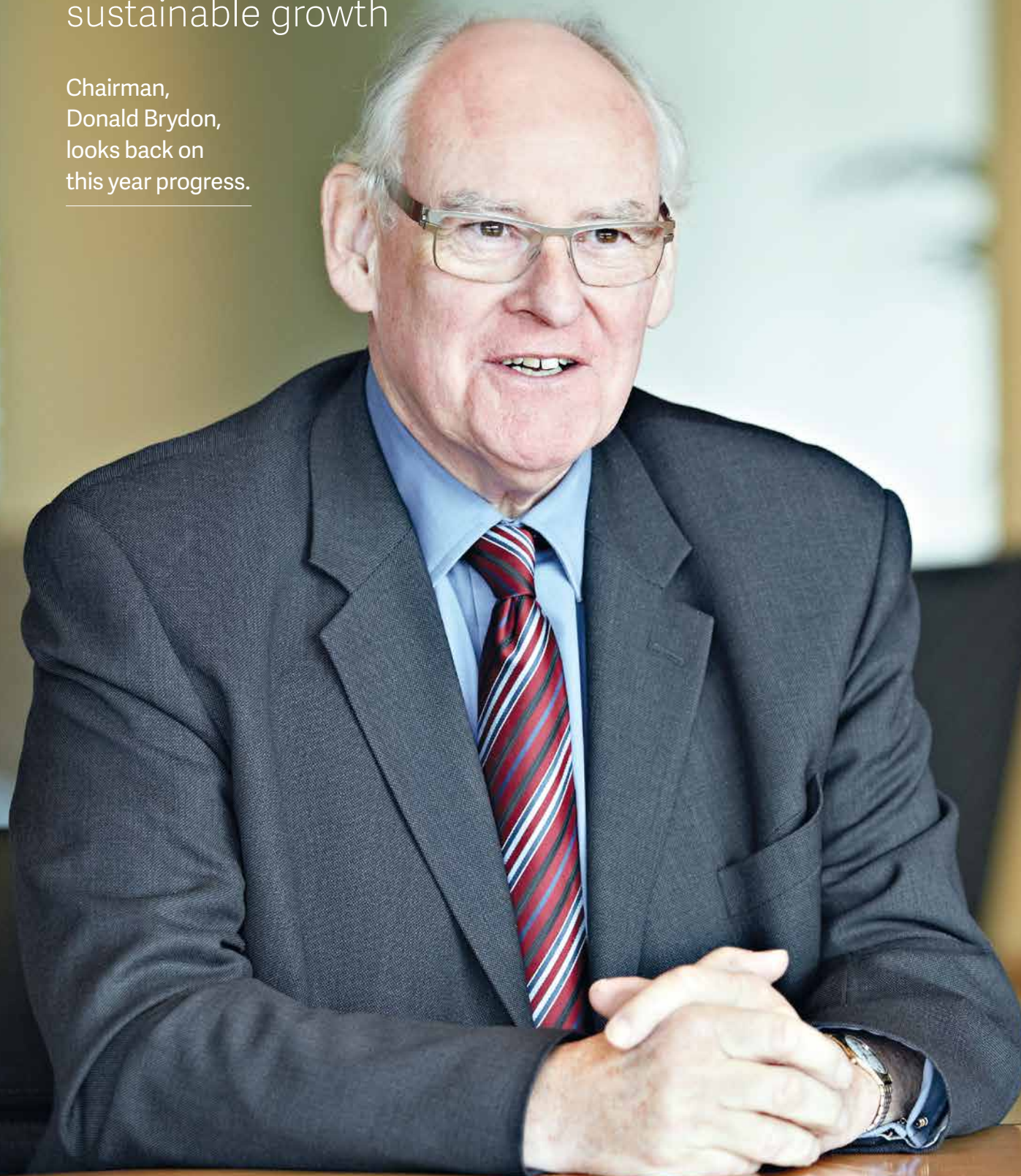
13.10p

Growing the annual dividend per share



We have met our long-term financial targets for 2015 and are focussed on the next phase of long-term sustainable growth

Chairman,
Donald Brydon,
looks back on
this year progress.



2015 is a cornerstone year for Sage. We have seen another year of improvement and I am pleased to announce that we have met our long term key financial targets. Supporting this headline progress, our recurring revenue growth, driven by the move to subscription, underlines the quality of our reported growth. This performance provides solid foundations from which to build as we redefine our ambition and target the next phase of growth.

When I joined Sage in 2012 I highlighted in my first report that I was impressed by the fundamentals of Sage's business; our leading franchise with Small & Medium Businesses, the recurring nature of revenues and the strong cash generation. These remain core strengths for Sage and are central to our plans for creating shareholder value in the future. However, internally, I considered we could improve the speed of decision making and our go-to-market processes, and identified the need to leverage the Group's assets if Sage was to be more than just the sum of its international parts.

The Board

The composition of the board has been reconstructed over recent years as we have sought to rebalance the collective skillset, adding more technology knowledge, more international experience, more understanding of change management at pace and more financial depth. The current board membership also provides options for succession.

When Guy Berruyer stepped down as CEO at the start of the financial year, we conducted a focused and rapid search looking for growth technology leadership skills, pace, drive and ambition. From a global field of candidates I am delighted that we found and appointed Stephen Kelly. He has deep experience in running successful software companies, complemented by his focus on addressing the needs of Small & Medium Businesses and putting customers first. Together with Steve Hare as CFO, we have two executive directors with proven track records of successfully leading organisations through change.

Stephen is responsible for driving the next phase of our strategy and he started by leading a comprehensive 100 day review programme to inform our ambition and plans for the future. The main learning point from this rigorous exercise was that the existing strategy was soundly based but execution needed to improve and accelerate. Put simply, we need to raise our ambition. Stephen has reshaped his executive committee and has added the requisite global experience whilst also ensuring continuity for our customers by building on our existing talent pool.

Refreshed strategy to drive shareholder returns

Our strategy has been refreshed and remains consistent with our belief in generating strong cash flows in order to invest in the business and drive sustainable, profitable growth. Our strong cash flow also continues to support both our ability to grow with bolt-on acquisitions and our progressive dividend policy.

The strategy comprises five strategic pillars which have been agreed by the Board and are explored in detail within the Strategy section of this Annual Report. This evolved strategy recognises that we need to move from being a decentralised product-centric organisation to a customer-centric model that leverages our global scale. This is a model based on earning customers for life and winning market share, ultimately driving growth and shareholder returns. New ways of working are required in order to realise our potential, with a greater emphasis on international collaboration, agile working and executing with measured but determined pace. The development of Sage Live, our brand new cloud solution for growing businesses with a mobile first mind set, is the embodiment of these working practices. Sage's traditional development cycles were redefined, as the product was taken by a multi country team from idea to launch in just 26 weeks.

Above all, it is the strength of our relationships with customers, existing and new, and our ability to meet their needs, which differentiates us in the market and provides us with compelling opportunities to grow. This is where investment will be prioritised. A key tenet therefore of the strategy is to redeploy investment to strengthen our capability to win in the market, but to do so in a manner which is readily scalable.

The work we are doing also underpins the financial profile of the business – driving organic recurring revenue growth and maintaining margins whilst improving efficiency and generating cash.

In summary

Nothing stands still at Sage; it has been a year of further progress, particularly financially, but also a year of raising our ambition and planning accordingly. There is a genuine sense of anticipation throughout the organisation, heightened by a measured injection of pace into the decision making and implementation timelines. Much work lies ahead in order to effect this transition, however the opportunities to grow successfully are compelling. As ever, we can only be successful with excellent people and, on behalf of the Board, I would like to thank all our employees and partners for their very considerable efforts in the past year. I would also like to record the Board's appreciation for the work of Guy Berruyer who set the first signals for the Group's future development. Finally, I would like to thank our customers and look forward to building on the momentum established in FY15, as we continue to champion their cause.



Donald Brydon
Chairman

Read more about
the Board on pages
60 and 61

Re-imagining business

Chief Executive Officer,
Stephen Kelly, sets
the agenda for 2016
and beyond



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

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

Performance

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

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

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

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

Progress with global products

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

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

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

Strategy

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

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



Read more about our global products on pages 32 and 33

Progress of execution

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



Customers for Life

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



Winning in the Market

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



Revolutionise Business

- During the year, 87% of our research and development spend was concentrated on growth products, which now number less than 100 and from which we are deriving all of our revenue growth.
- Our development cycles are also reducing as we focus on providing additional value to customers more regularly, evidenced by approximately 250 product launches or feature releases for our growth products throughout FY15. Sage Impact, our global product for accountants was created in just 51 days.
- In testament to our increasing pace of development, we received recognition for our product innovation from a raft of industry commentators, including EXPERTON in Germany for the Cloud Leader award, Muy Pymes in Spain for the Best Cloud Solution, and K2 in the US for the Best Mobile Strategy, Best use of Social Media, Best New Cloud Products and the PRIME overall award.
- To support our golden triangle product proposition, we are saving time for our customers and helping them to get paid faster by optimising the integration of payments products in the UK with our accounting and payroll solutions. Sage Payments enables customers to take full control of the movement of money from their business, complementing the existing service to receive payments. It was launched during the year and is a revolutionary new solution to initiate payments to customers and suppliers directly from Sage accounting and payroll software.



Capacity for Growth

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



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

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

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

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

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

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

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

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

Investment and resource allocation

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

Outlook

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

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

Stephen Kelly
Chief Executive Officer

Understanding our market

Small & Medium Businesses are the lifeblood of the global economy and make up an estimated 99% of all businesses. They have led the way in terms of job creation in recent times and are a key element of the global economic recovery.

CURRENT ADDRESSED MARKET

One in ten of the 72 million Small & Medium Businesses in our markets uses a purchased business management application for either Accounting, Payroll & HR, Payments, or a full suite of business management solutions.*

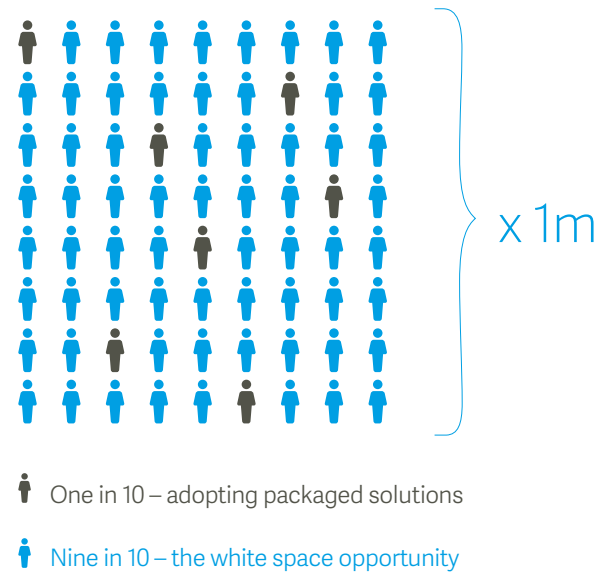
Most software packages are either installed and hosted locally on customer hardware ("on-premise deployed") or hosted on a public server and consumed via a web-browser ("cloud deployed"). Cloud adoption in the current addressed market is not uniform between countries, with the US showing the highest prevalence of cloud adoption whilst other country markets are less mature.

WHITE SPACE OPPORTUNITY

Most Small & Medium Businesses use alternative means of managing their records, such as pen and paper, or spreadsheets; these businesses represent the white space opportunity.

Cloud applications are key to reaching this white space, allowing the consumer to purchase instantly via the internet, without installation, via a standard browser and with easy configuration.

Population of Small & Medium Businesses

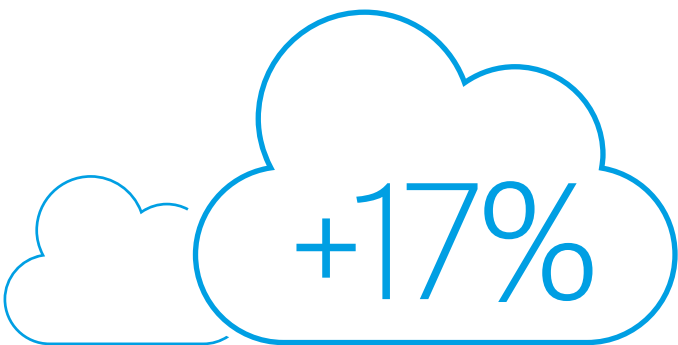


GROWING THE ADDRESSED MARKET

IDC forecasts that cloud spending will grow at a rate of c.17% per annum to 2017, however this growth is largely attributable to expansion in the market rather than displacement of traditional software spending, which is expected to stay broadly flat.

Analysis indicates that both forms of deployment will remain material components of the overall market for the foreseeable future.

We are committed to our three million customers and will continue to support them, however they choose to deploy their software, by investing in smart technology for both cloud and on-premise deployment.



Growth in public cloud spend year on year*

* Market analysis performed by IDC for our top ten geographies and for the end user market of businesses in the 0 to 1,999 employee range.

MARKET FRAGMENTATION & LOCAL KNOWLEDGE

Sage operates in a relatively fragmented market, with the top three providers accounting for only one quarter of market spend.

Whilst individual competitors are strong in a small number of geographies, there is no provider yet dominating on a truly global scale.

Relative market fragmentation combined with our global reach and deep-set local knowledge position us well to capture the white space opportunity.



Top 3 providers
account for only

1/4

of market spend

A STRATEGY REACTIVE TO THE MARKET OPPORTUNITY

Our privileged and trusted position with Small & Medium Businesses is enhanced by the 30,000+ conversations we have with our customers each day.

This has led to a deep understanding of their demand drivers, which were integral to developing our strategy.

The five most consistent themes we hear from our customers are shown opposite.

Our strategy responds to market opportunity whilst at the same time addressing the customer demand drivers via a combination of intuitive technology solutions and exceptional levels of customer support and advice.



Turn to pages 16 to 27 for more
on our strategy

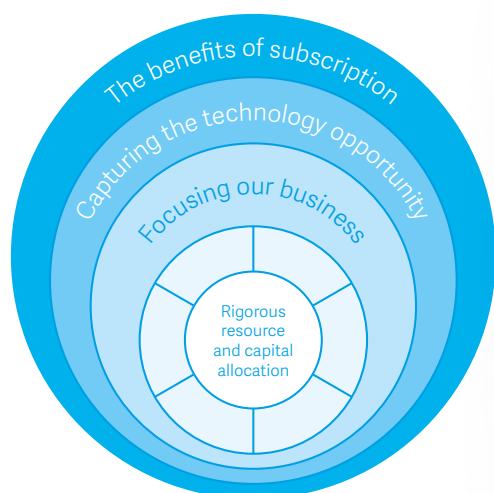
**Access to a knowledgeable
person for support**
**Peace of mind around
legislative compliance**
Appealing and intuitive software
**Control to achieve
success and grow**
More efficient working

Our plan for growth

2012 STRATEGY RECAP

In 2012 we set out a strategy to:

- Focus our business by divesting of non-core products and concentrating investment on the products in the portfolio with the best growth prospects
- Capitalise on the latest technology trends to deliver enhanced experiences to our customers
- Transition our customer base towards more active subscription relationships



The key financial targets set as part of the 2012 strategy were:

- To deliver organic revenue growth of 6%
- To improve the operating margin by at least 100bps

Key financial targets achieved

TRUTHS OF TODAY

Despite the progress made and key financial targets being met we have not fully and effectively executed the 2012 strategy which is summarised by our Truths of Today.

Truth one: Fragmentation has become an anchor on growth

Our historic strategy to grow via acquisitions of local market leaders has served us well and provided global scale, however it has also led to a decentralised and fragmented model being formed.

We have over 200 products on around 70 code bases, which presents challenges in allocating portfolio spend.

Our Response

We are creating a global operating model that scales and enables us to concentrate on delivering an exceptional customer experience and winning more customers.

Truth two: Pace of market growth

In a growing market, we are not expanding our share as new customer acquisition has not been a focus.

Our Response

We have developed a full suite of cloud and on-premise deployed products to win market share and drive accelerated new customer acquisition.

Truth three: Inconsistent digital capability

The “zero touch selling” approach driven by digital, internet originated sales, with consistent service and marketing has not been harnessed effectively at Sage.

Our Response

A renewed digital marketing strategy and redesigned digital consumer experience, applied consistently everywhere that we operate.

Truth four: Slow execution of cross-sell opportunity

Execution of the cross-sell opportunity identified in the 2012 strategy has been slow, with low penetration of our payments solution into the accounts base.

Our Response

Dedication of development resource to optimise product integration and creation of behaviours and incentives to drive cross-sell success.

Truth five: No consistent global market leader

Disruptive technologies will change this and our experience suggests that a global category leader will emerge. We see this as both a challenge and an opportunity.

Our Opportunity

To leverage our global platform and local expertise to consolidate our position in the market.

STRATEGIC PILLARS

Our strategy is a direct response to the market opportunity we are targeting and places weight on offering customers the most intuitive and relevant technology solutions whilst maintaining choice.

The strategy is captured by five key pillars which are explored in detail on the following pages.





One Sage

New ways of working collaboratively, at pace

We identified in 2012 the need for global skills, for example global expertise in pricing, and sharing what works well locally on a global basis. We also recognised the value of establishing group-wide priorities such as developing global products and leveraging a unified brand. Some progress has been made in these areas, for instance the establishment of a global pricing team which shares best practice between countries and the launch in 2014 of a global brand campaign. We will celebrate measured success where it has been achieved but recognise that we have further to go in developing a consistent One Sage culture to support our strategy.

Our priorities

Our key priority is embedding the principles which guide a One Sage culture, starting with putting customers at the heart of everything we do and focusing on their success. One Sage is about working with pace and agility, which helps us to not just deliver, but to overachieve. We have introduced a global performance management system to harmonise how we measure performance and set objectives (read more at page 53). Doing the right thing and making a difference extends beyond our customers to our colleagues and communities, and we are increasing engagement in this area with the launch of Sage Foundation (read more at page 51). To deliver on our strategy, innovation has to be the new normal. We are developing new ways of working collaboratively to deliver compelling solutions and to focus on positive outcomes for our customers. Chatter, an online social tool for colleagues to communicate, has been introduced globally to facilitate collaboration; all of our people on one platform sharing data and ideas.

Why it's important

Establishing a global culture unlocks the power of our people and having them all driving towards a common set of goals and principles enables us to realise our ambition efficiently. Without a common culture, success occurs in isolated pockets and progress is slow. We have a privileged position serving so many customers and One Sage will enable us to consistently delight them all.

The risks that could impact our success

As we introduce new ways of working, there is a risk of inconsistency developing in our culture, which is relevant to all of our principle risks. For example, our global brand must deliver a consistently excellent customer experience at every touchpoint. Read more about our Sage Brand principal risk at page 41.

How we will measure our progress

Internally we will use multiple qualitative measures, surveys and focus groups to track progress in areas such as brand strength and employee engagement. One Sage supports our entire strategy and enables all the other strategic pillars, therefore does not have association with any single measure in the KPI suite.



"One Sage empowers our colleagues to live our values and place customers at the heart of our thinking and actions. Our winning culture drives ambition, simplification and bias for action. We feel immense pride in putting our customers first."

— Stephen Kelly, CEO

Sage Live: 26 weeks from idea to customer test-drive

Case study – New product development

The development of Sage Live is the embodiment of the One Sage way of working. Sage Live is a cloud proposition that combines social, mobile and real-time technologies with a state-of-the-art accounting engine to provide business management to a new generation of entrepreneurs and fast growing companies. Read more about Sage Live on page 32.

In December 2014, the challenge was set to create a next generation proposition in time for launch at Sage Summit. The pace of the project was a departure from established development cycles and raised our ambition enormously. The product concept was established in January 2016. A small team of experts within Sage was gathered from five countries, all with a distinguished background, great expertise of accounting and a complete determination to succeed. The project team employed agile working practices and instilled a rapid pace of collaboration across Sage, without country boundaries. A working practice of “co-creation” was established with customers, partners and experts to refine the product and accelerate to the right solution. The team averaged three customer collaboration sessions per week where product development progress was reviewed. Over 685 prospective customers, partners and experts participated and we announced availability at Sage Summit in July 2015.

Jennifer Ku owns and manages LaundryLaundry, a clothes servicing business which focuses on its customers by providing pick-up and drop-off services:

“The mobility and flexibility of Sage Live allows me to run my business from anywhere. Access to real-time information has allowed us to focus more on our customers.”

Jennifer Ku, LaundryLaundry.com



Winning in the Market

Growing our share of an expanding market

The importance of the cloud was recognised in the 2012 strategy, however we need to accelerate our development activities to continue to capitalise on the potential of cloud technologies. Focusing our business and the need to invest in fewer core products was also recognised in the 2012 strategy and we have made some progress in that area, however there is more we can do to reduce the number of Growth products we identify to benefit from a greater share of sales and marketing and R&D spend.

Our priorities

We are continuing to focus our business and concentrate our investment on Growth products. Our portfolio of cloud deployed products caters for all sizes of Small & Medium Businesses. These global products will be our growth engine in the medium term and will be the default product choice for new customers unless their particular needs are better served by a Local growth product. Our priority is to make the entire customer sales experience from enquiry to product deployment as seamless as possible. We have established regional Customer Business Centres (CBCs) to coordinate the sales of our global products to new customers and to maintain relationships with customers as they grow (see page 27 for details). We are also investing in digital to ensure a consistent, modern and user-friendly online presence across Sage and are developing targeted, effective digital marketing campaigns. Sage Impact, our online portal for accountants and our Global Partner Programme have both been launched to support our community of partners.

Why it's important

As business management software solutions evolve in a mobile first, cloud age, they become even more appealing and intuitive for Small & Medium Businesses to exploit. There is a huge white space opportunity of software non-adopters, which we can open up by addressing business needs with smart technology solutions. We must continue to respond to the evolving needs of end users in an expanding market to win new customers and realise our ambition.

The risks that could impact our success

Developing enhanced core product functionality, product integration and a compelling commercial proposition are all features which help to drive a competitive advantage but which present execution risks. Read more about our Competitive Positioning and Product Development, and Market Intelligence principal risks at page 40.

How we will measure our progress

As we aim for increased market share, the primary measure for winning in the market is the level of adoption of our global products. Read more about our KPIs at page 28.



"Winning in the market means building market share by earning more customers and a greater share of wallet. We will do this by delivering innovative solutions and creating value for customers throughout their entire life, from startup to large multinational."

— Santiago Solanas, CMO

Sage One paying subscriptions increased by over 100% to 173,000

Customer Case Study – Beauty Bike

We are using smart technology solutions to appeal to new customers. Alice Bailleul runs Beauty Bike, a mobile beauty treatment business in France. Alice cycles with her equipment to her customers around Bordeaux so is travelling or busy providing treatments most of the time. She uses Sage One on her tablet in order to keep on top of her business data and to issue quotes to customers when she is on the road.

"It's really simple, everything is on the cloud, so I can use it from anywhere, and what reassures me is that all my data is stored somewhere and I know that I can always get it back.

When I'm at my customer's house it's really fast, I just connect to her Wifi, do her a quote and email it.

There is a dashboard which allows me to see where I stand for the month, the quarter or the year. That means I've got a complete picture of my accounts thanks to Sage One."

Alice Bailleul, Owner of Beauty Bike

See more of Alice's story at www.sage.com/investors



Revolutionise Business

Smart technology that simplifies our customers' lives

Capturing the technology opportunity was a cornerstone of our 2012 strategy and revolutionising business builds on our solid technology foundations. Where we have implemented this 2012 cornerstone, it has been executed soundly however we must continue to innovate as the market evolves. For instance, we developed Sage One, our global SaaS solution for start-up and small businesses, which is an intuitive, customer demand driven solution available in 14 countries.

Our programme of core product modernisation has brought the power of the cloud to on-premise customers (read more opposite). Our ambition is to progress further and faster with our development.

Our priorities

We believe emphatically in bringing the power of the cloud and connected services to all of our customers, but will continue to offer them choice in method of deployment of their core system. We will take the very best technology and features of our global products and apply them to local growth products which will serve existing customers and some new customers. We will continue to select the most appropriate, industry leading development platforms for each of our products in order to broaden our ecosystem of partners and integrated services. For instance, we recently developed Sage Live, a real-time integrated accounting solution, on the Salesforce1 platform. An open application program interface (API) approach has been adopted which allows independent software vendors (ISVs) to develop pre-integrated vertical solutions which interact seamlessly with Sage Live. Small & Medium Businesses will be able to adopt best-of-breed combinations on a single platform.

Why it's important

Worldwide data creation is growing exponentially but only a fraction of it is being efficiently analysed and exploited. Accounting reports, although backward looking, often take days or weeks to produce and even then are often not shared and exploited widely by businesses. A new generation of entrepreneurs is emerging – the millennials – who represent a technology savvy, mobile first consumer base. More and more businesses are realising that their particular needs and

requirements can be best and most efficiently met by consuming a suite of integrated best-in-class applications rather than an expensive, one size fits all single enterprise resource planning ("ERP") solution.

Revolutionising businesses not only responds to all of these market trends but also anticipates how the future needs of Small & Medium Businesses will evolve and can be best served. It is critical in maintaining the competitive position of our product range and growing our share of wallet by delivering additional features and services.

The risks that could impact our success

Working collaboratively and with agility is key to ensuring our product development can outpace an evolving market. We also need to work tirelessly to support our ecosystem and partner network so that our customers can integrate our products with other solutions to suit. Read more about our Competitive Positioning and Product Development, and Strategic Partnership principal risks at page 41.

How we will measure our progress

"Revolutionise business" strongly supports our business model growth drivers of Activate and Grow (see page 4 for the business model). Whether new technology is delivered to existing customers via Features as a Service ("FaaS") or additional users are added to Sage Live contracts as front and back office divides are removed, the lead indicator that we are delivering on the strategy is our annualised software subscription base ("ASB").



"Revolutionising business means not only meeting our customers' needs, but changing the game for them completely. The Sage ecosystem will be businesses' indispensable ally and the go-to source for advice. We'll surpass our customers' expectations with solutions to enable them to work faster, smarter and more profitably."

— Klaus Michael Vogelberg, CTO

Sage 50 + Drive

Customer Case Study – Davora

We are bringing the power of the cloud and our best features to growth products however they are deployed. The latest version of Sage 50 Accounts in the UK was enhanced in December 2014 with the addition of Drive, a feature which liberates desktop data to the cloud in order to back-up and share information with colleagues via web-interfaces. The feature is central to our program of core product modernisation and is also available in France, Germany, Spain and Canada. Rajeev Arora runs Davora cards, a leading ethnic greeting card publisher. He upgraded to Sage 50 after his business expanded, having outgrown a previous package.

“Sage 50 Accounts with Sage Drive gives us the best of both worlds. It gives us a very robust accountancy package which can help with the operation of our business from end to end and it allows us the flexibility to work remotely. I’m on the road a lot at exhibitions and have the tracker app on my phone, so I can access my Sage account data and all my customers’ records, supplier records, anywhere in a secure manner. We took on a sales manager who is based remotely and she takes orders through Sage Drive. I wouldn’t have been able to hire her without it. Sage 50 is the backbone of our business.”

Rajeev Arora, MD Davora Ltd, UK

See more of Rajeev's story at www.sage.com/investors

Rajeev Arora, Davora Ltd, UK



Customers for Life

Knowledgeable support and advice, any time

We've been listening to customers and responding to their needs for more than 30 years. In 2012, we identified the numerous benefits of subscription, both for Sage and for our customers. Subscription relationships including support will continue to offer great value and benefits to our customers and over time we expect more and more customers to adopt subscription. Our transition to subscription has never involved forced migration however and offering a choice to our customers is an example of how we support them for life.

Our priorities

We have a privileged position with our existing customers and an opportunity to grow with them by continuing to provide additional value and making their lives easier. Our priorities are to deliver more integrated solutions, implement hassle-free migration for customers who are ready to move up to the next product solution and to relentlessly drive exceptional levels of customer service.

Why it's important

Providing Accounting, Payroll & HR and Payments services to customers who have a need for all those services represents a compelling value proposition; the Golden Triangle of money movement made effortless with seamlessly integrated solutions.

Recognising when customers have outgrown their product and offering simple migration pathways is important to enable us to bring maximum and appropriate functionality to our customers and to help them to grow further.

Putting customers at the heart of everything we do to drive exceptional levels of service and support delights them and enables everyone to benefit from the continuity of a long-term partnership.

The risks that could impact our success

Failing to recognise the changing needs of our customers and the evolving compliance landscapes faced by customers in our geographies would inhibit our ability to satisfy their needs. If the move to a subscription delivery model is not executed collaboratively then we risk alienating customers. Read more about our Market Intelligence and Licensing Model Transition principal risks on page 40.

How we will measure our progress

If we succeed in delighting our customers, they will respond by continuing to use our services, so our KPI linked to this pillar is our contract renewal rate. Read more about our KPIs on page 28.



"Irrespective of product, location or size of business, we're passionate about our customers and want to serve them for life: providing unparalleled choice, indispensable advice and the right solutions for them. The principle of supporting customers for life is at the heart of everything we do."

— Brendan Flattery, President Europe

30,000+ Calls answered every day

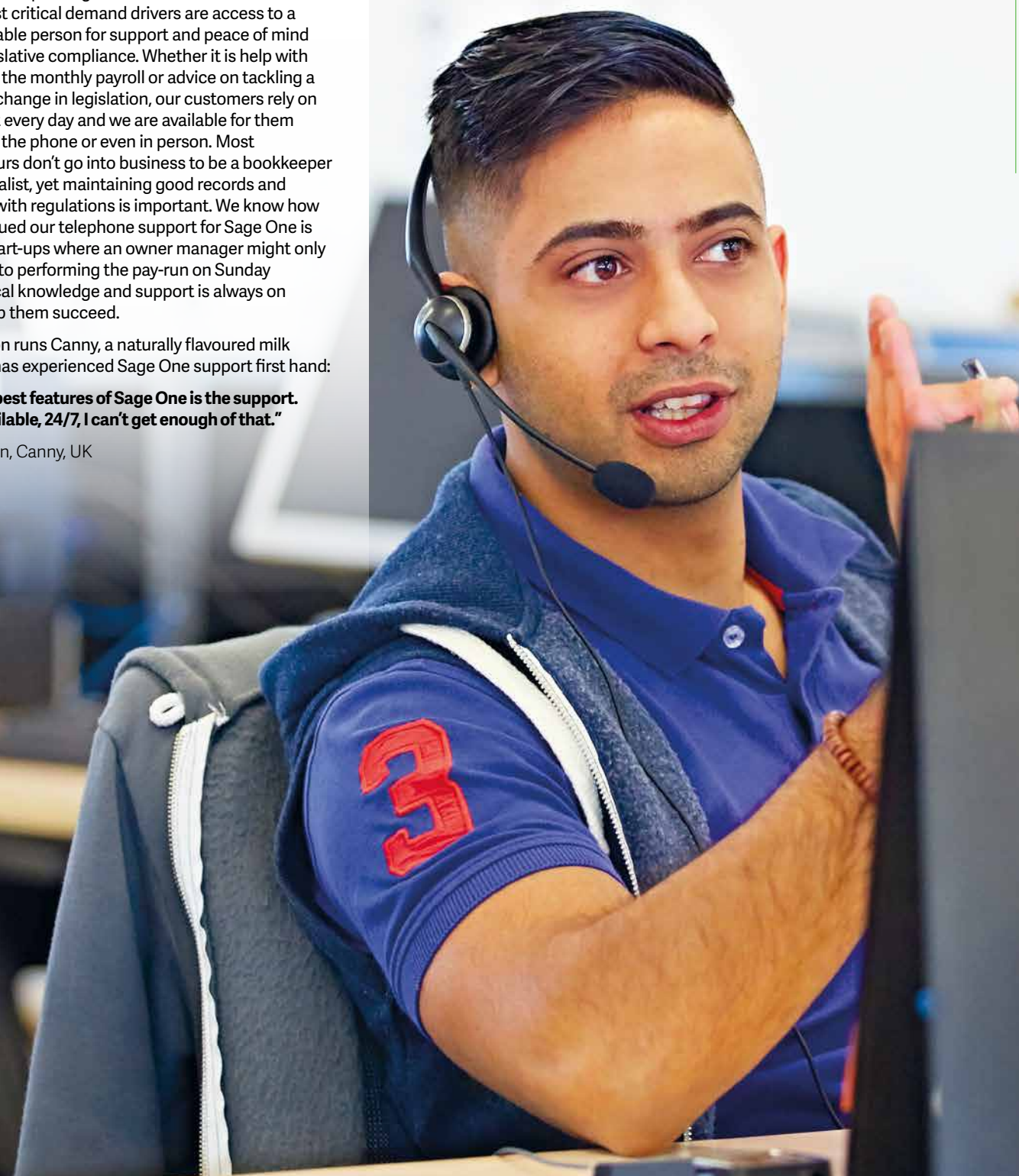
Customer support

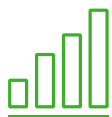
We know from speaking to our customers that two of their most critical demand drivers are access to a knowledgeable person for support and peace of mind around legislative compliance. Whether it is help with completing the monthly payroll or advice on tackling a significant change in legislation, our customers rely on our support every day and we are available for them online, over the phone or even in person. Most entrepreneurs don't go into business to be a bookkeeper or tax specialist, yet maintaining good records and complying with regulations is important. We know how strongly valued our telephone support for Sage One is amongst start-ups where an owner manager might only get around to performing the pay-run on Sunday evening; local knowledge and support is always on hand to help them succeed.

Liam Watson runs Canny, a naturally flavoured milk brand and has experienced Sage One support first hand:

"One of the best features of Sage One is the support. Always available, 24/7, I can't get enough of that."

Liam Watson, Canny, UK





Capacity for Growth

A global operating model that scales

We identified the opportunity to focus our business within the 2012 strategy in order to better leverage our resources. Certain products were identified as non-core and disposed of and remaining products were categorised as Invest, Harvest or Sunset in order to direct resources in relation to priorities. We also recognised the requirement for disciplined execution in areas such as application of our brand and strategic partnering. Our successes in executing on this cornerstone have tended to be local successes, mainly as a result of our decentralised structure. Strategic priorities are now defined globally, whereby, for instance, we are replicating the success of local product marketing with global campaigns.

Our priorities

We will continue to focus our investment on our strongest and most promising products but will only use two categories, Growth and Heritage products. Growth products include both global products and local on-premise growth products. Read more about our product portfolio strategy on page 30.

As well as focusing our investment on the Growth product category, we will also focus our spending by function and establish a global operating model. The model starts with the customer who will continue to be the responsibility of the country managing director ("MD") who leads the sales and service experience and this will be their primary focus. The country MD will also represent Sage in the country and as the champion of Small & Medium Business.

Marketing, Product Delivery and Technology will be run globally but will be strongly connected to the country and the customer. This allows a more effective deployment of our investment and will over time drive a stronger return on investment.

The support functions will be run globally and will be targeted to improve both service and efficiency. Transaction-processing costs will be reduced and processes and systems re-designed. Country MDs will be internal customers for our global back-office functions and will no longer be burdened with having to oversee these functions.

We are working to reduce the number of legacy systems and are implementing best in class systems globally, including the Salesforce CRM solution as well as our own X3 general ledger.

Why it's important

There are many facets to implementing our Capacity for Growth plans but ultimately, this pillar of our strategy is centred on improving efficiency to drive a consistently exceptional customer experience. Spreading our investment too thinly between too many products restricts our ability to truly revolutionise business. A global operating model is essential to leverage our resources and achieve our ambition of winning in the market to gain market share.

The risks that could impact our success

Business Model transition has been identified as a principal risk considered on page 39.

How we will measure our progress

Our KPI linked to capacity for growth is the ratio of general and administration spending as a percentage of revenue (G&A%). We will work more efficiently in order to release savings into global front office functions such as marketing. Reshaping the structure of our operating margin will ensure that our organisation has capacity for growth. Read more about our KPIs on page 28.



"Sage will be organised to best serve our customers, removing duplication of effort, simplifying processes and working together as one team. We will share data, expertise and resource to accelerate innovation and delight our customers."

— Steve Hare, CFO

Building deeper customer relationships

CBCs opened in Atlanta and Dublin

We have opened the first of our new Customer Business Centres (CBCs) to revolutionise the way we attract and support customers around the world. CBCs will establish a new benchmark for customer support and service, under the One Sage global operating model. Marking an end to working in silos, teams will be able to collaborate to serve customers quickly and effectively. The CBC in Dublin will serve the Europe region and the CBC in Atlanta will serve North America as well as serving as our North American headquarters.

This is the first step to building deeper, life-long relationships with customers globally. CBCs house all teams involved in marketing, lead qualification, sales, service and renewals in one place, with a combined focus on providing outstanding service to our customers. Working on the Salesforce1 platform, the teams are collaborating to make sure that customers have a fantastic experience from enquiry to sale and beyond. Initially, the CBCs are supporting customers of Sage Live.

Measuring our progress

The measurement of progress in delivering our strategy is important. We track a range of KPIs to measure performance. Our top level KPIs have been refined in line with our refreshed strategy.



ONE SAGE

We use numerous qualitative methods internally to monitor our people engagement and understanding of the strategy, such as the global people survey (read more at page 53). The One Sage strategic pillar enables the entire strategy and as such is associated with all KPIs rather than a single measure.



WINNING IN THE MARKET

Adoption of Sage One

Paying subscriptions

173,000

FY14: 86,000

Description:

We are using global products to attract new customers. Our KPI considers the revenue generating global products and includes the number of paying subscriptions at the end of the year for Sage One (all editions) and revenue growth for Sage X3. Adoption of Sage Live will be included during FY16 once the product has been available for a full financial period.

Adoption of Sage X3

Revenue growth

11%

FY14: 7%

Performance:

The Sage One global roll-out has continued throughout the year, driving the number of paying subscriptions up by 100% to 173,000. X3 adoption has continued to progress with 11% revenue growth for the year. Growth was particularly strong in the International and North America regions. Sage Live was fully launched during Q4 leading to a small number of paying customers as at year-end.



REVOLUTIONISE BUSINESSES

Annualised Software Subscription Base ("ASB")

£344m

FY14: £268m

Description:

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

Performance:

Our progressive move to subscription continues as evidenced by growth in ASB of 28% for the year to £344m. Multiple initiatives are driving the growth in software subscription, however we have had particular success with core product modernisation during the year. Introducing mobile data sharing features, on subscription, to products such as Sage 50 enabling customers to work more effectively.



CUSTOMERS FOR LIFE

Renewal rate

84%

FY14: 83%

Description:

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

Performance:

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

Software subscription drives even closer relationships and the continuation of our transition to subscription has helped to drive our renewal rate up to 84%.

* As with all financial measures throughout this report, KPIs (both current and prior year) are stated after accounting changes described on page 44.



CAPACITY FOR GROWTH

**General and Administrative
Expense Ratio ("G&A%")** **19%**
FY14: 19%

Description:

Our general and administrative expense for the period expressed as a percentage of our total revenue for the period.

Performance:

Our G&A% is 19% for FY15. We have begun the transition towards our target global operating model, having established leaders for each global function during the year. We have established a baseline from which to drive savings from. As these structures develop through FY16, savings achieved in our G&A expense will be reinvested in areas which have the best potential to drive growth and enhance the customer experience.

FINANCIAL MEASURES

**Underlying
EPS growth** **12.6%**
FY14: 8.2%

Description:

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

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

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

For a reconciliation of underlying basic EPS to statutory basic EPS, turn to page 45.

Performance:

Underlying EPS growth primarily reflects growth in underlying operating profit, a decrease in the weighted average share base due to the repurchase of shares during the year, and a reduction in the effective rate of tax.

**Underlying
Cash Conversion** **106%**
FY14: 101%

Description:

Underlying cash conversion is underlying cash flow from operating activities divided by underlying operating profit. Underlying cash flow from operating activities is statutory cash flow from operating activities less net capital expenditure and adjusted for movements on foreign exchange rates and non-recurring cash items. In the prior year, underlying cash flow from operating activities was calculated before net capital expenditure and included movements on foreign exchange, which would have shown underlying cash conversion of 110% in FY15 (FY14: 106%).

Performance:

Underlying cash conversion has increased by 5% in FY15.

Product portfolio management

Effectively managing our product portfolio generates capacity for growth and focuses our investment to truly revolutionise business.

FRAMEWORK FOR PRODUCT MANAGEMENT

We apply a framework for managing our product portfolio which enables us to focus on the drivers that will influence growth. Allocation of investment is particularly important for directing our Sales and Marketing (“S&M”) and Research and Development (“R&D”) spend.

We previously used three product groups, Invest, Harvest and Sunset, to categorise products based on their potential to create value via revenue growth or profitability. Product prioritisation remains essential to our strategy, and has led to refinement of the categorisation from three to two. We now categorise products as Growth or Heritage.

There is no pressure on our customers to migrate to a Growth product – our aim is to protect and support our customer base and be there as a trusted partner throughout their business life. We are developing migration tools for our growth products, such that if a customer decides to move, the process is seamless.

Growth products

Growth products include both Global products and Local growth products.

In these products, we will invest the majority of our R&D resources to increase features and functionality, and nearly all of our S&M spend.

There will typically be one Growth product for each category of offering (Accounting, Payroll & HR, Payments) in a country for each size of business that we serve.

Heritage products

All products not classified as Growth products are Heritage products. We will not end-of-life any product which has satisfied on-plan customers. There will, however, be minimum S&M investment as it is not our intention to grow these products. R&D will be limited to compliance, minor enhancements, bug fixes and building migration tools. Over time, it is our expectation that customers will opt to migrate to a Growth product to obtain enhanced functionality.

GROWTH PRODUCTS

Global products

Global products are our primary tool to attract new customers unless we establish through the sales process that their needs would be better met by a Local growth product.

sage One
sage X3

sage Live
sage Impact

[More detail on pages 32 to 33](#)

Local growth products

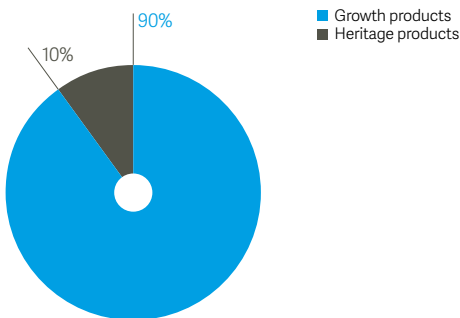
Under our target global operating model, the commercial proposition of a Local growth product is owned by Global Marketing, which works with each country to ensure consistency. This includes the pricing of the product and the way in which it is sold.

These Local growth products are popular, functionally rich solutions in their local market. We have no immediate intentions to migrate customers from these to our Global products, unless they themselves choose to do so.

The best features of the Global products will be applied to the Local growth products, and vice versa. Examples of this are Contaplus in Spain, Ciel in France, Symphonia in Poland, and Sage 50 in the UK, Germany and Canada all having been significantly modernised. Sage Drive will continue to be rolled out across Europe and North America throughout FY16, delivering value to our on-premise customers that still love their well-known on-premise software whilst wanting to leverage the benefits of collaboration and mobility.

For our larger customers, we are continuing to invest in cloud versions of our business management solutions such as Sage 200 in the UK, Sage Murano in Spain, Sage Office Line in Germany, Sage 100 in France, and Sage 100 and 300 in North America. These products offer customers a clear migration path to the cloud whilst retaining a familiar user experience.

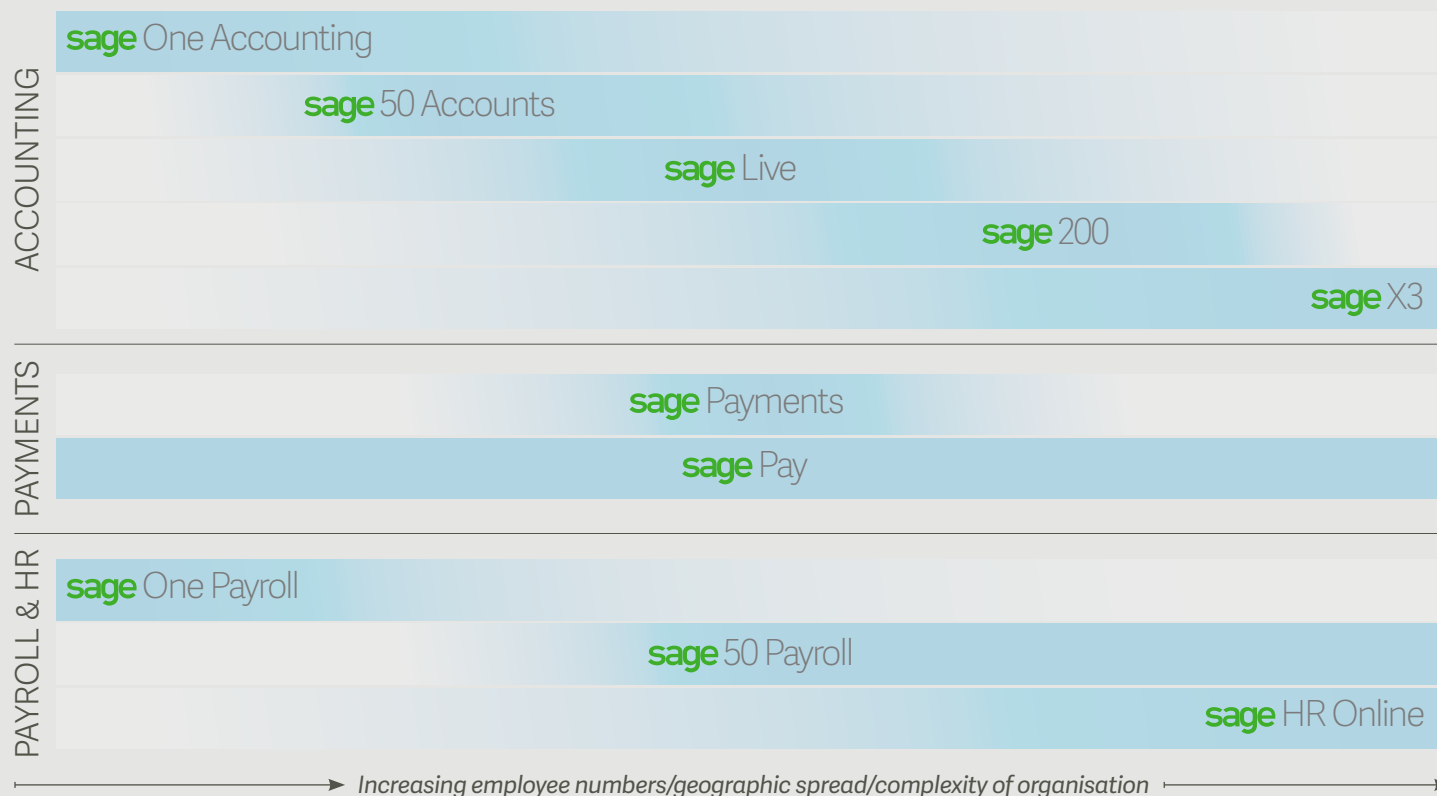
R&D and S&M spend in FY15



Growth Product Portfolio – UKI Illustration

Our customers in the UKI range from sole traders and small owner managed businesses through to larger multi-national businesses. We don't believe in labelling our customers, but we understand their characteristics and have a portfolio of products to suit any size or complexity of Small & Medium Business.

Our product range functionalities grow with the customer. To demonstrate the choice of Growth products in the UKI, we have considered an illustrative customer lifecycle and the solutions Sage can offer depending on where in the cycle the customer sits.



Our illustrative business is starting out in fashion retail, selling via social media; Sage One is the ideal solution to manage this start-up.

- Automatic bank feeds and a business performance dashboard allow the business owner to focus on their success.
- Integrating Sage One Accounting with Sage Pay enables them to take online payments via their website and using a virtual terminal.
- Sage One Payroll allows the business owner to pay employees with ease, providing automated payroll calculations and straight-forward legislative compliance.



Now selling goods from two premises and online, the business has grown its employee base.

- Sage 50 Accounts, Sage Live or Sage 200 could be used to manage business finances, depending upon the requirements of the customer and how they prefer to deploy their software.
- Sage 50 Payroll can handle a larger employee base, allowing customisable payroll reports, management of holidays and automatic calculation of wages. The pensions module is a useful add-on, allowing the customer to easily comply with UK Pensions Auto Enrolment legislation.
- Sage Payments can be integrated with Sage 50 Accounts or Payroll to simplify paying suppliers and employees. Payees can be added and approved directly from the Sage software package and payments are released from an e-money account securely, saving time and administration.



Having grown significantly and now with an extended offering, the business operates out of five locations in the UK and three in Europe.

- Sage X3, our global business management solution, would be an ideal product choice. The business needs to react to changing conditions, rapidly, and Sage X3 allows them to do just that.
- Sage X3 handles cross border transaction between group companies. The flexible accounting structure enables a real-time global view of the business, while accommodating local operational requirements.

Global products

We are using global products to appeal to new customers as we target winning in the market.

sage One

Our cloud deployed global product which is ideally suited to start-ups and businesses up to around 10 employees in size. Everything that Sage One does as a product is designed to make customers' lives easier, for example connecting to bank accounts and automatically reconciling records to make tracking expenses and income easy. Intuitively designed with a mobile first mind-set, the Sage One Accounting mobile app lets users create and send invoices and access their data from anywhere with an internet connection.

The Sage One global roll out has extended to 14 countries and the product complies with local regulations as standard. During the year we introduced our global accounting core ("GAC"), a common technology stack which enables a global accounting application to deliver the core product with limited local compliance tailoring. Updates, which are principally customer demand driven, are made live via the GAC every 14 days. GAC is already the basis of the product in the UK and North America with further roll-outs planned for 2016.

"With Sage One I can have an office on a beach. It's that easy to use"

– Eduardo Caperta, Geckosurfhouse, Portugal

Live updates delivered every

14 days

Via the global accounting core

sage Live

Our cloud deployed global product which is ideally suited to Small & Medium Businesses with around 10 to 200 employees. Launched in summer 2015, Sage Live breaks down the walls between the front and the back office, creating one office where business owners, their accountant, and everyone either serving customers or helping to serve customers, contribute to the business. At the heart of Sage Live is a next generation accounting engine designed for real-time processing and with social collaboration and mobile access in mind; users can see and enter information in real-time on their smartphones, watches and connected devices.

Developed in partnership with Salesforce, Sage Live is built on the Salesforce1 platform, which enables businesses to run completely in the cloud, integrating seamlessly with Salesforce CRM tools and a multitude of other third party applications.

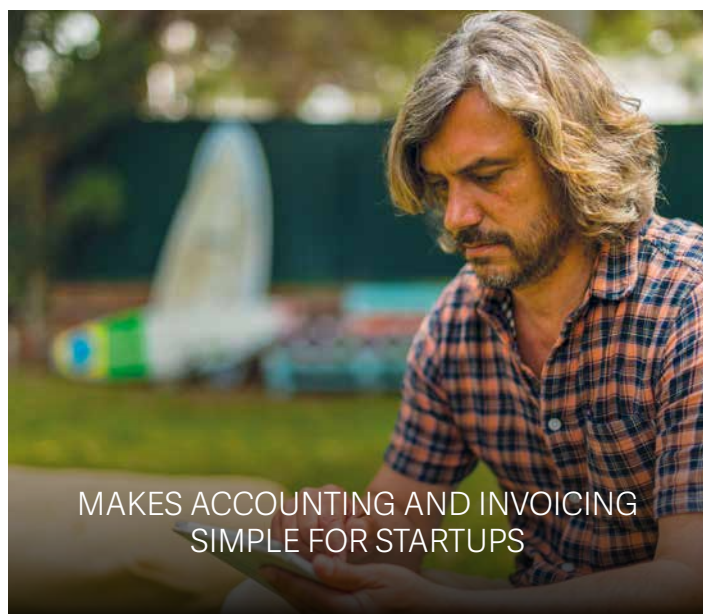
"How I engage my customers is very important, the social integration has given me the ability to bring our customers into the conversation"

– Jody Padar, New Vision CPA Group, US

One

Office

No more front and back office divide



sage X3

Our global business management solution is ideally suited to larger businesses. Unlike traditional ERP systems, Sage X3 simplifies business processes with rich functionality, offering multi-currency, multi-company, multi-language and multi-legislation support. It is sold globally, both direct by Sage and with the support of our network of business partners.

Since the launch of the latest version in Summer 2015, X3 can now be deployed either on-premise or in the cloud with the same rich functionality from either service. We offer the cloud service in addition to the traditional on-premise service to maximise customer choice and ultimately we will deliver whichever solution is right for the customer.

"Planning production on Sage X3 has saved us a lot of time, and we're much more accurate."

– David Sher, Universal Papers and Plastics, South Africa

Maximum

Customer Choice

Consume on-premise or as a cloud service

sage Impact

Our global product solution for accountants. Launched in May 2015, Sage Impact is the result of collaboration with accountants and bookkeepers to review and rethink the changing role of accounting professionals, as core areas such as tax and compliance have become more automated. It brings together many of the everyday tools that accountants and bookkeepers need to manage their business in a single online interface, generating efficiencies for accountants and enabling them to broaden the range of services they can offer to clients. Developed on an open platform, the product integrates with many of the everyday tools that accountants currently use to run their businesses. As it is accessible on any device, it enables accountants to access their practice and client information wherever they go. Sage Impact is free to use for accountants and its integration with Sage products is intended to bring more accountants into our network, which numbers around 100,000, in order to make customer collaboration more efficient and ultimately to promote Sage products.

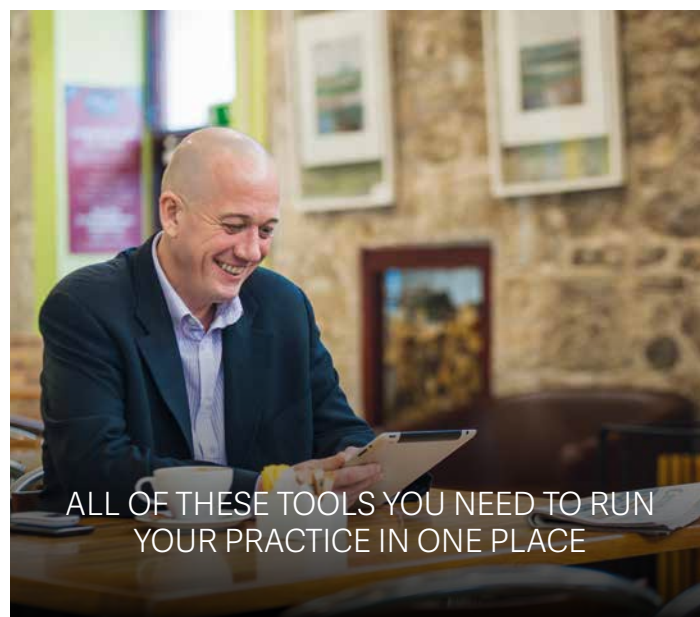
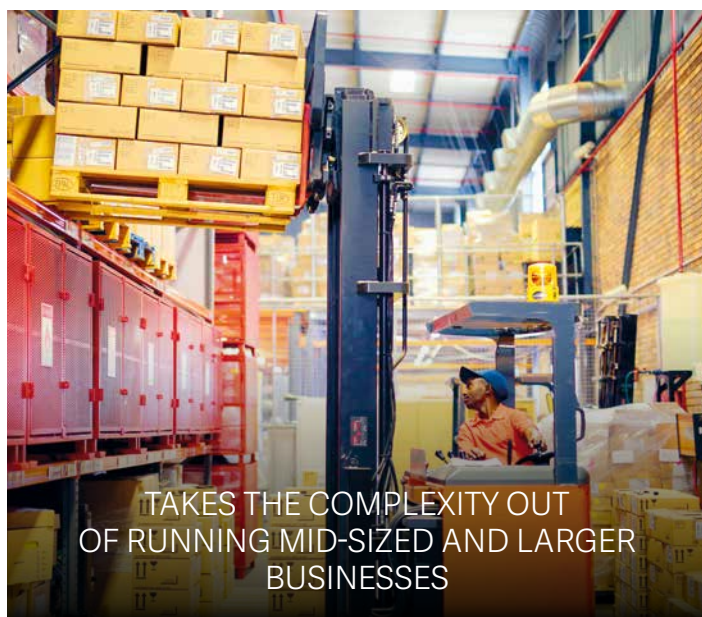
"Sage Impact is my one stop online resource. I have all my Sage One client information and Accountant apps in one place together with my diary so I don't forget anything."

– Cyd Smith, CS Accounting, UK

Designed to support

100k

Accountants currently in our network



Lifting our eyes to the future

We anticipate the shape of our business will evolve as we implement our strategy and will remain focused on generating strong free cash flow supporting our progressive dividend policy throughout.

TRANSITION PHASE

Priorities:

- Earn customers for life by maintaining and enhancing our customer experience through the transition
- Continue our progressive transition to subscription relationships
- Implement our target global operating model to generate capacity for growth
- Revolutionise business by investing in Global and Local growth products, optimising product integration and creating seamless migration pathways for growing customers

Revenue mix

Subscription revenue growth is expected to outpace overall recurring revenue growth via a combination of new and existing customers opting for subscription and a corresponding reduction in revenue generated by stand alone maintenance and support contracts. SSRS revenues are expected to decline, but eventually flatten. We expect that there will always be some demand for SSRS pricing of software, especially amongst larger customers, as well as professional services and training, which will continue to be a feature of our value proposition.

Recurring	
Subscription	↗
Traditional maintenance and support	↘
Software and software related services	↘
Processing	↗

Revenue growth

We expect to continue to grow organic revenues at around 6%, but will drive the quality of the growth by delivering more value to customers. The sources of this growth will be execution of the cross-sell, migration and reactivation initiatives amongst our on-plan and off-plan installed customer base and growth in new customers.

Organic revenue growth
of at least
6%

Margin

We will see a shift in our spending mix through the transition phase. The implementation of our global operating model will introduce some savings, for example leveraging our purchasing power through a newly established global procurement function. These savings will be reinvested in other global priorities, such as enhancing our digital presence within the global marketing function. We therefore expect to maintain an operating margin of at least 27%, it will become a better quality margin with greater efficiency and capacity for growth.

Organic operating profit
of at least
27%

ACCELERATION PHASE

Priorities

- Continue to put customers at the heart of everything we do
- Leverage our global operating model to accelerate new customer acquisition
- Drive efficient development cycles to continue to bring the latest technologies and features to our customers

Revenue mix

The transition of relevant relationships towards subscription is expected to be largely complete, with a base of SSRS and standalone maintenance and support revenue remaining. Global product uptake and cross-selling of multiple services is expected to accelerate, further contributing to subscription and processing within the revenue mix.

Recurring

Subscription



Traditional maintenance and support



Software and software related services



Processing



Revenue growth

Revenue from Local growth products is expected to continue to grow at mid-single digit rates, while revenue from Global products is expected to become more material due to the anticipated acceleration of new customer acquisition. The suppressing effect of migrating SSRS revenues to a predominantly subscription model is expected to diminish as the transition progresses to an advanced stage. These features combined are expected to yield overall revenue growth in excess of 6%.

Organic revenue growth

>6%

Increasing

Margin

After the transition phase, the heightened investment in marketing functions as a proportion of revenue is expected to diminish as we leverage the newly installed global operating model. Disciplined spending combined with accelerating revenue growth is expected to lead to margin expansion from 27%.

Organic operating margin

>27%

Increasing

Balancing risks and rewards

We are transitioning the business to bring together all parts of the organisation as a connected whole (“One Sage”), while at the same time the external risk environment in which we operate continues to evolve. In light of this transition and these changes, we seek to ensure that the risk management framework continues to develop to meet our global needs. We have continued to implement a number of enhancements during the year to drive greater consistency in activity, and improve governance surrounding these activities. This ensures that risks continue to be managed appropriately and within agreed appetites. As part of this process, the directors have carried out an assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.

Risk environment

Risk is inherent within our business activities, and we continue to prioritise and develop our risk management capability in recognition of this. Timely identification of risks, combined with their appropriate management and escalation, enables us to successfully run our business and deliver strategic change, whilst ensuring that the likelihood and / or impact associated with such risks is understood and managed within our defined risk appetite.

Risk governance

We operate a formal governance structure to manage risk, which has been supplemented during 2015 with the introduction of two tiers of Risk Committee.



Read pages 69-72
for Audit and Risk
Committee Report



Board

The Board has overall responsibility for risk management, the setting of the overarching risk appetite and the implementation of the risk management policy. The Board reviews the output from Global Risk with focus on the identified principal risks.

Audit and Risk Committee

The remit of the Audit Committee was formally expanded during 2015 to become the Audit and Risk Committee. The Committee reviews and challenges output from Global Risk, which is submitted to the Board. It reviews all principal risks and associated appetite statements and metrics at each meeting, ensuring these remain aligned to the achievement of Sage's strategic objectives, and assesses the adequacy of assurance delivered. The Audit and Risk Committee is responsible for the independent review of the effectiveness of risk management systems and related internal controls, and to ensure that issues that have arisen are properly dealt with, and that going forward systems are fit for purpose.

Its membership includes five non-executive directors and it is also attended by the Chair of the Board, the Chief Executive Officer and the Chief Financial Officer.

Executive Committee

The Executive Committee is responsible for establishing the risk agenda, for the reporting and on-going management of risks and for the stewardship of the risk management approach. The Executive Committee identifies and assesses Sage's principal risks on an on-going basis, and for each principal risk, ownership is assigned to a member of the Executive Committee. The outputs of these assessments are communicated with each country for inclusion in their local risk assessment activities.

Global Risk Committee

The Global Risk Committee was introduced during 2015, with responsibility for the risk agenda, providing direction and support to Global Risk in transforming and embedding risk across 'One Sage'. It meets on a quarterly basis and works to:

- Oversee cultural change
- Establish clear governance and accountability for risk, and any associated (remediation) activities
- Provide global direction to regions and countries, including creation and deployment of common methodologies and practices
- Provide a point of escalation
- Ensure inclusion of the wider business in risk management decision making
- Drive the inclusion of risk management into performance management
- Enable the Company to effectively operate as 'One Sage'
- Provide the Board and Audit and Risk Committee with sufficient effective information to enable them to discharge their risk reporting requirements.

Its membership includes representatives from the key support functions, and primary external facing business stakeholders, including marketing and the three regional presidents. Further to the defined membership, both the Chief Executive Officer and Chairman of the Audit and Risk Committee may attend as they desire.

Regional Risk Committees

Three Regional Risk Committees have been identified, one in each of the three business regions, Europe, International and North America. One committee was established in Europe during 2015, and the remaining two will be established in 2016. They will meet quarterly in advance of the Global Risk Committee and have responsibility for supporting the operation of the Global Risk Committee and the management of principal and local risks within their regions. In addition to managing regional risk, they also monitor the deployment of risk management activities throughout the countries within their regions, and provide associated escalation and reporting.

Group Risk and Assurance Director

The Group Risk and Assurance Director is responsible for the facilitation and implementation of the risk management approach across Sage. The Group Risk and Assurance Director chairs the Global Risk Committee, and is responsible for consolidating the risk reports from the Regional Risk Committees, and the creation of the output from Global Risk for the Global Risk Committee, the Audit and Risk Committee, and the Executive Committee. The Group Risk and Assurance Director attends the quarterly Audit and Risk Committee meetings, and also meets with the Chairman of the Audit and Risk Committee outside the formal confines of the Audit and Risk Committee during the year.

Global Risk

Global Risk consists of a network of risk colleagues, throughout the organisation, who work together and are co-ordinated from a single point. It works to support the operation of the committees at both a regional and global level, and further to guide, support and challenge the business, and embed risk management within business activities.

How we manage risk

Our risk management framework has been built to identify, evaluate, analyse, manage and mitigate those risks which threaten the successful achievement of our business strategy and objectives, within tolerable appetites. Risks are owned and managed within the business, and formally reviewed on a quarterly basis.

To supplement business as usual risk management activities, Global Risk undertakes a number of targeted in-depth reviews against identified risks each year. In 2015 these were conducted against three of the principal risks, namely Third Party Reliance, Information Management and Protection (including cyber), and Legal and Regulatory Framework. The results of these reviews feed into the quarterly reporting cycle.

Risks continue to be owned and managed within the business, and are overseen and supervised through the Global and Regional Risk Committees. During 2015 risk resources around the business were brought together to operate as a global function. This move seeks to drive greater consistency, and to avoid any conflicts of interest between local reporting lines and global requirements.



Our risk management activities

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

Culture

The Board is aware that the effectiveness of risk management is dependent on behaviours. During 2015 we launched a revised Code of Ethics, re-enforcing our required values and behaviours, and in turn strengthening our risk culture. This is now supported by our ethics and compliance programme, which aims to ensure compliance with our ethical standards.

In parallel, Sage recognises the behavioural benefits that clear expectations bring to the business, and as such is re-enforcing a 100% compliance culture with policies and procedures across the business, and wrapping this within a broader 'Sage Way' of working. Oversight of compliance is reported through Global Risk and Assurance, and during 2016 plans are in place to enhance existing capabilities through the formation of a dedicated Compliance function.

How we identify risk

Our risk identification processes follow a dual approach, seeking:

- To identify risks using a top down approach at the global level. These principal risks are those which threaten delivery of our Strategy.
- To identify risks using a bottom up approach at the country level. Such risks are those which threaten local business activity, and they are managed at the local level. To provide visibility of wider issues within the business, these are consolidated at the global level. To further improve the visibility of local risks at a regional and global level, the Risk Management Policy was revised during 2015, and formal requirement for escalation of higher rated risks to the Regional and Global Risk Committees was introduced.

Our risk appetite

We use an assessment of the level of risk and our associated risk appetite to ensure that appropriate focus is placed on the risks we face. Identified risks are measured on a gross and net risk basis using our pre-defined scoring matrix. Risks are then prioritised for mitigation by considering these scores against our risk appetite.

The principal risks, of which there are currently ten, are reviewed by the Board on an on-going basis, and monitored and managed through the Audit and Risk Committee and Global Risk Committee.

To assist with the monitoring and management of these identified principal risks, work was undertaken with risk sponsors and owners to establish a set of Risk Appetite Statements for each identified principal risk. Behind each statement a series of Risk Metrics and their measurement were identified and agreed, in order to provide oversight of whether we are working within identified tolerance, and whether additional executive attention may be required. These metrics have been incorporated within our quarterly reporting activities.

Principal risks

We continue to evolve our risk management process and associated reporting activities.


The Directors have carried out an assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity, and these risks are further detailed below. We continue to monitor the risk environment, and review the appropriateness of the principal risks to the business, and these are formally reviewed at the beginning of each year.

At a global level we formally report against these principal risks on a quarterly basis, as well as escalated local and regional risks. During 2015 we have enhanced our reporting activities, with the definition of clear appetite statements for each principal risk and identification of supporting metrics which can be reported. Risk dashboards have been revised to incorporate these changes. In addition we have revised our Risk Management Policy to simplify risk rating and facilitate the escalation of local risks. This is further supported through the Global and Regional Risk Committees. Moving forward we will further develop our metric driven risk reporting.




The risk landscape continues to change as both the business and marketplace evolve. The pace of change, and need for greater visibility across the organisation, continue to grow and the risk function and practices are developing to meet these challenges.




The creation of the Global and Regional Risk Committees is seen as a significant step in embedding consistent activities across the business, enhancing the ability to respond, and support the move to a global operating model. The membership of the Risk Committees reflects and represents all relevant facets of the business, ensuring that risk is considered and developed within the wider considerations of the business, and that market pressures and changes are considered in a timely manner.

Currently there are ten principal risks which we monitor and report against at a global level. The risks are arranged according to their alignment, seven are aligned to successful delivery of the Strategy (risks 1-7 below), and three are aligned operationally (risks 8-10 below). A number of measures are in place to manage and mitigate these risks, while other activities are in the process of being developed or deployed, and are marked below as in progress.


Principal Risk	Risk Background	Management and Mitigation
1. Business Model Transition		
<p>Sage does not successfully manage the transition of its business to a global operating model</p> <p>Primary strategic alignment: Capacity for Growth</p> 	<p>Sage has historically operated as a federated set of Operating Companies across multiple geographies, each with significant local autonomy.</p> <p>In order to avoid duplication of effort, drive greater consistency and efficiency in processes, and provide clearer governance, Sage is moving to a new global operating model.</p> <p>This risk is an evolution from 2014. During 2015, organisational and structural changes have been successfully made, alongside planning for the wider transition, including governance. Transition implementation will run through 2016.</p>	<ul style="list-style-type: none"> Functional reporting for all support functions established to a global level to allow consistency of direction, and removal of any global / local conflicts An approved global Business Model Transition Strategy, supported by an overarching plan which details the goal, overall time plan, and scheduled adoption by countries Clear governance around strategy and overarching plan through Executive Committee and programme steering committee Identification of a programme authority lead to manage the transition <p>In progress:</p> <ul style="list-style-type: none"> Alignment of transition frameworks for each country / region / function which are integrated to the overarching plan, and approved by the programme steering committee Monitoring of implementation through the programme management office

Principal risks continued

Principal Risk	Risk Background	Management and Mitigation
2. Licensing Model Transition		
<p>Sage does not successfully move to a target subscription licensing model, and adapt its customer approach to reflect the change to this model</p> <p>Primary strategic alignment:</p> <p>Customers for Life</p> 	<p>Sage wishes to continue to shift its licensing model towards subscription, where customers pay a monthly charge to use a licence, and in doing so are entitled to upgrade to the most recent release.</p> <p>Subscription licensing is perceived as beneficial within the software industry for a variety of reasons, including increased customer contact and predictability of cash flow. Any transition process must, however, be controlled in order to manage potential impacts, including short term revenue figures.</p> <p>This risk is an evolution from 2014. Through 2015, a dual approach has been followed to ensure achievement of revenue figures, while moving towards subscription. In parallel to these activities, the first of a number of Customer Business Centres have been opened for global products, which co-locate teams (digital marketing, sales, service operations) enabling them to operate collaboratively and serve customers quickly and efficiently.</p>	<ul style="list-style-type: none"> – New products are being offered on a subscription only basis – An approved licensing model transition strategy is in place, with defined targets and timescales – A series of approved targets have been defined, which span multiple years and support successful delivery of our Strategy – Ongoing monitoring and review of the approved targets is taking place at country, regional and global levels in order to proactively manage the licence transition, and revenue figures <p>In progress:</p> <ul style="list-style-type: none"> – Creation of further Customer Business Centres, with staged adoption of global products, to better manage on-going customer relationships and the sales cycle
3. Market Intelligence		
<p>Sage does not understand or anticipate changes in the external environment (including areas such as customer needs, emerging market trends, competitor strategies and regulatory / legal requirements)</p> <p>Primary strategic alignment:</p> <p>Customers for Life</p>  <p>Winning in the Market</p> 	<p>Sage has focused resources and management attention on successfully delivering revenue and margin growth while at the same time maintaining a broad product range. This has been underpinned by local market intelligence.</p> <p>In order to develop a consolidated understanding of its market and customer needs, Sage is developing a global market intelligence capability.</p> <p>The risk was identified in 2015. The initial focus has been to develop appropriate structures which will enable competitive positioning and product development, and 2016 will see the introduction of further operational practices to support this. With a growing emphasis on global products within Sage, this activity will become increasingly relevant in the successful development of Sage's customer solutions.</p>	<ul style="list-style-type: none"> – A Marketing Operations group has been established across the organisation, which has overall responsibility for Market Intelligence – Annual completion of a global market intelligence survey, to identify market opportunities – Annual completion of a brand health survey to understand customer perception of the Sage brand and its products <p>In progress:</p> <ul style="list-style-type: none"> – Prioritisation of resources and effort on products with a lifecycle status of 'Growth' – Ongoing development of standard templates for use by market intelligence managers to allow information capture to be enhanced across countries, and reported on a periodic basis – Definition of a feedback loop to allow continual refinement of standard templates, ensuring they remain effective, and capture relevant information

Principal Risk	Risk Background	Management and Mitigation
4. Competitive Positioning and Product Development		
<p>Sage is unable to clearly identify its approach to the market, and support it with strategies that drive competitive advantage, including product development</p> <p>Primary strategic alignment:</p> <p>Winning in the Market</p>  <p>Capacity for Growth</p> 	<p>The competitive environment in which Sage operates has seen significant developments in recent years with the emergence of new players and a shift to delivering functionality via the cloud. These new players include venture capital funded organisations whose primary goal is to attain market share irrespective of profit, and a number of US listed companies with similar goals. Cloud products and digital sales and marketing strategies (zero touch sales) are reducing barriers to entry.</p> <p>Sage must be able to translate market intelligence into appropriate strategies that target attractive market segments with relevant products.</p> <p>Whilst Sage transitions towards global products, a number of which have been launched, in the short-to mid-term there remains the need to manage and evolve the local growth products in tandem with its longer-term aspirations.</p> <p>This risk was identified in 2015.</p>	<ul style="list-style-type: none"> – A Global Marketing team has been established to oversee competitive positioning and product development – Product lifecycle classifications have been created, and all products have been assigned a classification of 'Heritage' or 'Growth', to define whether research and development resources may be expended on them – Governance has been established over the creation of global products, to ensure effective prioritisation of resources – Accountability for the maintenance of documented strengths and weaknesses has been defined, and for global products this resides with the Global Marketing Operations team <p>In progress:</p> <ul style="list-style-type: none"> – All 'Growth' products must have their strengths and weaknesses against competition documented, and the priority areas for development identified – Defined authorisation channels to control all research and development expenditure, and to ensure these resources are most effectively targeted
5. Sage Brand		
<p>Sage does not deliver clear and consistent branding to the market</p> <p>Primary strategic alignment:</p> <p>One Sage</p> 	<p>Work continues towards building the global Sage brand following several years of acquisitions around the world. The Sage brand is currently well recognised and trusted by customers in many of its core markets, however, on a global scale inconsistency exists in brand awareness across certain territories.</p> <p>A clear and consistent brand assists customers in identification of the values Sage stands for, and provides uniformity of message to the market. The importance of such messaging is increasing with the adoption of global products.</p> <p>Activity has continued during 2015 to both strengthen the brand and drive greater consistency in messaging.</p> <p>This risk is an evolution from 2014.</p>	<ul style="list-style-type: none"> – All countries must comply with Sage's Brand Governance and Brand Guidelines, which have been designed to execute the Sage Masterbrand Strategy. Timeframes for compliance of all products are defined, and any exceptions must be approved through the Global Brand team – Ongoing review of customer experience is performed (Net Promoter Scores), and output reviewed across countries and products to identify variance – Where no specific brand guidance has been provided by the Global Brand team, a defined approval route is in place through the team, and approval must be obtained in advance of publication <p>In progress:</p> <ul style="list-style-type: none"> – All branded assets must be uploaded to the Brand Library, and any exceptions from brand guidelines reported to the Chief Marketing Officer and Audit and Risk Committee
6. Strategic Partnerships		
<p>Sage fails to identify, build and maintain strategic relationships</p> <p>Primary strategic alignment:</p> <p>Revolutionise Business</p> 	<p>In the federated model, Sage countries operated in a semi-autonomous manner, with limited global direction, or co-ordination, and relied on internal resource to go to market.</p> <p>However, the market and Sage's competitors have become ever more agile, and specific resources harder to attract.</p> <p>As such, there are an increasing number of instances where developing strategic partnerships may be of benefit to Sage. Those instances where the use of strategic partners is permitted, and the governance around such engagement, needs to be controlled as well as the on-going management of any eco-system.</p> <p>This risk is an evolution from 2014.</p>	<ul style="list-style-type: none"> – A Partner Management team has been established to oversee the selection and management of Strategic Partners – Definitions are in place to ensure clarity over what constitutes a Strategic Partner – All contracts must comply with the Material Contracts policy, and be approved through legal – Inclusion of defined legal provisions is required. Any variance from such provisions must be recorded as part of the formal contract approval process – All Strategic Partners are assigned an individual within the Partner Management team who is responsible for actively managing the relationship <p>In progress:</p> <ul style="list-style-type: none"> – In line with the business model transition and revised working practices, a Strategic Partner Management policy is planned during 2016 to enhance the consistency of selection and on-boarding of all our Strategic Partners

Principal risks continued

Principal Risk	Risk Background	Management and Mitigation
7. Third Party Reliance		
<p>Sage fails to adequately understand and effectively manage the third party environment that supports its business</p> <p>Primary strategic alignment: Revolutionise Business</p> 	<p>Sage offers a set of products and services to customers, for which it will be held accountable should problems occur. Many key parts of Sage's service offerings to its customers are now delivered using third parties, and while activities may be outsourced, the risks associated with their use cannot be.</p> <p>To allow risks to be managed within Sage's appetite, this third party estate must be understood and effectively managed.</p> <p>This risk was identified in 2015. As part of the move to 'One Sage' and the new global operating model, organisational and structural changes have been made during 2015, designed to enhance Sage's global approach to third party management.</p>	<ul style="list-style-type: none"> – A global procurement function has been established to ensure key controls are applied in the selection and on-boarding of third parties – The business remains responsible for defining its needs and requirements – The global procurement function supports the business with the selection of third parties and negotiation of contracts – Legal resources are used in contract negotiation – Management review and control is applied through the Delegation of Authority process, and appropriate approval is required before any expenditure can be authorised <p>In progress:</p> <ul style="list-style-type: none"> – As part of the transition to the global operating model, and through the Excellence in Governance initiative to support this transition, a Third Party Lifecycle Governance Framework will be established during 2016
8. Supporting Control Environment		
<p>Sage's underlying control environment (business processes and technology infrastructure) do not support the efficient operation of the business and do not support the control framework</p>	<p>Sage has historically grown through a process of acquisition. Each acquisition has arrived with its own control environment (systems and processes, including technology infrastructure).</p> <p>Sage is moving to a new global operating model, and to allow this the control environment (systems, processes, technology infrastructure and applications) must support the efficient operation of the business – through the timely provision of accurate and appropriate information.</p> <p>This risk is an evolution from 2014.</p>	<ul style="list-style-type: none"> – Business requirements are defined across the business – New best in class systems have been installed, including Salesforce CRM and Sage's X3 General Ledger – Salesforce CRM has been installed for use within the new Customer Business Centres as the primary CRM system to underpin their operation and expansion. All new customers for Customer Business Centre supported products are being entered directly into these systems <p>In progress:</p> <ul style="list-style-type: none"> – X3 General Ledger has been installed both in Customer Business Centres and separately for wider General Ledger activities. In scope systems have been identified, and a planned migration by Finance Operations will occur – Any deviation from the migration plan must be approved through the Finance Implementation Steering Committee – As part of business model transition activities and the establishment of revised ways of working, an Excellence in Governance initiative is being undertaken to ensure consistency and enhance effectiveness – Expansion in scope of Customer Business Centre supported products is planned as part of a gradual move to global products

Principal Risk	Risk Background	Management and Mitigation
9. Information Management and Protection (including cyber)		
Sage fails to adequately understand, manage and protect data	<p>During the period of acquisition many established processes, whilst appropriate to smaller businesses, did not develop in line with Sage's growth.</p> <p>This risk is an evolution from 2014. During 2015, organisational and structural changes have been made to manage the risk and to transition to the new ways of working.</p>	<ul style="list-style-type: none"> – Creation of a global 'OneIT' function reporting to the global Chief Information Officer, to support the operation of 'One Sage' through common supporting IT infrastructure, practices and systems – A network of Information Security Officers oversees compliance with the IT Controls Framework, which defines the key controls which are required – Maintenance of formal certification schemes, such as PCI, across specific parts of the business, with internal and external validation of compliance – On-going assurance activities are performed across the estate by Internal Audit against the IT Controls Framework. Results are tracked and reported to the Audit and Risk Committee <p>In progress:</p> <ul style="list-style-type: none"> – Global incident management procedures including rating of incidents and escalation, as required – Excellence in Governance initiative being undertaken across revised ways of working and policies to enhance effectiveness
10. Regulatory and Legal Framework		
Sage fails to understand and effectively operate within the legal and regulatory framework applying to its services	<p>Sage operates in an increasingly complex external environment, while at the same time continuing to evolve its service offerings to the market. Many of Sage's activities and services are subject to legal and regulatory influences, which continue to develop in parallel.</p> <p>It is therefore essential to monitor the evolving legal and regulatory environment, understand in a timely manner how this applies to the business, and take appropriate steps to ensure compliance.</p> <p>This risk is an evolution from 2014.</p>	<ul style="list-style-type: none"> – All legal resources across Sage report directly to the global Legal Director – The legal function uses internal and external resources to monitor planned and realised changes in legislation – All product contracts are reviewed and approved through the global legal function – A suite of policies are in place to support key legislation, including Data Protection and anti-Bribery – A Code of Ethics policy is in place across the business which provides clarity over how colleagues are expected to behave. On-line training is provided to support it, and to record levels of understanding – A Group Whistleblowing policy and arrangements are in operation, to allow colleagues to raise issues without fear of recrimination, and to provide early oversight of issues <p>In progress:</p> <ul style="list-style-type: none"> – Development and communication of the 'Sage Way' of working, and on-going drive towards a 100% compliance culture

Developing the financial viability statement

In developing the financial viability statement, it was determined that a five year period should be used, consistent with the period of the Group's strategic plan and reflecting a typical life of on-premise products without upgrade.

Management reviewed the principal risks, and considered which of these risks might threaten the Group's viability. It was determined that none of the individual risks would in isolation compromise the Group's viability, and so a number of different severe but plausible principal risk combinations were considered.

Having identified the severe but plausible risk combinations, a cross functional group of senior managers, including representatives from Finance, Risk, IT, Product Marketing and Legal, estimated the monetary impact of each scenario. These impacts were based on similar examples in the public domain and internal estimates of remediation costs.

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

As set out in the Audit and Risk Committee's report on page 70, 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.

The Directors' financial viability statement is contained in the Directors' Report on page 93.

Financial targets achieved with momentum for sustainable growth



Chief Financial Officer,
Steve Hare, analyses
the 2015 financial
performance

Throughout the year we have conducted a complete review of the business, including our products, organisational structure, operating model and policies in order to prepare for next phase of long-term sustainable growth. We have simplified our three existing product categories to Growth and Heritage and have initiated organisational transformation in order to implement our target operating model and realise cost savings to re-invest for growth. Our revenue category definitions have refined and we have amended the application of the revenue recognition policy to certain products enabling stakeholders to clearly and transparently track performance. None of the updates impact cash generation and the financial summary below is included for comparability to previous announcements. All subsequent figures and metrics are prepared on the revised basis.

Impact of changes to revenue reporting:

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

Continuing operations	SSRS £m	Recurring £m	Processing £m	Total Revenue £m	Operating costs £m	Operating profit £m	Margin %
Previous basis	348	1,010	–	1,357	(974)	383	28.2
Revenue reporting changes:							
– SSRS/Recurring reclassification ¹	(58)	55	–	(3)	–	(3)	(0.2)
– Referral commissions treatment ²		46	–	46	(46)	–	(0.9)
– Separate presentation of Processing ³	(3)	(158)	161	–	–	–	
Revised basis	287	953	161	1,400	(1,020)	380	27.1

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

Group performance

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

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

Organic figures neutralise the impact of foreign currency fluctuations and exclude the contribution from current and prior period acquisitions. A reconciliation of organic operating profit to statutory operating profit is shown on page 116.

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

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

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

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

Revenue mix

Segmental reporting

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

Recurring revenue

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

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

Processing revenue

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

SSRS revenue

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

Revenue

Statutory revenue grew by 6% to £1,436m. The growth reflects organic growth in the business and the contribution from two acquisitions, offset by adverse foreign exchange movements experienced in FY15. The average exchange rates used to translate the consolidated income statement for the year are set out on page 47.

Operating profit

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

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

Earnings per share

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

	2015 Pence	Restated 2014 Pence
Basic earnings per share ("EPS") reconciliation		
Underlying basic EPS	25.00	22.19
Impact of foreign exchange	–	0.72
Underlying basic EPS (as reported)	25.00	22.19
Recurring items	1.10	(1.45)
Non-recurring items	5.79	(4.20)
Statutory basic EPS	18.11	17.26

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

Net finance cost

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

Financial and operating review continued

Revenue

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

Operating profit

	Statutory			Organic		
	FY15	FY14	Change	FY15	FY14	Change
Group	£297m	£300m	−0.8%	£380m	£350m	+8.3%
Margin	20.7%	22.1%	−140bps	27.1%	26.5%	+60bps

Revenue mix

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

Organic to statutory reconciliations

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

1 Organic adjustments comprise contributions from acquisitions, disposals and products held for sale.

2 Impact of retranslating FY14 results at FY15 average rates.

3 Recurring items comprise amortisation of acquired intangible assets, acquisition-related items and fair value adjustments.

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

Taxation

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

The income tax charge and the total tax paid in the year are underpinned by Sage's tax policy, which is aligned with the overall goals of the business including Sage's vision, strategy, code of ethics and guiding values. We seek to manage our tax affairs in a responsible and transparent manner, to comply with relevant legislation and with due regard to our reputation. Our approach is in line with the principles issued by the Confederation of British Industry (CBI). Sage's tax policy has been agreed by the Board, with progress being monitored by the Group Audit and Risk Committee. The policy has been shared with the UK tax authorities.

Cash flow and net debt

Cash flow	FY15	FY14
Underlying operating profit	£380m	£351m
Exchange rate translation movements	–	£10m
Underlying operating profit (as reported)	£380m	£361m
Non-recurring items	–	(£2m)
Depreciation/amortisation/profit on disposal	£29m	£29m
Share-based payments	£9m	£8m
Working capital and balance sheet movements	£5m	(£3m)
Exchange rate translation movements	(£5m)	(£11m)
Statutory cash flow from operating activities	£419m	£382m
Net interest	(£18m)	(£19m)
Tax paid	(£85m)	(£107m)
Net capital expenditure	(£20m)	(£27m)
Free cash flow	£296m	£229m
Statutory cash flow from operating activities	£419m	£382m
Non-recurring cash items	–	£2m
Net capital expenditure	(£20m)	(£27m)
Eliminate exchange rate translation movements	£5m	£10m
Underlying cash flow from operating activities	£403m	£366m
Underlying cash conversion¹	106%	101%

1 Underlying cash conversion is underlying cash flow from operating activities divided by underlying operating profit. Underlying cash flow from operating activities is statutory cash flow from operating activities less net capital expenditure and adjusted for movements on foreign exchange rates and non-recurring cash items. In the prior year, underlying cash flow from operating activities was calculated before net capital expenditure and included movements on foreign exchange, which would have shown underlying cash conversion of 110% in FY15 (FY14: 106%). Refer to the inside front cover and page 163 for information on Non-GAAP measures.

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

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

Treasury management

The Group continues to be able to borrow at competitive rates and currently deems this to be the most effective means of raising finance. The current Group's syndicated bank multi-currency Revolving Credit Facility (RCF), expires in June 2019 with facility levels of £525.2m (US\$551m and €218m tranches). At 30 September 2015, £81.6m (FY14: £111m) of the RCF was drawn. RCF drawings were used to fund the US Paychoice acquisition in October 2015.

Total USPP loan notes at 30 September 2015 were £525.4m (US\$700m and EUR€85m) (2014: £432m, US\$700m). Approximately £135m (US\$200m) of USPP borrowings were repaid in March 2015. This maturity was refinanced in the USPP market in January 2015, via the issuance of loan notes of US\$200m (£132.2m) at 3.73% fixed until 2025, €55m (£40m) at 1.89% fixed until 2022 and €30m (£22m) at 2.07% fixed until 2023.

Acquisitions

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

Foreign exchange

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

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

Average exchange rates (equal to gbp1)	FY15	FY14	Change
Euro (€)	1.35	1.23	+9%
US Dollar (\$)	1.54	1.66	-8%
South African Rand (ZAR)	18.55	17.65	+5%
Australian Dollar (A\$)	1.97	1.81	+8%
Brazilian Real (R\$)	4.64	3.81	+18%

Capital structure and dividend

With consistent and strong cash flows, the Group retains considerable financial flexibility going forward. The Board's main strategic priority remains an acceleration of growth, both organically and through targeted acquisitions. This growth underpins the Board's sustainable, progressive dividend policy, with surplus capital being returned to shareholders from time to time. Consistent with this policy, the Board is proposing an 8% increase in the total ordinary dividend per share for the year to 13.10p per share (FY14: 12.12p per share). The ordinary dividend for the year is covered 1.9 times by underlying earnings per share.

Archer Capital

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



Steve Hare
Chief Financial Officer

2 December 2015

Financial and operating review continued

EUROPE

Organic revenue growth	FY15	FY14
UKI	+7%	+6%
France	+5%	+4%
Spain	+3%	+1%
Germany	+4%	+3%
Rest of Europe	-1%	+4%
Europe	+5%	+4%

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

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

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

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

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

UKI – key subscription initiatives continue to drive growth

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

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

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

France – momentum building with subscription initiatives

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

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

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

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

Spain – rate of revenue growth increasing

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

Germany – improved software recurring revenue growth

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

NORTH AMERICA

Organic revenue growth	FY15	FY14
North America	+4%	+4%

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

Growth maintained but lagging the global growth rate

Organic revenue excluding processing grew by 6% to £329m. The growth has been maintained by a strong performance from Sage 50 and X3, offset by a weaker performance in our products suited to medium sized businesses. The release of Sage Drive in Canada and a marketing focus on subscription across North America has seen software subscription revenue for Sage 50 in North America grow by over five-fold, and is a good example of subscription success achieved by enhancing the value proposition. Sage Drive will also be launched in the US during FY16 as part of our core product modernisation programme. Organic revenue growth of 19% for X3 was encouraging as we target growth in our market share with global products.

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

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

INTERNATIONAL

Organic revenue growth	FY15	FY14
Africa	+16%	+15%
Brazil	+8%	+9%
Australia	+5%	+6%
Middle East and Asia	+33%	+12%
International	+14%	+11%

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

Africa – double-digit growth performance maintained

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

Brazil – strong growth despite tough economic conditions

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

Australia, Middle East and Asia

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

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

Our Corporate Responsibility policy

Our Corporate Responsibility (“CR”) activities provide support to our customers, people and communities and are embedded in our One Sage culture.

Our global CR policy focuses on the areas where we believe we can make the most difference. Whilst local legal standards apply as an absolute minimum, we aim to achieve best practice in our local markets and share this across the Group. Sage has been independently assessed against the FTSE4Good criteria and satisfied the requirements to become a constituent of the FTSE4Good Index Series, which is an equity index designed to facilitate investment in companies that meet globally recognised CR standards.



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Community

Our local communities are important to us and we want to see them thrive. During the year, we launched the Sage Foundation, a global initiative which sets a high benchmark for corporate philanthropy and makes a solid commitment to support our communities.



PG 52-54 TO
READ MORE

People

Given the nature of our business we have not included information specifically about human rights issues in this report. We have a Code of Ethics, available at www.sage.com, which recognises the importance of treating all of our employees fairly, covering issues such as responsible employment, diversity and equal opportunities. This is an effective way of communicating, at a high level, the principles which should be applied in the conduct of our business.



PG 55-56 TO
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Environment

We continue to analyse our impact on the environment. We remain committed to reducing our energy consumption and related emissions where possible, as well as reducing the wider impact we have through the use of resources and how much landfill waste we generate.



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Championing business

We have tens of thousands of conversations with our customers around the world every day and have a privileged position to understand the issues they face and to provide support to overcome these issues. We leverage this position to champion Small & Medium Businesses, the lifeblood of our economy.

Board reporting

Our CR policy has been endorsed by the Board, who are updated on CR risks and opportunities by the Company Secretary.

Ethics

We are committed to conducting business in an honest and ethical manner. We act according to our Code of Ethics, which is integral to us and sets out a range of principles we adhere to. In particular, we do not tolerate bribery and corruption and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships. We enforce effective systems and processes to counter bribery and corruption and we continue to create new ways for employees to anonymously report any related concerns.

As a UK company, The Sage Group plc is bound by the laws of the UK, including the Bribery Act 2010, in respect of our conduct both at home and abroad. In addition, we will uphold all laws relevant to countering bribery and corruption in all the jurisdictions in which we operate.

As well as ensuring our own conduct is appropriate, we have also put in place procedures to prevent bribery being committed on our behalf by any associated persons, particularly in our subsidiaries, and third parties we work with. Our leaders sign a declaration relating to the Code of Ethics to ensure that any additional business commitments or client and supplier relationships they may have are clear and transparent.

Data protection

We take data security and privacy seriously. Customer data is handled sensitively, with respect, and in a way that complies, as a minimum, with the requirements of data protection laws in the countries in which we operate and, where appropriate, regional legislation. We also work with local legislative bodies and data protection agencies and continuously look to strengthen our systems and procedures.

Community

At Sage we feel a responsibility and are dedicated to the communities which surround us. Our people are heavily involved in volunteering and grant programmes.

In June we announced the Sage Foundation, which will extend this work, setting the benchmark for corporate philanthropy around the world. We want to give our people the tools and encouragement to go out and work with the organisations and causes they really care about. We want our people to bring their values and passions into work with them.

The Sage Foundation is built on a '2+2+2' model: donating 2% of employee time each year (five days), 2% of free cash flow* to fund the foundation and award of grants and two of Sage's smart technology product licences for charities, social enterprises or non-profit organisations. This model demonstrates Sage's commitment to philanthropic leadership in the FTSE 100 and is driven by Sage's ambition to connect its customers, colleagues and communities within an integrated model.

With tens of thousands of non-profit organisations as existing Sage customers, the Sage Foundation will enhance Sage's relationship with charity and social enterprise. Non-profit organisations will be able to apply for Sage One, Sage Live or X3 products, through the newly created donation programme.

The Sage Foundation will provide support to non-profit organisations and communities around the world by sharing the resources of Sage. We will help these organisations to create social impact by giving our time, money, expertise and technology. Sage is at the heart of millions of businesses around the globe who play a vital role in their communities. By partnering with the non-profit sector we will free organisations from operational complexity and enable them to run efficient, socially-driven organisations.

*The Sage Foundation will benefit from Sage revenues from the non-profit sector; notionally '2%' of free cash flow is equivalent to revenue gained from non-profit sector in FY14

THE SAGE FOUNDATION IS BUILT ON A MODEL OF

DONATING...

- 2% of employee time each year (five days),
- 2% of free cash flow* to fund the foundation and award as grants
- two of Sage's smart technology product licences for charities, social enterprises or non-profit organisations.

"It's fantastic to see Sage not only take up this mantle, but in doing so, set a new global benchmark for corporate philanthropy."

— **Baroness Martha Lane-Fox, Founder of digital charity Go ON UK and lastminute.com**

"At Sage we care and are committed to enhancing the lives of the less fortunate in a meaningful and sustainable way."

— **Ivan Epstein, Chairman of Sage Foundation and President, International**

SAGE RAISES \$30K FOR HURRICANE KATRINA SURVIVORS



Ten years after Hurricane Katrina, Sage staff rallied behind New Orleans Area Habitat for Humanity during our global Sage Summit in New Orleans. Sage staff sold \$15,000 worth of Mardi Gras beads. This sum was matched by the Sage Foundation, to donate a grand sum of \$30,000 to the organisation. Sage also committed to a global relationship with Habitat for Humanity, with Sage colleagues volunteering in their programmes around the world through the Sage Foundation.

"As a business leader, Sage knows the importance of safe and stable communities. The Sage investment in Habitat means that local families will continue to improve their lives and their neighbourhoods."

— **Jim Pate, Executive Director New Orleans Area Habitat for Humanity**

SAGE COLLEAGUES SLEEP OUT FOR BOYS & GIRLS TOWN

In South Africa, 135 of our colleagues slept under the stars, in the middle of the winter, in support of Daryl Blundell, General Manager, to help raise funds for him before he took part in the CEO Sleep Out on 18 June raising funds for Boys & Girls Town.

People

Our vision is to energise the success of business and communities around the world through the imagination of our people and smart technology. Our people are passionate about working at Sage, and we are passionate about creating an environment where talent is recognised and colleagues can exceed their potential. At the heart of our people strategy is the colleague experience, which is underpinned by the Sage Academy, a global learning and development platform which provides all our colleagues with the tools they need to be successful, drive their careers and, most importantly, empowers them to delight our customers.

Realigning our Guiding Principles – The Sage Values

In FY15 we introduced these values which underpin the way we do things.



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 over achieve.



DO THE RIGHT THING

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



INNOVATE

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



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.

Transforming the way we communicate

Sage Chatter has broken down geographical and hierarchical barriers to internal communication and has established itself as fundamental to driving a One Sage culture. From inception to global launch, Sage Chatter took just 60 days to implement. Built using the salesforce.com platform, Chatter is a global online communications portal which provides our colleagues with the ability to collaborate through sharing and generating best practice, ideas, building global relationships and sharing successes. Since its launch over 100,000 individual posts and comments have been added and over 1,500 groups created where colleagues can come together regardless of their location and communicate with one another about a specific topic.

Code of Conduct

In June 2015 we launched our first global code of Conduct to all colleagues. This policy sets out the business standards expected by Sage and provides a clear set of rules for all colleagues. Sage is building a great business the right way and every colleague should demonstrate the highest ethics. The code of conduct sets out clear standards of behaviour for everyone in our organisation.

Delivering high performance

Global performance management process will drive us towards our One Sage culture. It's crucial that we're aligned in assessing performance and through this drive a high performance culture globally. During FY15 we introduced a consistent global performance management process. For the first time we have a consistent way of measuring colleagues' outputs, which is vital to us in delivering high performance.

Recognising our people

To demonstrate our commitment to driving performance globally we have launched the 'Platinum Elite' incentive scheme. Platinum Elite was launched as an incentive to reward Sage's top sales performers. Top revenue generators and an additional 20 non-sales exceptional performers along with their partners will be invited to attend the trip of a lifetime to St Lucia in January 2016. Well established local recognition schemes such as the Sage Europe Awards and North America's Extraordinary Customer Experience Awards continue to appreciate the contributions of colleagues, and celebrate their successes.

Developing our people

On 1 July, Sage Academy was launched. Sage Academy is a global learning and development platform that supports colleagues in their career development and empowers them to win, delight and grow customers. Colleagues across the globe now have access 24/7 to:

Over 3,500 courses

The Sage Academy hosts a digitalised training platform offering high-quality learning content. Over 3,500 courses are available in English (as well as courses in Spanish, French and German) on everything from web development to time management. We have partnered with Lynda.com, a leading online learning platform, to provide all colleagues with 24/7 access to thousands of learning opportunities. During its first 48 hours almost 2,000 colleagues accessed the site, viewing 300 hours of videos.

The Discover Sage series

The Discover Sage video series introduces colleagues to Sage around the world and provides them with a global perspective on Sage, helping them to understand the diversity and scope of our business.

Sociable Day series

Sociable Day was the first global event delivered by the Sage Academy to promote the use of social media and make every Sage colleague an ambassador for our brand and our company via social platforms such as LinkedIn, Facebook and Twitter. The Sociable Day series is available in four parts and helps colleagues master social media. On 26 May, thousands of Sage colleagues took to social media as part of Sociable Day, achieving 5,000 Twitter mentions and 3.5 million impressions.

Access to English training programmes for all levels via GoFluent.com

GoFluent is an online centre for English training, available for all non-English speakers who wish to improve their language skills.

Five days for training

Internal studies conducted in early 2015 told us that the average time a colleague dedicated to learning and development activities was less than two days per year. To demonstrate our investment in training, we want to ensure all colleagues have at least five days per year dedicated to developing themselves. These days cover the learning a colleague undertakes as part of the Sage Academy as well as classroom training executed locally.

Sage Academy: "A foundation block...from leadership development to product training to all things that allow us to have the intellectual property and the tools for our people to be successful."

— Stephen Kelly, CEO

SAGE GLOBAL PEOPLE SURVEY

Conducted in
February

2015

11,990

returns
representing
a 90%
response rate

76%

of respondents
are proud to
work at Sage

70%

of our people
understand
our business
strategy

Diversity

Our stance on diversity remains focused on our people representing the nationalities and background of our customers. To support us in continuing to deliver on this commitment, next year will see the creation of a global diversity and inclusion strategy which will provide us with best in class policies and ways of working. Our ambition is to be recognised in the marketplace for our commitment to diversity and inclusion.

We continue to support the principles of The Davies Report on Women on Boards and in 2015 we made a commitment to ensure suitably qualified women are included on the shortlist for all global leadership vacancies.

We have also signed up to the UK Government Think, Act, Report initiative, meaning as well as promoting our reputation externally as an employer who is breaking down barriers to support women in the workplace, we'll also provide opportunities to input into discussions which will impact UK Government policy and legislation in this area.



Examples of some local gender-specific initiatives are the UKI's Women@Sage network and in International where the number of females in senior leadership roles has increased from none in 2014 to six in 2015. In Germany we have engaged with local schools to support 'girls' day' which provides female pupils with an insight into a career in information technology.

Talking Talent™ and our leadership pipeline

During FY15, 14 of our senior leaders have been promoted or have taken on additional responsibilities. We have also recruited 22 new hires externally into senior leadership roles as we strengthen our leadership capability. The focus on our leadership pipeline continues to be underpinned by our global talent management process 'Talking Talent', which assesses capabilities, and highlights strengths, risks and opportunities as well as targeted succession plans for key roles. We have made a number of high profile leadership promotions in FY15 including Brendan Flattery as President for Europe; Lee Perkins as EVP & MD for the UK; Luis Pardo as EVP & MD of Spain; Nancy Harris as EVP & MD for Canada; and Serge Masliah as EVP & MD for France.

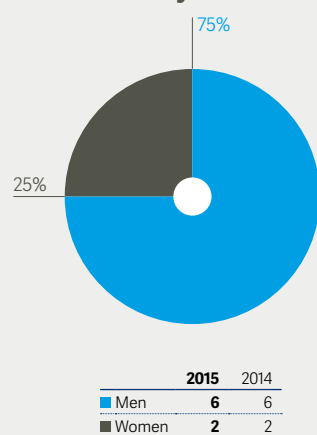
Local initiatives, such as Spain's 'Grow with Sage' programme, are in place to develop our high potential colleagues across most regions. Our focus in 2016 will be to introduce a global approach to developing the capability of our talent. In the UKI there are 50 career coaches in place to provide support and guidance to colleagues with aspirations to build their career at Sage.

DIVERSITY

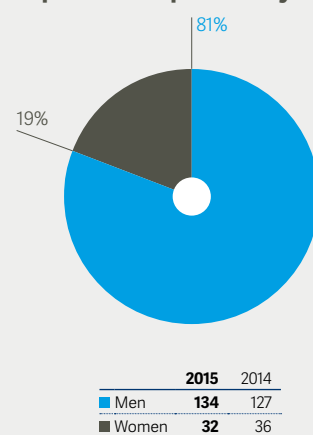
Year-end employee count split by region

	Europe	North America	International	Group and central operations	Total
2014	7,062	2,300	3,471	142	12,975
2015	7,050	2,181	3,641	190	13,062

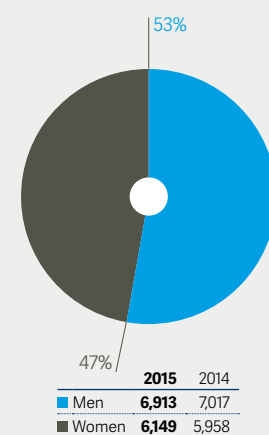
Board diversity



Top leadership diversity*



Total workforce diversity



* Top leadership includes the Sage Senior Management Team (top 100 leaders) plus any individual who is a company director of a group subsidiary.

Environment

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

Greenhouse gas emissions

This section includes our mandatory reporting of greenhouse gas emissions pursuant to the Companies Act 2006 (Strategic Report and Directors' Report Regulations 2013 (the "Regulations"). We include this reporting data here in order to provide a complete Corporate Responsibility picture.

Reporting period

Our reporting year is the same as our fiscal year, being 1 October 2014 to 30 September 2015. This greenhouse gas reporting year has been established to align with our financial reporting year.

Global Greenhouse Gas Emissions Data

For period 1 October 2014 to 30 September 2015

Emissions from:	Tonnes of CO ₂ Equivalent (CO ₂ e)	
	FY15	FY14
Combustion of fuel and operation of facilities	15,078	15,796
Electricity, heat, steam and cooling purchased for own use	10,887	9,238
Company's chosen intensity measurement:		
– Emissions reported above normalised to tonnes of CO ₂ e per total GBP£1,000,000 revenue	18.09	19.16

Organisation boundary and responsibility

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

We have reported on all material emission sources for which we deem ourselves responsible. These sources align with our operational control and financial control boundaries. We do not have responsibility for any emission sources that are beyond the boundary of our operational control. For example, business travel other than by car (including, for example, commercial flights) not within our operational control and, therefore, are not considered to be our responsibility.

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 Environment, Food & Rural Affairs ("DEFRA"). We are also using DEFRA's 2015 conversion factors within our reporting methodology. In some cases, we have extrapolated total emissions by utilising available information from part of a reporting period and extending it to apply to the full reporting year. For example, this has occurred where supplier invoices for the full reporting year were not available prior to the publication of this year's Annual Report & Accounts. For further details, our methodology document can be found at www.sage.com/company/about-sage/corporate-social-responsibility

Scope of Reported Emissions

Emissions data has been reported for all the Group's operations in Australia, Austria, Belgium, Brazil, France, Germany, Ireland, Malaysia, Morocco, North America, Poland, Portugal, Singapore, South Africa, Spain, Switzerland, the United Arab Emirates and the UK.

The emissions that have not been included in this year's report relate to building usage in our operations in Belgium and the United Arab Emirates, where energy usage is not itemised on invoices. We have also not included emissions derived from refrigerant gas usage in relation to our operations in Belgium, Singapore and the United Arab Emirates as this information has not been gathered throughout the 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.

Baseline for 2015 targets

The 2013 data forms the baseline data for subsequent periods.

Carbon Disclosure Project

We once again took part in this project during the year under review by reporting our gas (scope 1) and electricity (scope 2) emissions for the financial year ended 30 September 2015. Whilst we do use the GHG Protocol methodology to measure our GHG emissions we welcome the revised treatment of purchased electricity to provide greater clarity over purchased green and low carbon electricity. As market based residual factors are not yet released by DEFRA, it is not currently possible to calculate a market based purchased electricity emissions value, however we intend to calculate and report within our 2016 CDP submission, where residual factors are made available by DEFRA.

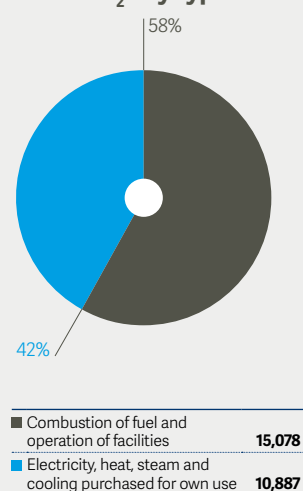
Reducing carbon and waste

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

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

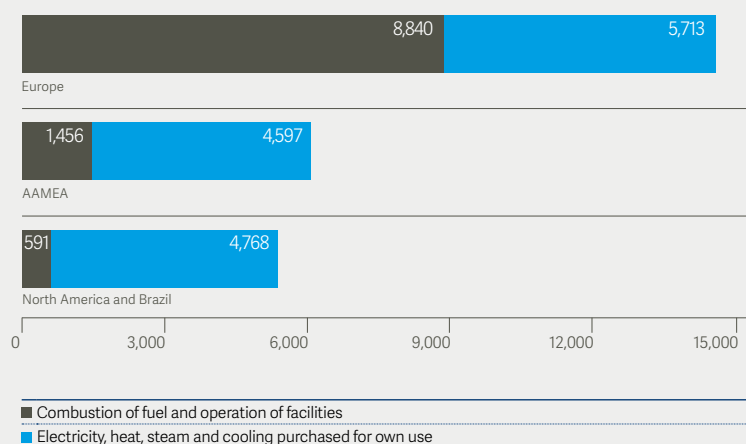
CARBON EMISSIONS

Total CO₂e by type



Sum of CO₂e

(tonnes)



Championing Business

We believe in doing business the right way. Small & Medium Businesses are the lifeblood of economies around the world. Despite their contribution to the global economy, we know that small businesses can struggle to be heard by those debating and deciding the policy issues that affect them. Wherever possible, we campaign to improve the business environment for our customers.

Time to pay fair

Small businesses continue to be affected by late payments. Our latest research from canvassing over 300 small business owners in the UK this year, showed that more than two thirds of firms (68%) have to wait for 60 days or more for payment in 2015 and more than half are having to wait for over 90 days to receive the money they are owed. We have launched a Late Payments Manifesto and an e-petition to raise awareness of the issue. At the heart of our campaign is a deeply held belief that all people and businesses should adhere to 30 day payment terms.

END LATE PAYMENTS

It's time to pay fair
Commit to 30 day payment terms
It starts with a signature

Supporting women in business

We are proud sponsors of the Women's Leadership Exchange ("WLE") in the US which offers conferences for women business owners to connect them with a network of advisers, business experts and corporate leaders. The WLE mission is to provide the knowledge, the tools and the connections women need to be successful in their own businesses. Jennifer Warawa, Global VP Product Marketing for the Accountants channel, spoke at the Boston WLE Summit in September 2015, offering her perspective as a successful leader within Sage.

Raising awareness for entrepreneurs

We are a founding member of the campaign lobbying to have National Entrepreneurs Day nationally recognised in Canada. Far more than just a celebration, we want to promote widespread awareness by harnessing partnerships with innovation centres, corporations, accelerators, schools, government, and in the media to support small businesses.

Supporting entrepreneurs

We sponsored Web Summit 2015, the annual technology conference event hosted this year in Dublin that brings together established tech companies, exciting start-ups and investors all under one roof. Over 30,000 people from 100 countries attended across the three day schedule which included 700 speakers and 1,500 journalists.

We supported the MentorHours program where Stephen Kelly and other executives fielded one to one meetings with small business owners, offering advice on running and managing their businesses.



Directors' approval of strategic report

Our 2015 Strategic report, from page 2 to page 57, has been reviewed and approved by the Board of Directors on 2 December 2015.

A handwritten signature in white ink on a dark blue background. The signature is stylized, with a large 'S' and 'H' followed by a cursive 'n'.

Steve Hare
Chief Financial Officer

Sound governance is integral to Sage achieving its ambition



Compliance with the UK Corporate Governance Code 2014 ("the Code") and its statement requirements

Throughout the financial year ended 30 September 2015 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.

DEAR SHAREHOLDERS,

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

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

It also involves the exercise of judgement as to the definitions of success for the Company, the levels of risk we are willing to take to achieve that success and the levels of delegation to the executive. The exercise of this judgement is the responsibility of the Board and involves consideration of processes and assumptions as well as outcomes.

It also involves the creation of a sensitive interface for the views of shareholders and other stakeholders to be given appropriate consideration when reaching these judgements.

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

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

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

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

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

A handwritten signature in dark ink, which appears to read 'D. Brydon'.

Donald Brydon, CBE
Chairman

Knowledge and experience

Donald Brydon (70)



Chairman

Appointed to the Board:
6 July 2012

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 also recently chaired the London Metal Exchange, Amersham plc, Taylor Nelson Sofres plc, the ifs School of Finance, Smiths Group plc and is a past Chairman of EveryChild. Donald has also served as Senior Independent Director of Allied Domecq plc and Scottish Power plc. On 19 June 2015 he became a director of the London Stock Exchange plc, becoming Chairman of the Board on 1 July 2015. Donald was, until 1 September 2015, the Chairman of Royal Mail plc.

Other current appointments:

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

Board Committees:

- Nomination Committee (Chairman)
- Remuneration Committee

Stephen Kelly (53)



Chief Executive Officer – Executive Director

Appointed to the Board:
5 November 2014

Experience:

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

Stephen has been an angel investor and director in a number of high growth start-ups (including Deloitte UK Technology Fast 50 Award winners).

Steve Hare (54)



Chief Financial Officer – Executive Director

Appointed to the Board:
3 January 2014

Experience:

Prior to joining Sage, 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 qualified as a Chartered Accountant in 1985 with Ernst & Whinney, now part of Ernst & Young.

Ruth Markland (62)



Senior Independent Non-executive Director

Appointed to the Board:
13 September 2006

Experience:

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

Other current appointments:

- Deloitte LLP – Independent Non-executive board member
- Standard Chartered plc – Senior Independent Non-executive Director
- Arcadis NV – member of the Supervisory Board

Board Committees:

- Audit and Risk Committee
- Nomination Committee
- Remuneration Committee

Changes to the Board

In the financial year to 30 September 2015 and to the date of this report, there have been the following changes to the Board of Directors:

Executive directors

Guy Berruyer	CEO	Retired 5 November 2014
Stephen Kelly	CEO	Appointed on 5 November 2014

Inna Kuznetsova (47)

*Independent
Non-executive Director*

Appointed to the Board:
6 March 2014

Experience:

Inna is former Chief Commercial Officer and Executive Board member at CEVA Logistics, where she worked from 2012 until 2014. Prior to joining CEVA, Inna spent 19 years at IBM, where she held a number of different roles focusing on building and running strong organisations in sales, business development and marketing, culminating as Vice-President, Marketing & Sales Enablement, IBM Systems Software and ISVs.

Other current appointments:

- INTTRA – President, INTTRA Marketplace

Board Committees:

- Audit and Risk Committee
- Nomination Committee
- Remuneration Committee

Jonathan Howell (53)

*Independent
Non-executive Director*

Appointed to the Board:
15 May 2013

Experience:

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

Other current appointments:

- Close Brothers Group plc – Group Finance Director

Board Committees:

- Audit and Risk Committee (Chairman)
- Nomination Committee
- Remuneration Committee

Neil Berkett (60)

*Independent
Non-executive Director*

Appointed to the Board:
5 July 2013

Experience:

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

Other current appointments:

- Guardian Media Group – Chairman
- Bank of Queensland Ltd – Non-executive Director
- NSPCC – member of the Board of Trustees

Board Committees:

- Audit and Risk Committee
- Nomination Committee
- Remuneration Committee

Drummond Hall (66)

*Independent
Non-executive Director*

Appointed to the Board:
1 January 2014

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 PepsiCo. Drummond was a non-executive director of Mitchells & Butlers plc from July 2004 to January 2010 and Chairman from June 2008 to November 2009.

Other current appointments:

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

Board Committees:

- Audit and Risk Committee
- Nomination Committee
- Remuneration Committee (Chairman)

Executive Committee



From left to right:

Brendan Flattery, Santiago Solanas, Anna Campopiano, Steve Hare, Stephen Kelly, Ivan Epstein, Sandra Campopiano, Klaus-Michael Vogelberg, Michael Robinson, Marc Scheipe

Stephen Kelly (53)

Chief Executive Officer, Board of Directors

For Stephen Kelly's skills and experience see page 60.

Steve Hare (54)

Chief Financial Officer, Board of Directors

For Steve Hare's skills and experience see page 60.

Sandra Campopiano (57)

Chief People Officer

Based: UK

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

Klaus-Michael Vogelberg (50)

Chief Technology Officer

Based: UK

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

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

Santiago Solanas (47)*Chief Marketing Officer*

Based: Spain

Experience: Santiago was appointed Chief Marketing Officer in September 2014. He joined Sage in 2007 to lead the Start-up and Small Business Division in Spain and was appointed Chief Executive Officer of Sage Spain in 2010. During this time he renewed the leadership team, increasing the efficiency of the business and returning it to growth, as well as leading the Accountants Segment in Europe. He recently led the roll-out of Sage's brand campaign across Europe. Prior to Sage, Santiago spent 20 years working in the IT and software industry, across the globe, in sales, marketing and management roles at IBM, Microsoft and Oracle, where he was responsible for the co-ordination and leadership of the technology business in the SMB market in Europe as Senior Director SMB Program Office EMEA. Santiago has also spent 4 years in two technology start-ups backed by Telefonica and Santander. Santiago is an active supporter of SMEs. He is a mentor for women in business and start-ups, and speaks at a number of SME forums in Spain. He holds an MSc. in Telecommunications Engineering from the Polytechnic University of Madrid (UPM) and also attended the Harvard Business School Advanced Management Program.

Anna Campopiano (52)*Interim Chief Communications Officer*

Based: UK

Experience: Anna joined Sage in October 2015 as Interim Chief Communications Officer. She is responsible for all aspects of the Company's communications to colleagues and external stakeholders. Anna, who has an Honours Degree in Economics from the University of Manchester and an MBA, joined Sage from Thomas Cook Group where she was Group Head of Central Communications for the last three years.

Anna has considerable experience in strategic communications during organizational restructurings and is a fellow of the RSA. Her previous experience includes working for a private equity backed technology solutions provider, Vertex, and she was Director of Corporate Affairs at The London Metal Exchange for four years.

Marc Scheipe (47)*Interim President, Sage North America*

Based: US

Experience: Marc serves as Interim President and CFO for Sage North America. Marc is an accomplished business leader, with more than 20 years of financial services experience focused on financial management, strategy development, process improvement and sales/operations leadership. From holding leadership positions at large financial institutions to owning and running a small business, Marc has served in a broad spectrum of roles. Throughout his career, he has worked extensively with small businesses and entrepreneurs, and brings a unique perspective to his role at Sage. Marc is a distinguished graduate of the U.S. Naval Academy and earned his MBA from Harvard Business School. While in the Navy, he attained the rank of lieutenant commander and held various roles in operations, training, and maintenance.

Brendan Flattery (51)*President, Europe*

Based: UK

Experience: In his current role as President, Sage Europe, Brendan is responsible for leading Sage's European business and he has over 25 years' experience across public and private companies in a variety of industries. Brendan has first-hand experience of being involved in a small business. An entrepreneur at heart, he served as Managing Director of two venture capitalist backed IT businesses, and also successfully ran his own small business before joining Sage in 2003 as Managing Director of Sage UK Accountants Segment. Brendan has worked in every segment of the UKI business before being appointed CEO of Sage UK and Ireland in 2011 in a role which saw him take a strategic lead for the European Start-up and Small Business Segment, Sage Pay and Sage One globally. Brendan is passionate about supporting people's success, both within the business and for the SMEs we work with. He is a vocal supporter of SMEs and has campaigned to close the mentoring gap in the UK and Ireland since 2013. Brendan graduated from Aberystwyth University and qualified as a chartered accountant with KPMG.

Ivan Epstein (55)*President, International*

Based: South Africa

Experience: Ivan leads Sage's businesses across Australia, Africa, the Middle East, Asia and Latin America, which include some of Sage's highest growth countries. Starting his career at Price Waterhouse, Ivan then co-founded Softline in 1988, leading it from start-up to a listing on the Johannesburg Stock Exchange in 1997. Softline was delisted and acquired by Sage in 2003, when Ivan joined the Executive Committee as CEO of the Southern Hemisphere, becoming CEO of AAMEA in 2010. Amongst his accomplishments, Ivan has been awarded the Ernst & Young "South Africa's Best Entrepreneur" accolade in 1999/2000 in recognition of his entrepreneurial attributes and contribution to South African business. He was also awarded the Computer Society South Africa "IT Personality of the Year" accolade in 2009 for his contribution to the IT sector.

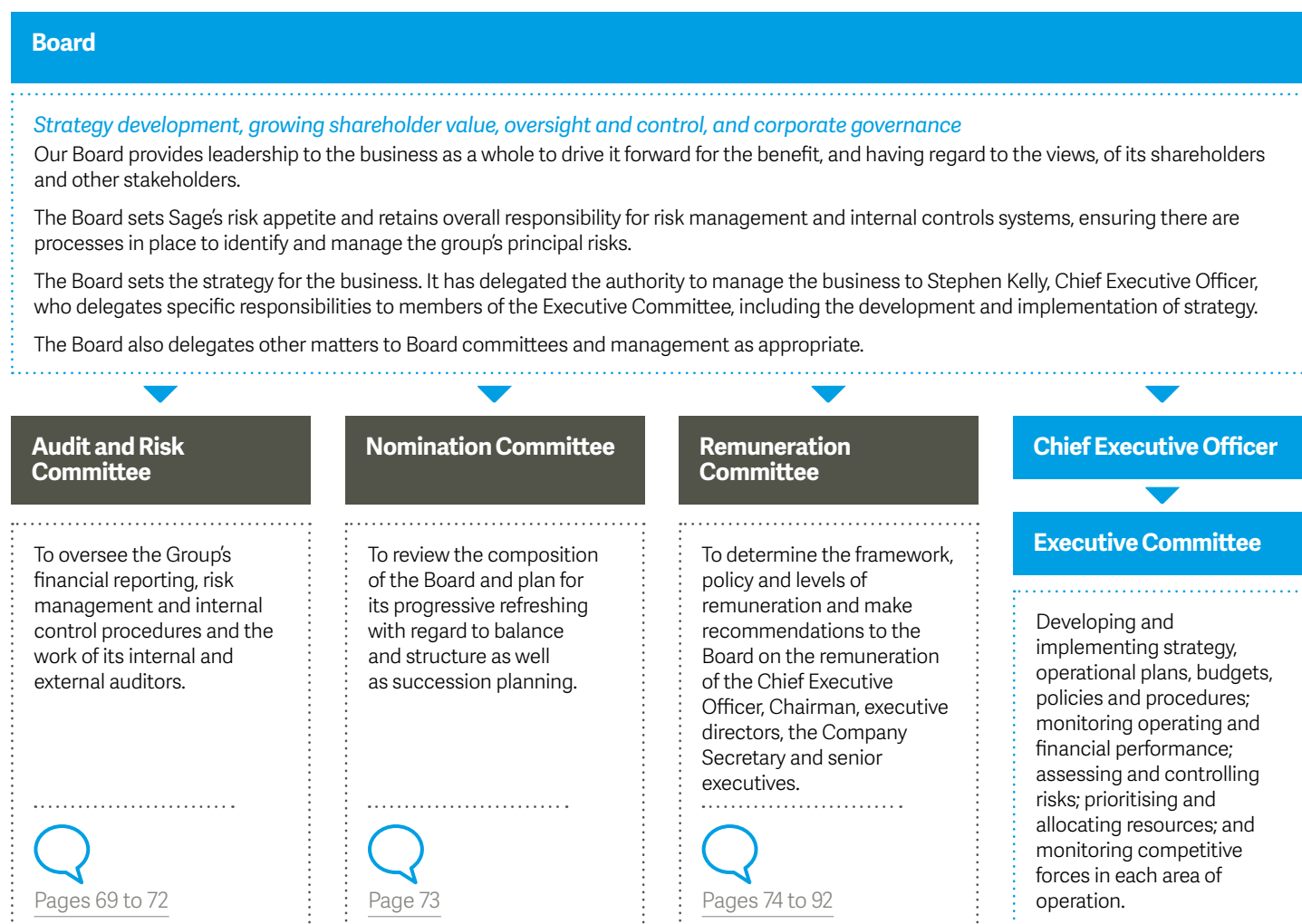
Michael Robinson (54)*Company Secretary and Group Legal Director*

Based: UK

Experience: Michael joined Sage in 2002 as Company Secretary and Group Legal Director. After reading Law at Oxford, Michael qualified as a solicitor and spent 15 years at one of the UK's largest law firms.

Our Governance framework

The role of the Board and its committees



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

The Board and each committee are satisfied that they receive sufficient, reliable and timely information in advance of meetings and are provided with all necessary resources and expertise to enable them to fulfil their responsibilities and undertake their duties in an effective manner. The Board has formally adopted a schedule of matters reserved for its decision. This schedule is reviewed periodically, was last reviewed on 28 September 2015 and is available via our website.

Board and Committee meetings and attendance

Director	Board	Audit and Risk Committee	Nomination Committee	Remuneration Committee
Donald Brydon	6/6	–	2/2	7/7
Stephen Kelly	6/6	–	–	–
Steve Hare	6/6	–	–	–
Ruth Markland	6/6	4/4	2/2	6/7
Drummond Hall	6/6	4/4	2/2	6/7
Jonathan Howell	6/6	4/4	2/2	7/7
Neil Berkett	6/6	4/4	2/2	6/7
Inna Kuznetsova	6/6	4/4	2/2	6/7

Board roles

Chairman

Responsible for leading the Board, its effectiveness and governance

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

To ensure a proper dialogue with directors, the Chairman holds meetings with the non-executive directors without the executive directors to assess their views. In addition, the non-executive directors have met without the Chairman present to appraise the Chairman's performance. These meetings without the Chairman are chaired by the Senior Independent Director.

The Chairman also ensures 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.

Chief Executive Officer

Responsible for the formulation of strategy and running of the Group

The responsibilities of the Chief Executive Officer include:

- the design, development and agreement of strategy with the Board
- implementation of the strategy and policy and the running of the Group
- managing the overall performance of Sage, concentrating on revenue and profitability as well as capital expenditure

The Chief Executive Officer also identifies acquisitions and monitors competitive forces, as well as ensuring an effective and motivated leadership team.

The Chief Executive Officer chairs the Executive Committee and maintains a close working relationship with the Chairman.

Senior Independent Director

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

The role of Senior Independent Director is:

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

The Senior Independent Director is available to consult with shareholders.

Company Secretary

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

The Company Secretary is available to all directors to provide advice and assistance, and is responsible for providing governance advice to the Board.

The Company Secretary ensures Board procedures are complied with, that applicable rules and regulations are followed and acts as secretary to the Board and all of the committees. Minutes of all meetings are circulated to all directors. He facilitates the induction of new directors and assists with professional development as required.

The appointment and removal of the Company Secretary is a matter for the Board as a whole.

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 at www.sage.com.

Focus of the Board for the year

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

In particular, in response to continued external changes discussed in the strategic report, time has been spent considering:

- Our evolving strategy as discussed at our capital markets day
- Our global products including our strategy around these
- Our payments businesses and our strategy around these businesses
- The areas of risk across our businesses

Actions taken to minimise the principal risks faced by Sage, as described on pages 36 to 43, have also been regularly discussed and the Board has looked at succession issues, particularly in light of recent and on-going changes within our executive teams.

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

Board composition

The Board is made up of the Chairman, Chief Executive Officer, Chief Financial Officer and five independent non-executive directors. The directors have a range of experience and can bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct. This experience and judgement is considered vital to our success. It is the balance of skills, experience, independence and knowledge of those directors which ensures the duties and responsibilities of the Board and its committees are discharged effectively.

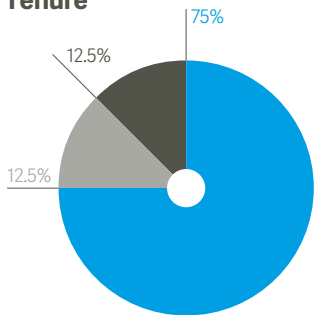
The Board monitors the independence of its non-executive directors, particularly those who have given long service. Having reviewed the current Board, the non-executive directors are all considered to be independent. Donald Brydon was considered independent at the date of his appointment.

Ms Ruth Markland completed nine years of service on the Board in September 2015. Her experience as the longest serving Board member provides valuable insight, knowledge and continuity. Having considered Ms Markland's independent focus on the issues which the Board addresses as evidenced by her contributions at Board meetings, the Board unanimously considers that Ms Markland continues to be independent.

During the year, Donald Brydon retired from his role as chairman of the Royal Mail plc and became chairman of the London Stock Exchange plc. Taking into account these changes, the Board considers Mr Brydon has appropriate time and resource to devote to his role as chairman of Sage.

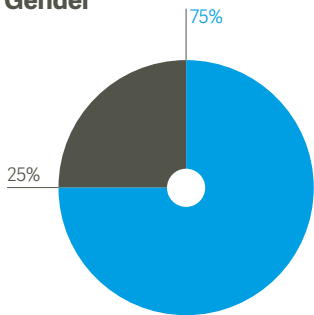
All directors are subject to election or re-election by shareholders at each Annual General Meeting.

Tenure



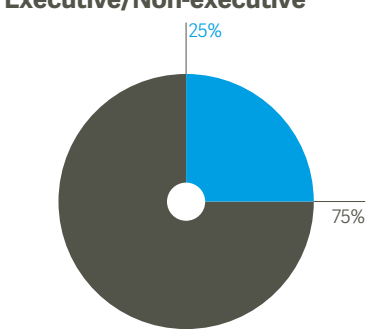
2015	
0 - 2 years	75%
3 - 6 years	12.5%
7 - 9 years	12.5%

Gender



2015	
Male	75%
Female	25%

Executive/Non-executive



2015	
Executive	25%
Non-executive	75%

Diversity

The Board has due regard for the benefits of diversity in its membership, and strives to maintain the right diversity balance. 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.

Sage continues to support the aims and objectives of The Davies Report on Women on Boards. The Board, as at the date of this Annual Report & Accounts, comprises 25% women (2014: 25%). The Board must continue to provide strong leadership at Sage, and, therefore, continues to appoint only the most appropriate candidates to the Board.

Whilst applying this policy in the Group, no measurable objectives have been set. Further details of our policies in this area are set out on page 54.

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 effectiveness

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

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

In order to increase their knowledge of the business and expand their contacts with executives around the Group, the non-executive directors regularly visit the operating companies around the world to meet with senior executives and to be briefed on the particular issues faced by the business in that region. All of the Board attended the Summit Conference held by the Group in New Orleans in July 2015, the largest convention for small businesses around the world, at which they met customers and prospective customers, Sage employees and other stakeholders from the 64 countries represented at the convention. A number of directors also attended the Capital Markets Day in London in June 2015 at which they met many investors in the Group and were able to discuss with them the Group's strategy.

Performance evaluation

The Board recognises the importance of reviewing its practices and performance on a regular basis and has evaluated its performance and that of its committees and individual members. In the past, the Board evaluated its performance in a number of different ways including detailed questionnaires and discussions between individual directors and the Chairman. In the previous financial year, the Board used an independent third party. This financial year, the Chairman undertook the evaluation through a detailed questionnaire which each director completed relating to the Board, its role and the interaction of its members. This questionnaire was then used as the basis for individual interviews with each director.

The results and outcomes of the review were discussed by the Board as a whole. Key topics during these discussions included Board composition, diversity including gender diversity, the frequency and content of Board meetings and the supporting documentation, and succession. As a result, new Board objectives have been set, taking into account the findings from the review. In addition to the Board review, the Chairman's performance was evaluated by the Senior Independent Director through correspondence and discussion with the Chairman and the other directors and was found to be effective. The Board was of the view that, noting the changes in his role outside of Sage, he continued to devote the appropriate time to his role as an effective chairman.

Induction and professional development

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

During the year, Stephen Kelly received such an induction, which included:

- A full day meeting a team of our senior executives at a Group and operating company level
- Visits to our business in the US and meetings with the heads of the European business
- Bespoke training as deemed necessary based on individual needs

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

Board meetings are held at our operating companies both inside and outside the UK. Non-executive directors also visit our overseas operations on a regular basis. This provides the Board and individual non-executive directors with the opportunity to broaden their understanding of Sage and the key markets in which we operate.

Risk management and internal controls

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

- there is an on-going 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
- the systems accord with the FRC guidance on risk management, internal control and related financial and business reporting.

During 2015 the Board has directly, and through delegated authority to the Executive Committee and Audit and Risk Committee, overseen and reviewed the performance and evolution of risk management activities and practices and internal control systems within Sage. Through both its on-going involvement and overview in risk management and internal control activities, the Board is satisfied that the risk management and internal controls systems in place remain effective.

The Board continues to support the on-going development of risk management and internal controls to ensure that they remain effective as the business continues to evolve under the Sage 2020 Strategy. Details can be found in both the Audit and Risk Committee section of this report on pages 69-72 and the Balancing Risks and Rewards section on pages 36-43.

Corporate governance report continued

Whistleblowing

A whistleblowing telephone hotline service operates in all of our operating companies, allowing employees to raise concerns in relation to dishonesty or malpractice on an entirely confidential basis. The Audit and Risk Committee receives regular reports on any matters raised through these services and monitors the use throughout the Group.

Quality and integrity of personnel

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

Management structure

A clearly defined organisational structure exists within which individual responsibilities are identified and can be monitored. The management of the Group as a whole is delegated to the Chief Executive Officer and the Executive Committee, as discussed on page 64. Within the Group team there are a number of central administrative functions such as Group Treasury, Corporate Communications and Group Legal. These functions report to the Board through its executive members and the members of the Executive Committee.

A number of Group-wide policies, issued and administered centrally, have been set to ensure compliance with key governance standards. These policies cover areas such as finance, data protection and mergers and acquisitions. The conduct of Sage's individual businesses is delegated to the local executive management teams. Details of the authority delegated to local and regional management are set out in a delegation of authority matrix which is communicated to management throughout Sage. These teams are accountable for the conduct and performance of their businesses within the agreed business strategy.

Budgetary process

A comprehensive budgeting system is in place, with annual budgets for all operating companies being approved by respective local boards. Subsequently the combined budget is subject to consideration and approval by the Board. Management information systems provide the directors with relevant and timely information required to monitor financial performance.

Investment appraisal (including acquisitions)

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

Monitoring and review

There are processes in place to monitor the system of internal controls and to report any significant control failings or weaknesses and planned mitigating actions. These processes include:

- On an on-going basis, the Sage operating companies certify that Sage's policy requirements have been received and understood
- Management representations covering compliance with relevant policies and the accuracy of financial information are collated on an annual basis

Internal Audit

Internal Audit activities are provided by an in-house team supplemented under co-source agreements by third-party providers. The role of Head of Internal Audit is undertaken by the Group Risk and Assurance Director who has a direct reporting line to the Audit and Risk Committee and its Chairman in order to ensure independence.

Internal Audit's role is to advise management and the Board on the extent to which systems of risk management and internal controls are effective.

More information on Internal Audit is set out within the Audit and Risk Committee section on page 72.

Relations with shareholders

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

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

In addition, during this financial year, on 24 June 2015 Sage held a Capital Markets Day for investors during which we outlined our future strategy and operational implementation plans, as well as our ambition for the future. A suite of key performance indicators was also provided, on which the success of the business in the future will be judged. For more details please see the discussion on page 28.

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 Director's report are:

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

By order of the Board

M J Robinson
Company Secretary

2 December 2015

Audit and Risk Committee



"Our priority is ensuring that the highest standards of governance are maintained across all areas of the business."

— Jonathan Howell
Chairman of the Audit and Risk Committee

Audit and Risk Committee Membership:

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

Dear Shareholder

I am pleased to present the 2015 report of the Audit and Risk Committee ("the Committee").

The Committee has amongst its responsibilities the role of supporting the Board in setting the Group's risk appetite and ensuring that there are processes in place to identify and manage the Group's principal risks. This has been an area of focus for 2015, which has been a year of significant change as the Group begins its journey of transition from a set of federated businesses, into a globalised, integrated Group with standardised processes, controls and support functions. In addition to this, the revised reporting requirements of the Financial Reporting Council ("FRC") have provided the Committee with much to consider in ensuring the on-going effectiveness of internal controls, financial and business reporting, risk assessment, systems and management, going concern and viability.

In responding to these challenges during 2015, the Committee reviewed all principal risks and associated appetite statements and metrics at each meeting, ensuring these evolved and were aligned to the achievement of Sage's strategic objectives, and assessed the adequacy of controls and the assurance delivered over these identified risks. It monitored the effectiveness of the control environment through the review of reports from Internal Audit, management and the external auditor, and ensured the quality of our financial reporting through review of the interim financial statements and the 2015 Annual Report and Accounts.

Composition

The Committee is an essential element of Sage's governance framework, to which the Board has delegated oversight of Sage's financial reporting, risk management and internal control procedures, and the work of Internal Audit and the external auditor.

The five members of the Audit and Risk Committee are all independent non-executive directors with a wide range of relevant business experience, and have the expertise necessary to meet the Committee's responsibilities which are defined in its terms of reference. An overview of the knowledge and experience of each of the five Committee members can be found on pages 60 and 61 of this report.

The Code requires that the Committee has at least one member with recent and relevant financial experience, and the Board is satisfied that the Chairman meets these requirements, being a qualified chartered accountant and the Group Finance Director at Close Brothers Group plc.

The Committee met four times over the course of the year, in line with its terms of reference. All Committee members attended every meeting, and were joined at each meeting by the Chairman of the Board, the Chief Executive Officer and the Chief Financial Officer. The Chairman reports to the Board on key matters arising after each of these meetings. At each meeting, the Committee normally meets with the external auditor and the Group Risk and Assurance Director without management being present.

Outside these formal meetings, the Chairman meets on a regular basis with the Chief Financial Officer, the external auditor, the Group Risk and Assurance Director and the Group Financial Controller. The Chairman and other Committee members have also met with finance colleagues around the Group during country visits. Additionally, the Chairman has an open invitation to attend any meeting of the Global Risk Committee or Regional Risk Committees.

Activities during the year

During 2015, the Committee has been focused on a number of areas across financial reporting, risk management, internal controls and assurance ensuring that the controls environment has been appropriately considered as the Group moves from a federated governance framework to the global governance framework needed to support our growth ambition.

Financial Reporting

In respect of financial reporting, the Committee reviewed the interim and annual financial statements and considered the significant accounting and reporting matters set out below. In addition, the Committee reviewed management's response to the constructive enquiry received from the FRC, which is now closed, in respect of the Group's 2014 Annual Report and Accounts and the resulting improvements to disclosure.

Corporate governance report continued

Audit and Risk Committee continued

In performing its review, the Committee considered the work, judgements and conclusions of the global finance team and received reports from the external auditor setting out its view on the accounting treatments included in the financial statements, based on a review of the interim financial statements and audit of the annual financial statements. This review included assessing the appropriateness of the accounting policies and practices, compliance with external financial reporting standards and relevant statutory requirements, and reviewing the adequacy of disclosures in the financial statements.

The Committee was also requested by the Board to review and advise the Board on whether the Annual Report and Accounts taken as a

whole are fair, balanced and understandable and provide the information necessary for shareholders to assess Sage's position and performance, business model and strategy. As part of this responsibility, the Committee has suggested improvements to, and reviewed the results of processes put in place by management to provide the necessary assurance including analyses of how the key events of the year have been described in the Annual Report. The Committee also received representations from management, the output of a review of the Strategic Report section of the Annual Report by Internal Audit and considered the perspective of the external auditor.

Significant accounting and reporting matters

Matter considered

Action

Revenue Recognition

The Group sells its products in many different ways across the globe. Ensuring that the Group's revenue recognition policies are both appropriate and consistently applied is a key focus of the Committee with the transition in business model to selling software as a service and the increased focus on recurring revenue. Consequently, the Committee requested that management undertake a detailed review of the accounting practices for revenue recognition across the Group.

The review performed by management covered the revenue accounting for all significant products in the major territories across the Group, focussed on the timing of revenue recognition, and the treatment of amounts paid to various business partners of the Group which are deducted from revenue.

The Committee reviewed management's report outlining conclusions from its review and:

- reviewed the nature and scope of the revenue recognition exercise undertaken by management
- reviewed and discussed with management the findings and conclusions arising from this exercise
- considered with management the accounting adjustments and related disclosures in the 2015 Group financial statements

As set out in note 1 to the financial statements, the revenue recognition exercise led to a change in the application of the Group's accounting policy in two areas:

- the treatment of payments to independent sales organisations who refer customers to the Group's payments business
- the re-phasing of the upfront revenue received in relation to products where software does not function fully without the customer making on-going payments

The Committee also considered the external auditor findings and reporting on this matter.

Goodwill impairment testing

Goodwill is an area of focus for the Committee given the materiality of the Group's goodwill balances, the evolution of Sage's business model and the impairment of goodwill in 2014 relating to the business in Brazil.

In addition, judgements and assumptions are applied in calculating the recoverable amount of the Cash Generating Units ("CGUs") and determining the on-going appropriateness of the CGUs being used for the purpose of impairment testing.

The Committee reviewed and considered a detailed report from management on the work undertaken and the assessments made in relation to the impairment testing of goodwill. The report considered the determination of CGUs, the future performance expectations of the businesses concerned and the discount rates applied to future cash flow forecasts.

The Committee also reviewed the assumptions underpinning the impairment of the goodwill relating to the business in Brazil. The Committee reviewed and discussed the sensitivity analysis performed by management and discussed the impact of the macroeconomic environment in Brazil and its impact on the cost of capital assumptions used. This included taking into consideration the views of external audit and its valuations specialists.

More information on goodwill impairment is set out in note 1 to the financial statement.

Viability

Recent revisions to the UK Corporate Governance Code introduced a new requirement for the Board to consider the period over which they are able to conclude that the Company will remain viable, having taken into account severe but plausible risks and risk combinations. On account of this being a new requirement, the Committee considered this to be a significant reporting matter.

The Committee spent time, at two meetings, reviewing the process undertaken by management to support and allow the Directors to make the Group's viability statement. At its September meeting the Committee considered and provided input into the determination of which of the Group's principal risks and combinations thereof might have an impact on the group's liquidity and solvency. At its November meeting, the Committee reviewed the results of management's scenario modelling and the reverse stress testing of these models.

The Group's approach to producing its viability statement can be found on page 43, with the viability statement found on page 93.

Tax provisions

The Group recognises certain provisions and accruals in respect of tax which involves a degree of estimation and uncertainty for certain items whose tax treatment cannot be finally determined until a resolution has been reached with the relevant tax authority.

The Committee requested and received a report from management detailing the key uncertain tax exposures across the Group against which provisions had been made and the methodologies used to determine the appropriate level of each provision based on management's assessment of the facts and circumstances and advice from our external tax advisers. The Committee also received a report during the year from the Group Tax Director on the Group's tax policy, approach to tax management and status of compliance.

A particular focus of the Committee was on the recognition of deferred tax assets and in considering management's position, the Committee took into account the work and views of external audit.

More information on tax and tax provisions is set out in note 1 to the financial statements.

Our priorities for 2016 include:

- Overseeing the effective operation of the Global and Regional Risk Committees, as they continue to embed risk management across 'One Sage'
- Monitoring progress of the 'Excellence in Governance' initiative as it continues to align the group's governance framework in support of our growth ambition
- Promoting a strong compliance and control based culture, and supporting management as they build capacity and capability across 'One Sage'

Risk management and internal controls

The role of the Committee is to assist the Board in matters of risk management and internal control.

The Committee, on behalf of the Board, monitors and reviews the effectiveness of risk management systems and related internal controls to ensure that issues that have arisen are properly dealt with, ensuring that corrective action is taken where necessary, and that going forward the systems are fit for purpose. During the year, the Committee:

- Reviewed the principal risks, their risk appetites and metrics, and challenged their alignment to the achievement of the Sage 2020 strategic objectives. The Committee's review considered management actions and mitigations in place and planned, to address these risks
- Considered the formal output from the Global Risk Committee since its first meeting in August 2015
- Reviewed reports from Global Risk on targeted in-depth reviews on selected principal risks as outlined on page 38
- Reviewed and approved updates to global policies for which the Committee is responsible
- Reviewed Internal Audit and management reports on financial, compliance and operational risk matters
- Reviewed and monitored the implementation of management actions to address identified control weakness and improvements
- Considered cases of fraud and identified control issues to assess whether they are significant or demonstrate material weaknesses in internal controls
- Assessed the effectiveness of Internal Audit through an external review as outlined in this report
- Reviewed reports from the external auditor on the Group's financial reporting and internal financial control environment, and any issues identified in the course of their work, including observations on controls and control weaknesses, and ensured that there is an appropriate response from management

At each of the Committee's meetings an agenda item is reserved for relevant, current and important issues. The Committee uses these sessions to receive detailed briefings on specific areas of the business, and to further their understanding of the risks associated with them. During 2015 the Committee received briefings on the Finance Change Project which aims to improve the capability and capacity of the Global Finance function, the North American Business Financial Controls, and an update against our 2020 Strategy. The Committee also considered the evolution of our approach to risk management, internal controls in our North American payments business and our Excellence in Governance initiative.

The establishment of the Global and Regional Risk Committees during the year has enhanced the governance around risk management, to support the robust framework that enables the Committee and the Board to evaluate on an on-going basis the risk profile of the Group and adapt its focus in response to any changes to the risk profile. The Chairman of the Committee has an open invitation to attend the Global Risk Committee meetings or any of the Regional Risk Committee meetings. These structures support the transition of the business to 'One Sage', and embed consistent risk management activities across the business. Further detail on these committees is set out on page 37.

To support these governance enhancements, Sage continues to develop its risk management team and capability in order to further integrate its practices into business activities and to allow it to guide, support and challenge the business in support of its intended growth and strategy.

Fraud and whistleblowing

Another important component of the Group's control environment are its Whistleblowing arrangements, under which the Committee is notified of any matters raised through these arrangements or otherwise that relate to financial reporting, the integrity of financial management or fraud. There were no cases of fraud which were significant or that demonstrated material weaknesses in internal controls during the year. Furthermore, to proactively identify control failures and to support the Group's Whistleblowing policy, a programme of fraud assessments is undertaken across the business as part of a multi-year cycle.

Assurance

One of the Committee's primary areas of responsibility is to review and approve the nature and scope of the work of the external auditor and Internal Audit, and management's related response. The Committee considered and approved the planned activities of Internal Audit along with the scope of the work of the external auditor for the year. Regular reports were received from both Internal Audit and external auditor and discussed by the Committee.

The Committee is also responsible for ensuring that the external auditors are independent and responsible for both the setting and monitoring of compliance with the policy on non-audit services.

Corporate governance report continued

Audit and Risk Committee continued

Internal Audit

The Committee reviewed the scope and monitored the results of Internal Audit's activities including the quality and timeliness of management responses. A high level Internal Audit plan is approved by the Committee at the beginning of the financial year, with subsequent quarterly changes to the detailed plan requiring Committee approval. Progress against the plan is monitored throughout the year. Significant issues identified within Internal Audit reports are considered in detail by the Committee along with the appropriateness of mitigation plans to resolve those issues.

An Internal Audit charter is in place which outlines the vision, objectives, authority, scope and responsibilities of Internal Audit. Performance against this charter, and the effectiveness of Internal Audit, is reviewed by the Committee on an annual basis. In 2015 an external effectiveness review was conducted by PwC which evaluated Internal Audit against leading practices and performed an assessment against global Institute of Internal Audit standards. This review was presented to the Committee and reported that Internal Audit provides a good service to Sage, the team is well qualified to provide assurance over core controls which is an important requirement for the business and that the fundamentals of planning, delivery, reporting and performance management are in place.

Notwithstanding these conclusions, opportunities were identified to enhance the scope and performance of work in line with its 2016 strategy, which was approved by the Committee.

The Committee considers and evaluates the level of Internal Audit resource to ensure it is appropriate to provide the required level of assurance over the principal risks, processes and controls throughout the Group.

External auditor – Ernst & Young LLP (EY)

The Committee reviews and makes recommendations with regard to the appointment of the external auditors. In making this recommendation, the Committee considers auditor effectiveness and independence, partner rotation and any other factors which may impact the Committee's judgement regarding the external auditors' reappointment. Following the formal tender process conducted in 2014, this has been EY's first year as Sage's external auditor and focus has been placed on assisting them develop a good understanding of the business. The Committee monitored the conduct and effectiveness of external audit during the year through a review of:

- Experience and expertise of the auditor
- The fulfilment of the agreed external audit plan and any variations from this plan
- The robustness and perceptiveness of the external auditor in their handling of key accounting and audit judgements
- Interaction between management and the auditor, including ensuring that management dedicates sufficient time to the audit process
- Communication with, and support to, the Committee
- Insights, added value and reports
- The content of external audit reports
- Independence, objectivity and scepticism

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

Following a review and having given consideration to the performance and independence of the external auditor, the Committee has recommended to the Board that a resolution to reappoint EY be proposed at the 2016 AGM and the Board has accepted and endorsed this recommendation.

Non-audit services

The Committee ensured compliance with Sage's Auditor Independence Policy, which was updated during 2015 to reflect the relevant EU Regulation / Directives and FRC consultation paper on UK member state adoption. The principal requirements of the Auditor Independence Policy are that the external auditor may not undertake certain prohibited services, which include but are not limited to:

- tax services
- bookkeeping and preparation of accounting records and financial statements
- internal audit services
- payroll services
- legal and valuation advice

The Committee must approve any individual non-audit services above a specific fee value.

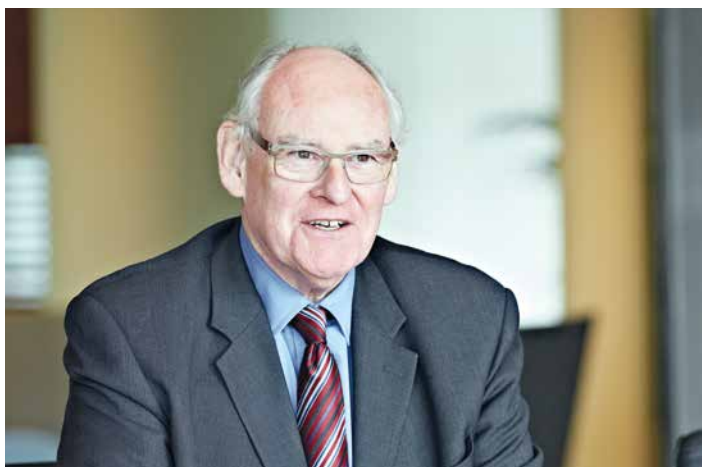
The ratio of audit fees to non-audit fees must be within Sage's pre-determined ratio, which is currently that non-audit fees for the year must not exceed 70% of the average of the external audit fees billed over the previous three years.

Discretion is used, subject to the controls set out above, in obtaining non-audit services from the external auditor, although other accountancy firms are also used when appropriate. In accordance with the Auditor Independence Policy, a cumulative summary of non-audit fees paid to the external auditor and Internal Audit third party providers is presented to the Committee on a quarterly basis. The ratio of non-audit fees for the year to the average of the external audit fees over the previous three years was <1%. A breakdown of total audit and non-audit fees charged by the auditor for the year under review is shown in note 3.2 to the financial statements.

Jonathan Howell
Chairman of the Audit and Risk Committee

2 December 2015

Nomination Committee



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

— Donald Brydon
Chairman of the Nomination Committee

Nomination Committee Membership:

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

Key objective

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

Committee meetings

The Committee is required, in accordance with its terms of reference, to meet at least once per year. During the year, the Committee met twice.

Responsibility	Activity
Reviewing the structure of the Board	The Committee dealt with the appointment of a new Chief Executive Officer
Evaluating the balance of skills, knowledge, experience and diversity of the Board	The Committee considered the skills, knowledge, independence and experience of the Board and reaffirmed the approach to diversity, as described on page 54
Advising the Board on areas where further recruitment may be appropriate	The Committee considered the skills and experience of the Board members. It continues this review on an on-going basis
Succession planning for key executives at Board level and below and for non-executive directors	The Committee has continued to work to ensure appropriate succession and mix amongst both the executive and non-executive directors, as shown on pages 60 and 61.

Board appointments

The appointment of Stephen Kelly as Chief Executive Officer was announced in August 2014, and he joined the Board on 5 November 2014.

In identifying a new Chief Executive Officer, the Committee retained the services of executive search consultants, Egon Zehnder. Egon Zehnder worked closely with the Chairman who led the process on behalf of the Committee.

A number of potential candidates were identified by the consultants and some candidates approached Sage directly. An initial long list of possible appointees was discussed with the Chairman, from which a short list was created. All candidates on the short list were interviewed by Committee members. Following the interviews and fully considering the experience and skills of the candidates, as well as the diversity of the Board, the Committee unanimously recommended the appointment of Stephen Kelly as Chief Executive Officer to the Board.

Egon Zehnder has no connection with Sage or the appointed director other than for the provision of these services and services relating to other Sage Board appointments.

During the year the Committee also assessed the skills, knowledge, independence and experience of the Board and determined that no further appointments were necessary at that time.

Gender

The Board and the Committee continue to value the aims and objectives of The Davies Report on Women on Boards. In considering appointments to the Board and to senior executive positions, it is the policy of the Committee to evaluate the skills, experience and knowledge required by a particular role with due regard for the benefit of diversity on the Board and at senior management level and make an appointment accordingly. Further details on the approach to diversity are set out on page 54.

Remuneration Committee



“We are presenting a new remuneration policy that aligns to our strategy outlined at our Capital Markets Day in June.”

— Drummond Hall
Chairman of the
Remuneration Committee

Remuneration Committee Membership:

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

DEAR FELLOW SHAREHOLDER,

It is my pleasure to present the Directors’ remuneration report for the year ended 30 September 2015, having been appointed the Remuneration Committee Chairman on 5 December 2014.

We aim to be entirely transparent in our remuneration practices and provide shareholders with the information needed to make informed decisions about our Company.

Key Responsibilities

Making 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

Approval of share awards

Key objective

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

Committee meetings

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

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

Our remuneration principles for executive directors and the Executive Committee

Our key remuneration principles are as follows:

<i>Motivate and reward</i>	Remuneration at Sage is designed to create a strong performance-oriented environment and reward achievement of our Company strategy and business objectives
<i>Attract and retain</i>	We offer competitive rates of pay and benefits to attract and retain the best people in a competitive international market which includes private-equity backed organisations as well as listed companies
<i>Alignment with the wider Group</i>	Pay and employment conditions elsewhere in the Group are considered when determining executive base salary and bonus reviews
<i>Alignment with shareholders</i>	The interests of our senior management team are aligned with those of shareholders by having a significant proportion of remuneration performance-based and delivered through shares

Delivering our remuneration principles in 2016

A detailed remuneration policy, approved by shareholders at the 2014 AGM, underpins the delivery of these four key remuneration principles. At the heart of this policy is a relatively straightforward remuneration arrangement for our most senior executives comprising base salary and benefits, an annual bonus plan and a long-term incentive plan (the Performance Share Plan (PSP)).

At our Capital Markets Day (CMD) in June 2015, we outlined our future strategy and operational implementation plans. In parallel, the Remuneration Committee undertook a review of the pay arrangements for the executive directors and Executive Committee members to ensure they were consistent both with our future strategy and with our remuneration principles more generally. Following that review, the Remuneration Committee is proposing a number of changes to the pay arrangements of the executive directors for 2016 as summarised below. Where appropriate, these changes will also apply to Executive Committee members.

Our remuneration principles

Proposed changes to pay arrangements for 2016

<i>Motivate and reward</i>	<p>The existing performance measures that apply to executive directors' performance-related pay were put in place following the last major strategic review in 2012. In order to ensure consistency with our revised strategy, the following changes are proposed to performance measures in 2016.</p> <p>2016 annual bonus</p> <p>For the past three years, executive directors' annual bonuses have been determined by a mixture of underlying profit before tax, organic revenue growth and individual objectives. Following the Remuneration Committee's review, the annual bonus measures for 2016 are Group recurring revenue growth (80% of overall bonus) and strategic measures (20% of overall bonus). Payout under the recurring revenue measure will be dependent upon the satisfaction of underpin conditions based on organic revenue growth, operating margin and subscription growth.</p> <p>2016 PSP awards</p> <p>Most PSP awards granted in the past three years are subject to a combination of three equally weighted performance measures – relative Total Shareholder Return (TSR), earnings per share (EPS) growth and organic revenue growth.</p> <p>Following the Remuneration Committee's review, it is proposed that:</p> <ul style="list-style-type: none"> – half of the 2016 PSP award will be subject to a performance measure based on relative TSR performance. This measure will help to ensure management's continued focus on overall Group growth and delivery of shareholder value – half of the 2016 PSP award will be subject to a performance measure based on recurring revenue growth. The introduction of recurring revenue growth as a medium-term performance condition provides close alignment with the medium-term strategic priorities outlined at the CMD to grow our subscription-based services and acquire new customers – for any of the recurring revenue growth element of the 2016 PSP award to vest, two "underpin" performance conditions based on EPS growth and organic revenue growth will also need to be achieved <p>Proposed targets for these performance measures are set out in the Directors' annual remuneration report on page 88.</p>
<i>Attract and retain</i>	<p>An independent market benchmark exercise commissioned by the Remuneration Committee indicated that Sage offers market-competitive levels of pay for our most senior executives. Accordingly:</p> <ul style="list-style-type: none"> – no changes are proposed in 2016 to our maximum level of performance-related pay under either the annual bonus plan or the PSP – the CFO will receive a salary increase of 3% effective 1 January 2016, consistent with increases for employees based in the UK. The CEO's salary will remain at its current level until the next review, with any changes effective 1 January 2017

Directors' remuneration report continued

Directors' remuneration policy report

Our remuneration principles	Proposed changes to pay arrangements for 2016
<i>Alignment with the wider Group</i>	The remuneration policy for executives reflects the overriding remuneration philosophy and principles of the wider Group, including but not limited to the principles on which salaries are reviewed and the structure of performance-related incentive plans. Details of pay arrangements for executive directors are set out in the annual remuneration report on pages 83 to 91.
<i>Alignment with shareholders</i>	<p>Our existing pay structure for executive directors and other senior management is heavily weighted towards share-based performance-related pay which is designed to align executive and shareholder interests. In order to enhance this alignment further, the Remuneration Committee will be introducing the following changes in 2016:</p> <p>Malus / clawback From 2016, all incentives awarded to executive directors and Executive Committee members will be subject to malus and clawback provisions. Details of the proposed implementation of those provisions in the forthcoming year are set out in the Directors' annual remuneration report and policy.</p> <p>Compulsory bonus deferral Under our current remuneration policy, if an executive director already holds Sage shares with a value of at least 150% of salary then their annual bonus is paid wholly in cash. If the executive is non-compliant with this shareholding requirement then 20% of their annual bonus is normally deferred into shares under the Sage Group Deferred Bonus Plan for three years.</p> <p>The Remuneration Committee has determined that from 2016 an element of the annual bonus should be compulsorily deferred into shares irrespective of an individual's existing shareholding. Accordingly, with effect from the 2016 annual bonus, all executive directors will be compulsorily required to defer one-third of their bonus into Sage shares. During a transitional period (bonuses for 2016 and 2017), the deferral period will be temporarily reduced to two years before returning to three years with effect from 2018.</p> <p>Enhanced shareholding requirement Our current shareholding requirement requires executive directors to build up a holding of Sage shares worth at least 150% of their base salary. Effective from the 2016 AGM, the shareholding requirement will be increased to 200% of base salary and directors will be expected to achieve the guideline within a maximum period of five years from when they first become subject to the guideline.</p> <p>Holding period for PSP awards Our new PSP, approved by shareholders at the 2015 AGM, contains the flexibility for the Remuneration Committee to apply a holding period of two years to PSP awards (or such other period as may be determined) following the three year vesting period. This flexibility will be added into our new remuneration policy although there is no current intention to apply a holding period to the 2016 grant of PSP awards.</p>

Some of these proposed changes cannot be implemented for the executive directors under our current shareholder approved remuneration policy. Accordingly, we will be seeking shareholder approval for a revised remuneration policy at the 2016 AGM that will permit the full implementation of these changes. We have consulted with our major shareholders and shareholder representative bodies on the proposed changes who have been generally supportive of our proposals.

Key remuneration outcomes for FY15

- Following the changes in the application of the revenue recognition policy to certain products, referred to on page 163, the Committee determined that the calculation of actuals on a like for like basis with the targets (that is, with both targets and actuals calculated prior to the change in the application of the revenue recognition policy to certain products) was an appropriate and fair basis of assessment for the FY15 bonus. On this basis, for the year ended 30 September 2015, Group organic revenue growth was 6.7%, reflecting good acceleration in growth on the prior year, and underlying pre-tax profit was £361.7m. Combined with the achievement of strategic objectives, this led to 67% of the maximum bonus paying out for the Chief Executive Officer and Chief Financial Officer. More details on the bonus outcome are set out on page 84.
- Performance Share Plan (PSP) awards granted in 2013 were based on organic revenue growth, Earnings per share growth and relative TSR performance measured over the three-year period to 30 September 2015. As with the treatment of the FY15 bonus, the Committee determined that organic revenue and EPS growth should be calculated on a consistent basis with the original targets

(that is, with both targets and actuals calculated prior to the changes in the application of revenue recognition policy). Overall, the Committee determined that 64% of the maximum number of shares under award will vest in March 2016.

- Guy Berruyer stepped down from the role of Chief Executive Officer and as a director of the Company on 5 November 2014, although he remained an employee until 31 March 2015. Details of his remuneration during FY15 are set out on page 85 and 86.

Remuneration disclosure

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

The report is in two sections: **The Directors' remuneration policy (pages 77 to 82)**. This section contains details of the new remuneration policy to be put to a binding shareholder vote at the AGM in March 2016.

The Directors' annual remuneration report (pages 83 to 92). This section sets out details of how our existing remuneration policy was implemented for the year ended 30 September 2015 and how we intend the new policy to apply for the year ended 30 September 2016 and will be the subject of an advisory shareholder vote at the AGM in March 2016.



Drummond Hall
Chairman of the Remuneration Committee

Remuneration policy

The current policy report was approved by shareholders at the 2014 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 2016 AGM for the new remuneration policy set out below. 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:

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

Remuneration policy table

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

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

Directors' remuneration report continued

Directors' remuneration policy report continued

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

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

Notes:

- Annual bonus performance measures have been selected to provide an appropriate balance between incentivising directors to meet profitability and other financial targets for the year and achieve strategic operational objectives. The measures and targets are selected every year by the Committee.
- Performance Share Plan: recurring revenue growth is a key measure of the success of the execution of our long-term strategy. TSR is considered a key measure for a number of our shareholders and provides further alignment with value created for shareholders.
- Awards granted under the deferred bonus plan and the PSP may:
 - (a) be made in the form of conditional awards or nil-cost options and may be settled in cash;
 - (b) incorporate the right to receive an amount (in cash or shares) equal to the dividends which would have been paid or payable on the shares that vest in the period up to vesting (or, where PSP awards are made subject to a holding period, the end of the holding period). This amount may be calculated assuming the dividends were reinvested in the Company's shares on a cumulative basis; and
 - (c) be adjusted in the event of any variation of the Company's share capital, demerger, delisting, special dividend, rights issue or other event which may, in the opinion of the Remuneration Committee, affect the current or future value of the Company's shares.
- Provisions to withhold (malus) or recover (clawback) sums paid under the annual bonus and PSP in the event of material negative circumstances, such as material misstatement in the Company's audited results, serious reputational damage or significant financial loss to the Company (as a result of the participant's misconduct), an error in assessing the performance metrics relating to the award or the participant's gross misconduct, will be incorporated into both the PSP and deferred bonus plan the Company intends to adopt in 2016. These provisions may apply up to three years from the date a PSP award vests/is released or a minimum of two years from the date a cash bonus is paid or a deferred share award is granted. Details of the proposed implementation of those provisions in the forthcoming year are set out in the Directors' annual remuneration report.
- While our remuneration policy follows the same principles across the Group, packages offered to employees reflect differences in market practice in the different countries the Group operates in and also differences in size of role.
- All directors submit themselves for re-election annually.
- The Remuneration Committee intends to honour any commitments entered into with current or former Directors on their original terms, including outstanding incentive awards, which have been disclosed in previous remuneration reports and, where relevant, are consistent with a previous policy approved by shareholders. Any such payments to former directors will be set out in the Remuneration Report as and when they occur.
- The Remuneration Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed; (i) before the date the Company's first remuneration policy approved by shareholders in accordance with section 439A of the Companies Act came into effect; (ii) before the policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved remuneration policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Remuneration Committee, the payment was not in consideration for the individual becoming a director of the Company. For these purposes "payments" includes the Remuneration Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.
- The Remuneration Committee may make minor amendments to the policy (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

Directors' remuneration report continued

Directors' remuneration policy report continued

Illustration of our remuneration policy for 2016

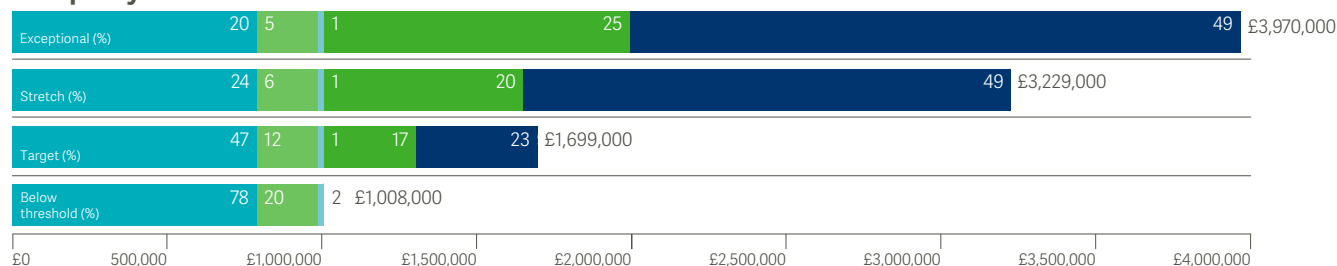
The charts below set out an illustration of the remuneration policy and include base salary, pension, benefits and incentives. The charts provide an illustration of the proportion of total remuneration made up of each component of pay and the total potential value available to the directors under the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

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

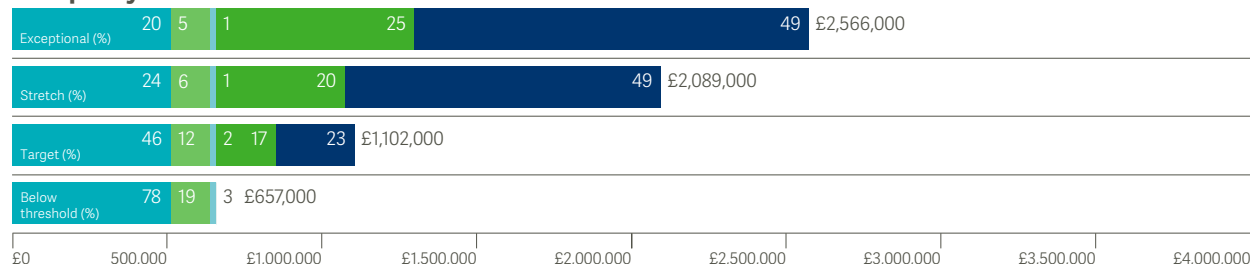
For illustrating the potential value from incentives, four scenarios have been illustrated for each executive director:

Below threshold performance	<ul style="list-style-type: none"> – No bonus payout – No vesting of PSP awards
Target performance	<ul style="list-style-type: none"> – 37.5% of salary payout in annual bonus (30% of maximum opportunity) – Shares equivalent to 50% of salary vesting under the PSP (20% of total shares available)
Stretch performance	<ul style="list-style-type: none"> – 81.25% of salary payout in annual bonus (65% of maximum opportunity) – Shares equivalent to 200% of salary vesting under the PSP (80% of total shares available)
Exceptional performance	<ul style="list-style-type: none"> – 125% of salary payout in annual bonus (100% of maximum opportunity) – Shares equivalent to 250% of salary vesting under the PSP (100% of total shares awarded)

CEO policy



CFO policy



■ Salary ■ Pension ■ Other benefits ■ Annual bonus (including any deferred amounts) ■ PSP award

Development of our remuneration policy

Consistency with remuneration for the wider Group

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

Consideration of pay and conditions for the wider Group

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

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

Communication with our shareholders

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

Recruitment remuneration arrangements

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

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

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

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

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

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

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

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

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

Change of control

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

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

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

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

Directors' remuneration report continued

Directors' remuneration policy report continued

Executive director service contracts

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

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

Terms and conditions for non-executive directors

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

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

Payments to departing directors

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

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

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

Deferred bonus plan

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

PSP

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

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

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

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

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

Directors' annual remuneration report

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 2014 and 2015.

Director	(a) Salary/fees ¹ £'000		(b) Benefits ² £'000		(c) Bonus ³ £'000		(d) Pension ⁴ £'000		(e) PSP awards ⁵ £'000		(f) Other ⁶ £'000		Total £'000	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Executive directors														
S Kelly ⁶	718	–	19	–	599	–	179	–	–	–	6	–	1,521	–
S Hare	491	360	37	15	414	256	123	89	–	–	–	8	1,065	728
G S Berruyer ⁷	77	765	12	121	–	539	19	191	–	–	–	–	108	1,616
Non-executive directors														
D H Brydon	360	360	48	46	–	–	–	–	–	–	–	–	408	406
R Markland	78	88	–	–	–	–	–	–	–	–	–	–	78	88
N Berkett	60	60	–	–	–	–	–	–	–	–	–	–	60	60
D Hall	70	45	–	–	–	–	–	–	–	–	–	–	70	45
J Howell	77	74	–	–	–	–	–	–	–	–	–	–	77	74
I Kuznetsova	60	34	–	–	–	–	–	–	–	–	–	–	60	34

1 Details of salary progression since appointment for the current executive directors are summarised in the Statement of implementation of remuneration policy in the following financial year on page 88. Current fees for the Chairman and non-executive directors are set out on page 89.

2 Benefits provided to the executive directors included: car benefits or cash equivalent, private medical insurance, permanent health insurance, life assurance, financial advice and travel and subsistence. £20,000 of Steve Hare's benefits relate to the grossed-up cost of his travel to Sage's London office which, since 1 April 2015, has been deemed a taxable benefit as a result of the enhanced amount of time that he has been required to spend in London attending to Sage matters. A housing allowance of £100,000 per annum was provided to Guy Berruyer, pro-rata to his retirement date of 5 November 2014. Donald Brydon receives a company car benefit.

3 Bonus payable in respect of the financial year including any deferred element at face value at date of award. Further information about how the level of 2015 award was determined is provided in the additional disclosures below.

4 Pension emoluments for both executive directors were equal to 25% of base salary.

5 The 2015 PSP value is based on the PSP award granted in 2013 which is due to vest in March 2016. Neither Stephen Kelly nor Steve Hare have awards under this plan. The conditions for Guy Berruyer's award were satisfied following his retirement date of 5 November 2014; consequently, the PSP is excluded from the single figure table above. Further information about the level of vesting is provided in the additional disclosures below.

6 Stephen Kelly was appointed as a director on 5 November 2014. Figures in the table relate to the period from that date to the end of the financial year.

7 Guy Berruyer retired from the Board on 5 November 2014. Figures in the table relate to the period from the beginning of the financial year to that date.

8 Stephen Kelly's award under the Sage Group Savings Related Share Option Plan (SRSOP) has been valued as the number of options multiplied by the difference on the grant date (17 June 2015) between the share price (540.5p) and the option price (456p). Steve Hare's remuneration for 2014 has been restated to include the valuation of his SAYE award on the same basis. The share price on the grant date (12 June 2014) was 404.6p and the option price was 317p. Further details are set out on page 90.

Additional disclosures for single figure for total remuneration table

Annual bonus




The bonus targets for FY15 were set by reference to the same performance measures as FY14 and were aligned with the three-year strategic goals, in particular the achievement of 6% organic revenue growth and 28% underlying operating margin.

As outlined in the Statement of the Remuneration Committee Chairman, the Committee has determined that underlying PBT and organic revenue growth performance should be assessed with actuals calculated on a consistent basis with the targets that were set at the start of the financial year (i.e. with both targets and actuals calculated prior to the changes in the application of the revenue recognition policy to certain products outlined on page 110 of the Annual Report).

Directors' remuneration report continued

Directors' annual remuneration report continued

The actual target ranges for 2015 for the financial performance measures have not been disclosed as this is considered by the Board to be commercially sensitive information, bearing in mind that many of our competitors are unlisted companies who do not provide this level of disclosure. An indication of where actual performance fell within each range is given in the table below. Retrospective disclosure of the target ranges will be made in next year's Remuneration Report once the information is no longer considered commercially sensitive by the Board.

Bonus measure	% Weighting	Threshold	Target	Stretch	Performance outcome as a % of maximum bonus
Underlying PBT ¹	50				Achievement of £361.7m for FY15 was ahead of the target range, resulting in 61% of the maximum bonus in relation to underlying PBT becoming payable.
Organic revenue growth ²	30				Organic revenue growth was 6.7%, exceeding the commitment to deliver 6% in 2015, and the underlying PBT underpin was also exceeded, leading to 74% of the bonus relating to the organic revenue growth measure becoming payable.
Strategic measures (see table below)	20				Stephen Kelly's achievement of strategic objectives for FY15 led to 72% of the bonus relating to strategic measures becoming payable. Steve Hare's achievement of strategic objectives for FY15 led to 72% of the bonus relating to strategic measures becoming payable.
Overall assessment					Stephen Kelly received a bonus equal to 84% of salary (67% of the maximum). No bonus was deferred into shares as the CEO has met the Company's shareholding requirement under the 2015 remuneration policy of 150% of annual salary. Steve Hare received a bonus equal to 84% of salary (67% of the maximum). 20% was deferred into Sage shares under the Company's shareholding requirement of 150% of annual salary.

- 1 Underlying PBT is defined on page 163. It has been calculated with revenue accounted for on the previous accounting basis, which is consistent with the basis that was used for setting targets at the start of the year.
- 2 Organic revenue is defined on page 163. It has been calculated with revenue accounted for on the previous accounting basis, which is consistent with the basis that was used for setting targets at the start of the year.

Executive directors' personal strategic objectives

CEO measures	CFO measures
Organisational capability Increase organisational capability and succession planning, and execute improvement plans whilst completing material elements of the 2012 strategy	Organisational efficiencies Achieve organic revenue growth and operating margin whilst driving operational efficiencies
Global product leadership Increase Sage One paying subscribers worldwide and grow the enterprise business	Risk management framework Implementation of a risk management framework plan to the Audit and Risk Committee's satisfaction
Improve customer satisfaction Improvement demonstrated in customer retention and subscription rates, and colleague engagement during transition year	Sage One Increase paying subscribers worldwide

Bonus for Guy Berruyer

As noted in the 2014 annual remuneration report, Guy Berruyer is entitled to a bonus for the period 1 October to 5 November 2014. Given the short period of time between the beginning of the financial year and Guy Berruyer's stepping down as CEO, the Committee determined that no bonus will be paid to him in respect of the financial year ending 30 September 2015.

Disclosure of 2014 bonus targets

The target ranges for financial measures used to determine the 2014 bonus were not disclosed in last year's Annual Report & Accounts as this was considered by the Board to be commercially sensitive information. Last year's Report also stated that it was intended for retrospective disclosure to be made after a period of three years (i.e. in the 2017 Annual Report & Accounts). The Board has since reviewed this issue and agreed that this information is commercially sensitive for a shorter period than previously determined. Accordingly, the policy for retrospective disclosure of bonus financial targets has been accelerated so that disclosure will be after a period of one year. The table below therefore sets out the target ranges for the financial measures that were used to determine the 2014 bonus.

Bonus measure	% weighting	Threshold performance	Stretch performance	Actual performance	% of maximum bonus payable
Underlying PBT ¹	50%	£321.9m (6% of bonus payable)	£355.8m (50% of bonus payable)	£339.7m	31%
Organic revenue growth ²	30%	1.9% (3.6% of bonus payable)	8.2% (30% of bonus payable)	4.9%	17%
Strategic measures	20%	The assessment of strategic measures was disclosed on page 84 of the 2014 Annual Report (Between 3% and 20% of bonus payable)			CEO: 7% CFO: 9%
				TOTAL	CEO 55% of maximum bonus (69% of salary) CFO 57% of maximum bonus (71% of salary)

1 Underlying PBT is defined on page 84 of the 2014 Annual Report. Targets and actuals are stated at 2014 actual foreign currency exchange rates to facilitate comparison with the published accounts.

2 Organic revenue growth is defined on page 38 of the 2014 Annual Report.

PSP awards

Awards granted under the PSP in 2013 vest depending on performance against three equally weighted measures, measured over three years:

- 1/3 organic revenue growth with a margin underpin
- 1/3 EPS growth
- 1/3 relative TSR performance against the FTSE 100 (excluding financial services and extracting companies)

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

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

The TSR vesting percentage may only exceed 80% ("Stretch" level) if performance against either the EPS target or the organic revenue growth target is also at "Stretch" level.

Measure	Achieved	Vesting
EPS growth (CAGR)	11.4%	25% of award
Relative TSR	87th percentile	27% of award
Organic revenue growth (CAGR)	5.3%	13% of award
Total		64% of award

EPS and organic revenue growth have been calculated with revenue accounted for on the previous revenue recognition basis, which is consistent with the basis that was used for setting targets at the start of the performance period. In the financial year 2015, Underlying EPS prior to the accounting update was 25.21p. The Committee determined that the margin underpin condition had been met, allowing the organic revenue measure to vest. The reported underlying operating margin in 2012 was 27.3%, and in 2015 the underlying operating margin on the previous accounting basis was 27.5%, demonstrating an increase that permits vesting for the organic growth measures.

Neither Stephen Kelly nor Steve Hare was a participant in the 2013 grant under the PSP. 231,681 of the 527,286 PSP shares awarded to Guy Berruyer in 2013 will vest at the normal vesting date in 2016, providing that he does not take up an executive directorship, or engage in consulting or take up a non-executive directorship at a competitor prior to the normal vesting date. As outlined on page 86, the number of vested shares has been calculated based on both the performance assessment outlined above and the application of time pro-rating to reflect his period of employment as a proportion of time elapsed between the grant date and the vesting date.

Directors' remuneration report continued

Directors' annual remuneration report continued

PSP awards granted in FY15

Awards were granted under the PSP on 12 January 2015 to selected senior employees, including the executive directors, in the form of conditional share awards. Awards are subject to the same performance conditions as applied to awards granted in 2013 (as disclosed above) and will vest, subject to satisfaction of those performance conditions, on the third anniversary of the date of grant.

	Type of award	Maximum number of shares	Face value (£)	Face value (% of salary)	Threshold vesting (% of award)	End of performance period
Stephen Kelly	Performance shares	426,842	£1,975,000	250%	20%	30 September 2017
Steve Hare		267,127	£1,236,000	250%	20%	30 September 2017

As disclosed in last year's Remuneration Report, as part of his recruitment arrangement Stephen Kelly received an additional one-off PSP award on 12 January 2015, in order to further align his interests with shareholders. This award will vest on the sixth anniversary of grant, subject to satisfaction of a performance condition based on Sage's TSR measured over a six year period. In order for the award to vest, Sage's TSR must have been at least 15% (CAGR) over the performance period. If this underpin condition is met, 20% of the award vests if Sage's TSR is median relative to FTSE 100 companies (excluding financial services and extracting companies), increasing to 100% of the award vesting if Sage's TSR is upper quartile.

	Type of award	Maximum number of shares	Face value (£)	Face value (% of salary)	Threshold vesting (% of award)	End of performance period
Stephen Kelly	Performance shares	213,421	£987,500	125%	20%	30 September 2020

– The face value of PSP awards has been calculated using the share price on the day before the date of grant of 462.7p.

Remuneration for the departed Chief Executive Officer for FY15

Guy Berruyer retired from the Board on 5 November 2014. He remained an employee of the Group until 31 March 2015 and continued to receive salary, pension and benefits (excluding the housing allowance) totalling £398,000 until the date of cessation of his employment. He did not receive a bonus payment in relation to his period as an employee after retiring from the Board; he also did not receive a PSP award in 2015.

Guy Berruyer exercised 189,082 options on 16 December 2014 and the remaining 184,638 options on 19 May 2015. The aggregate pre-tax gains on the exercise of share options were £1,023,115.

Guy Berruyer's outstanding awards granted under the Sage PSP were retained and will be exercisable in accordance with the plan rules. These awards will vest at the end of their respective performance periods pro-rata to the time elapsed between the date of grant of the relevant award and his termination date, and to the extent that the relevant performance targets have been met over the full performance period, including following cessation of employment.

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 UK employees over the same time period.

	CEO	UK Employees
Salary ¹	1.3%	5%
Taxable benefits ²	0%	0%
Annual incentive ³	22%	27%

1 The percentage change for the CEO is the difference between Guy Berruyer's and Stephen Kelly's salaries. The percentage change for UK Group employees shown is the 2015 annual pay review and promotions/market adjustments during 2015. This is consistent with the basis of the disclosure in the 2014 report.

2 On an "underlying" basis, excluding Guy Berruyer's housing allowance.

3 For annual incentives, the comparator group used is the UK management population. The percentage change in bonus for the Chief Executive Officer compares the payout as a percentage of salary for Stephen Kelly with that of Guy Berruyer in 2014. The comparison is considered valid as the bonus policy did not change between the two years.

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 six years.

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

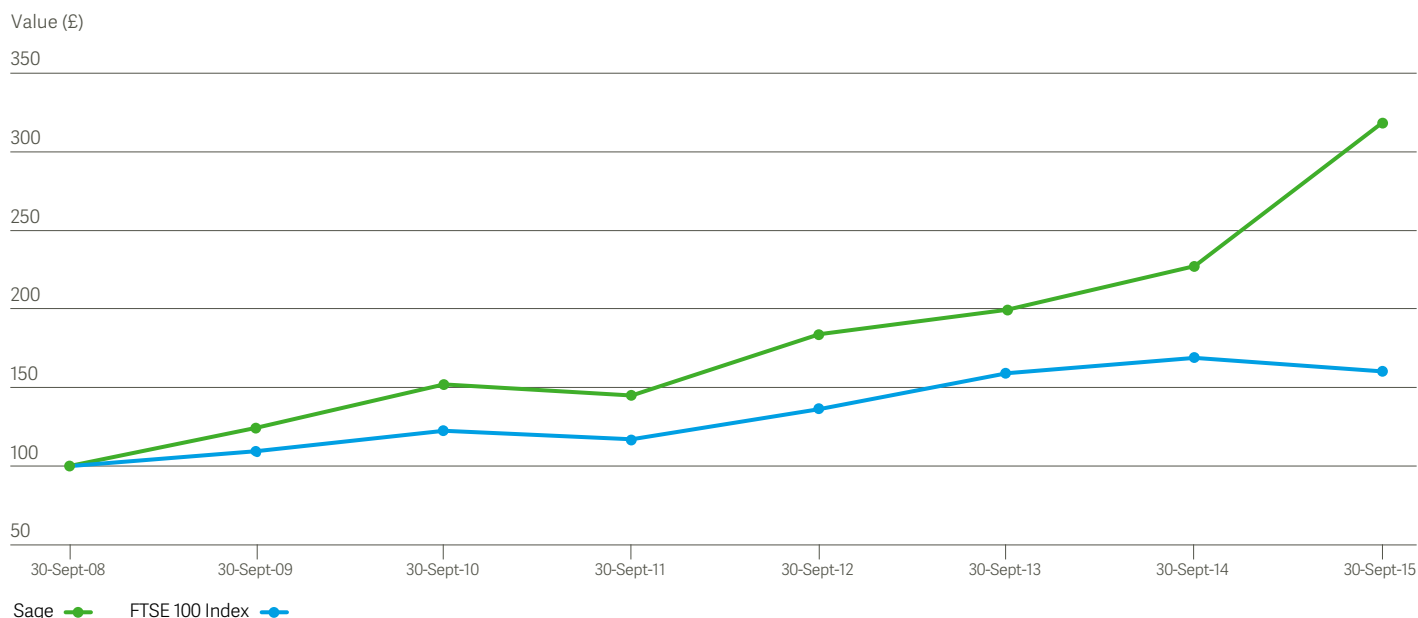
1 Stephen Kelly was appointed CEO on 5 November 2014.

2 Guy Berruyer stepped down from the position of CEO on 5 November 2014. The value of his PSP has been excluded from the single figure of remuneration table as the vesting conditions were satisfied following the cessation of his directorship.

3 Paul Walker resigned as CEO on 1 October 2010.

Historical Group performance against FTSE 100

The graph below shows the Total Shareholder Return of the Group and the FTSE 100 over the last seven 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.



– This graph shows the value, by 30 September 2015, 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.

Relative importance of spend on pay

The charts below show the all-employee pay cost (as stated in the notes to the accounts), profit before tax and returns to shareholders by way of dividends and share buyback for 2014 and 2015.

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

- Underlying PBT – Underlying profit before income tax taken from table on page 104
- Returns to shareholders – Total dividends taken from note 14.5 on page 151, share buyback taken from consolidated statement of changes in equity on page 107 and 108
- Total employee pay – Total staff costs from note 3.3 on page 120, including wages and salaries, social security costs, pension and share-based payments

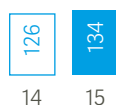
Underlying PBT (£m)



Returns to shareholders (£m)

Ordinary dividends

+6%



Buyback

-83%



Total employee pay (£m)

+6%



Directors' remuneration report continued

Directors' annual remuneration report continued

Statement of implementation of remuneration policy in the following financial year

This section provides an overview of how the Committee is proposing to implement our remuneration policy in 2016.

Base salary

An annual salary review was carried out by the Committee in November 2015. Following that review, the Committee approved

	Salary 1 January 2016	Salary 1 January 2015	Salary at appointment
Stephen Kelly	£790,000 (0% increase)	£790,000 (0% increase)	£790,000 (joined 5 November 2014)
Steve Hare	£509,200 (3% increase)	£494,400 (3% increase)	£480,000 (joined 3 January 2014)

Pension and benefits

As in FY15, the executive directors will receive a pension provision worth 25% of salary as a contribution to a defined contribution plan and / or as a cash allowance. They will also receive a standard package of other benefits consistent with those received in FY15. In addition, the Company will continue to cover the cost of Steve Hare's travel and accommodation for days on which he works in the Company's London offices.

Annual bonus

Key features of the executive directors' annual bonus plan for 2016 are as follows:

- The maximum annual bonus potential will remain unchanged at 125% of salary.
- One-third of any bonus earned will be deferred into shares for two years under The Sage Group Deferred Bonus Plan.
- Annual bonuses awarded in respect of performance in 2016 will be subject to potential withholding (malus) or recovery (clawback) if specified "trigger events" occur within two years of the payment/ award of the annual bonus. "Trigger events" will comprise a material misstatement of the audited results, error in calculation of the bonus payout, serious reputational damage or significant financial loss as a result of an individual's misconduct or gross misconduct which could have warranted an individual's summary dismissal.

The annual bonus for 2016 for executive directors will be determined as detailed below:

As a percentage of maximum bonus opportunity

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

¹ Payout is dependent upon the satisfaction of underpin conditions based on organic revenue growth, operating margin and subscription growth.

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 targets; our disclosure could provide our competitors with a considerable advantage. It is intended for retrospective disclosure to be made after a period of one year, and continue to be made on a rolling basis.

Performance Share Plan (PSP)

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

Vesting of these awards will be subject to satisfaction of the following performance conditions measured over the three financial years to 30 September 2018.

Relative TSR performance condition
(50% of award)

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

TSR performance comprises share price growth and dividends paid.

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

Recurring revenue growth
performance condition (50% of award)

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

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

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

- Organic revenue growth of 6% p.a. (CAGR) needs to be achieved over the performance period
- Group EPS growth of 8% p.a. (CAGR) needs to be achieved over the performance period

The proposed recurring revenue growth targets for 2016 PSP awards are consistent with the ambition outlined at the CMD for the three-year period 2016-2018. The targets for the “underpin” conditions are consistent with delivery of a successful transitional phase of the business plan as outlined at the CMD. More specifically, they will require management to ensure that the transition to a subscription model is achieved whilst maintaining overall growth in revenues and earnings (in other words, subscription growth will need to more than offset the decline in licence growth).

PSP awards granted in 2016 will be subject to potential withholding (malus) or recovery (clawback) if specified “trigger events” occur prior to the third anniversary of the release date of an award. “Trigger events” in respect of PSP awards will comprise a material misstatement of the audited results, error in calculation of the extent of PSP vesting, serious reputational damage or significant financial loss as a result of an individual’s misconduct or gross misconduct which could have warranted an individual’s summary dismissal or a material failure of risk management.

Non-executive director remuneration

The table below shows the fee structure for non-executive directors for 2016. 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. With effect from 1 December 2015, the fee for the Remuneration Committee chairmanship has increased from £13,000 to £17,000.

	2016 fees
Chairman of the Board all-inclusive fee	£360,000
Basic non-executive fee	£60,000
Senior Independent Director additional fee	£15,000
Audit and Risk Committee Chairman additional fee	£17,000
Remuneration Committee Chairman additional fee	£17,000

Directors’ shareholdings and share interests (audited information)

Up until the date of the 2016 AGM, executive directors are required to hold 150% of their annual salary in the Company’s shares. Until this requirement is met, executive directors are required to defer 20% of their bonus into shares, and retain (net of any shares sold to meet tax liability) 50% of shares received from deferred bonus, PSP and exercise of options.

As outlined in the Remuneration Committee Chairman’s Statement, the required shareholding for executive directors will be increased to 200% of salary effective from the 2016 AGM. Executive directors are expected to build up the required shareholding within a five year period of joining the Board.

Interests in shares

The interests of each person who was a director of the Company as at 30 September 2015 (together with interests held by his or her connected persons) were:

Director	Ordinary shares at 30 September 2015 number	Ordinary shares at 30 September 2014 number
D H Brydon	53,024	53,024
R Markland	4,753	4,753
N Berkett	47,999	27,999
D Hall	10,000	10,000
S Hare	0	0
J Howell	31,000	12,833
S Kelly	212,346	0
I Kuznetsova	10,000	0
Total	369,122	108,609

Notes:

- There have been no changes in the directors’ holdings in the share capital of the Company, as set out in the table above, between 30 September 2015 and the date of this report.
- Details of the executive directors’ interests in outstanding share awards under the ESOS, PSP, deferred shares and all-employee plans are set out below.

Directors' remuneration report continued

Directors' annual remuneration report continued

Executive share options (audited information)

The Group's only executive share option scheme is the ESOS. In the year under review, executive directors did not receive grants under this scheme. The outstanding executive share options granted to each director of the Company under the ESOS are as follows:

Director	Exercise price per share	Shares under option at 1 October 2014 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	Shares under option at 30 September 2015 number	Date exercisable
G S Berruyer	198.00p	189,082	–	(189,082)	–	–	6 January 2008 – 6 January 2015
	258.50p	122,630	–	(122,630)	–	–	10 January 2009 – 10 January 2016
	270.00p	62,008	–	(62,008)	–	–	10 January 2010 – 10 January 2017
Total		373,720	–	(373,720)	–	–	

Note:

- Details of gains on options exercised following cessation of employment of director are detailed on page 86. All options were exercised after 5 November 2014.

All-employee share options (audited information)

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

Director	Exercise price per share	Shares under option at 1 October 2014 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	Shares under option at 30 September 2015 number	Date exercisable
S Kelly	456p	–	6,578	–	–	6,578	1 August 2020 – 31 January 2021
S Hare	317p	9,463	–	–	–	9,463	1 August 2019 – 31 January 2020
Total		9,463	6,578	–	–	16,041	

Notes:

- No options were varied during the year. No performance conditions apply to options granted under this Plan. For the 2015 SRSOP grant, the exercise price was set at 456p, a 20% discount to the average share price of 570p on 18, 19 and 20 May 2015. For the 2014 SRSOP, the exercise price was set at 317p, a 20% discount to the average share price on 15, 16 and 19 May 2014 of 396.25p.
- The market price of a share of the Company at 30 September 2015 was 494.4p and the lowest and highest market price during the year was 350.1p and 577.5p respectively.

Performance Share Plan (audited information)

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

Director	Under award 1 October 2014 number	Awarded during the year number	Vested during the year number	Lapsed during the year number	Under award 30 September 2015 number	Vesting date
S Kelly	–	426,842	–	–	426,842	12 January 2018
	–	213,421	–	–	213,421	12 January 2021
	–	640,263	–	–	640,263	
G S Berruyer	464,894	–	–	(300,739)	164,155	10 March 2017
	527,286	–	–	(167,423)	359,863	14 March 2016
	476,062	–	–	(476,062)	–	12 March 2015
	1,468,242	–	–	(944,224)	524,018	
S Hare	–	267,127	–	–	267,127	12 January 2018
	286,088	–	–	–	286,088	10 March 2017
	116,873	–	–	–	116,873	20 January 2017
	402,961	267,127	–	–	670,088	
Total	1,871,203	907,390	–	(944,224)	1,834,369	

Notes:

- No variations were made in the terms of the awards in the year.
- The market price of a share on 12 January 2015, the date of the awards made in the year ended 30 September 2015, was 462.7p.
- The award for Guy Berruyer is shown to the date of cessation of employment on 31 March 2015. His PSP awards are preserved pro-rata to the date of cessation of employment in accordance with the PSP rules, and will vest, to the extent that the performance conditions are met, on the vesting date.
- The performance conditions for awards made in March 2013 are set out earlier in this report. An equivalent performance condition applies to awards that vest in January 2017, March 2017 and January 2018.
- The performance condition for Stephen Kelly's awards that vest in January 2021 is set out earlier in this report.

Deferred shares (audited information)

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

Director	Shares at 1 October 2014 number	Shares awarded during the year number	Shares vested during the year number	Shares lapsed during the year number	Shares at 30 September 2015 number	Vesting date
S Hare	–	11,047	–	–	11,047	12 January 2018
Total	–	11,047	–	–	11,047	

Notes:

- Awards are not subject to further performance conditions once granted. The market price of a share on 12 January 2015, the date of the awards made in the year ended 30 September 2015, was 462.7p.
- No variations were made in the terms of the awards in the year.

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

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

Limit	Current position
5% of Group's share capital can be used for discretionary share schemes	2.80%
10% of Group's share capital can be used for all share schemes	3.62%

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. For the period of his directorship, Guy Berruyer was a Non-executive Director of Meggitt Plc. The Board recognises the significant demands that are made on executive and non-executive directors and has therefore adopted a policy that no executive director should hold more than two directorships of other listed companies. The Board encourages executive directors to limit other directorships to one listed company. Except in exceptional circumstances where approved in advance by the Chairman of the Committee, if an executive director holds non-executive positions at more than one listed company then only the fees from one such company will be retained by the director.

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

Unexpired term of contract table

Director	Date of contract	Unexpired term of contract on 30 September 2015, or on date of contract if later	Notice period under contract
Executive directors			
S Kelly	5 November 2014	12 months	12 months from the Company and/or individual
S Hare	3 January 2014	12 months	12 months from the Company and/or individual
Non-executive directors			
N Berkett	1 July 2013	0.5 years	6 months from the Company or 1 month from individual
D H Brydon	6 July 2012	2 years	6 months from the Company and/or individual
J Howell	15 May 2013	1.5 years	6 months from the Company or 1 month from individual
R Markland	13 September 2015	1 year	6 months from the Company or 1 month from individual
D Hall	1 January 2014	1.5 years	6 months from the Company or 1 month from individual
I Kuznetsova	6 March 2014	1.5 years	6 months from the Company or 1 month from individual

Directors' remuneration report continued

Directors' annual remuneration report continued

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:

The Committee received assistance from Sandra Campopiano (Chief People Officer), Richard Drury (former Group Human Resources Director), Tina Clayton (EVP Reward & Recognition) and Michael Robinson (Company Secretary) and other members of management, who may attend meetings by invitation, except when matters relating to their own remuneration are being discussed.

- Ruth Markland (Chair to 5 December 2014)
- Donald Brydon
- Neil Berkett
- Drummond Hall (Chair from 5 December 2014)
- Jonathan Howell
- Inna Kuznetsova

Activities of the Remuneration Committee ("the Committee")

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

- Reviewed the remuneration policy in light of the strategy outlined at our Capital Markets Day, and consulted with shareholders on the alignment of the remuneration policy to business strategy
- Reviewed the performance of the Group for the year, and the performance of the executive directors in order to determine bonus outcomes
- Approved share awards for FY15
- Set base salaries and established the executive directors' bonus arrangements for 2016
- Reviewed the Directors' Remuneration Report
- Considered remuneration market trends and corporate governance developments
- Approved the base salaries for 2016 and the 2015 bonuses of Executive Committee members
- Reviewed the long-term performance of the Group over the last three years in order to determine vesting levels for the PSP granted in March 2013

External advisers

The Remuneration Committee continues to receive advice from Deloitte, an independent firm of remuneration consultants appointed by the Committee after consultation with the Board. During the year, Deloitte's executive compensation advisory practice advised the Committee on developments in market practice, corporate governance, institutional investor views and in the development of the Company's incentive arrangements. Total fees for advice provided to the Committee during the year were £96,700.

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

Deloitte is a founding member of the Remuneration Consultants Group and adheres to its Code in relation to executive remuneration consulting in the UK. Other parts of Deloitte have provided tax advice, specific corporate finance support in the context of merger and acquisition activity and unrelated corporate advisory services in line with our Auditor Independence Policy referred to on page 72.

Statement of shareholding voting

The table below sets out the results of the vote on the Remuneration report and the approval of the new Performance Share Plan at the 2015 AGM:

	Votes for		Votes against		Votes cast	Votes withheld
	Number	%	Number	%		
Remuneration report	723,023,096	95.53	33,853,496	4.47	756,877,402	56,862,108
Performance Share Plan FY15	763,336,800	93.85	50,041,186	6.15	813,377,986	361,524



Drummond Hall
Chairman of the Remuneration Committee
 2 December 2015

Directors' report

The Directors present their report together with the audited consolidated financial statements for the year ended 30 September 2015.

The Annual Report & Accounts contains statements that are not based on current or historical fact and are forward-looking in nature. Please refer to the "Disclaimer" on page 97.

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	10 to 11 – Chief Executive's review
Greenhouse gas emissions	55 to 56 – Environment section

Corporate governance statement

The Disclosure 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 59 to 73, 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 145 within the notes to the Group financial statements.

Results and dividends

The results for the year are set out on from page 104. Full details of the proposed final dividend payment for the year ended 30 September 2015 are set out on page 151. The Board is proposing a final dividend of 8.65p per share following the payment of an interim dividend of 4.45p per share on 5 June 2015. The proposed total dividend for the year is therefore 13.10p 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. 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 12 to the financial statements.
- the financial position of Sage, its cash flows, financial risk management policies and available debt facilities, which are described in the financial statements, and Sage's business activities, together with the factors likely to impact its future growth and operating performance, which are set out in the Strategic Report on pages 2-58.

Financial viability statement

In accordance with provision C.2.2 of the 2014 revision of the UK Corporate Governance Code, the Directors confirm that they have a reasonable expectation that the group will continue to operate and meet its liabilities, as they fall due, for the next five years. A period of five years has been chosen for the purpose of this viability statement, in line with the group's 2020 Strategy as announced on 24 June 2015 and reflecting a typical life of the on-premise products without an upgrade.

The Directors' assessment has been made with reference to the Group's current position and prospects, the 2020 Strategy, the Board's risk appetite and the group's principal risks and how these are managed, as detailed in pages 16 to 43 of the Strategic report.

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

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

Research and development

During the year, we invested £141m (2014: £131m) in research and development.

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 89. 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 60 to 61 under Board of Directors and Changes to the Board.

Directors' report continued

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 and the former directors of the Company who held office during the year ended 30 September 2015, to the extent permitted by law and by the Company's articles of association, in respect of all liabilities incurred in connection with the performance of their duties as a director of the Company or its subsidiaries. Copies of these indemnities are available for review at the Company's registered office.

Employment policy

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

The Group has continued its policy of employee involvement by making information available to employees on matters of concern to them. Employees regularly receive updates on the financial and economic factors affecting the Group from both central and local management. Many employees are stakeholders in the Company through participation in share option schemes and a long-term performance share plan. Further details of employment policies are given on pages 52 to 54.

Substantial shareholdings

At 30 September 2015, the Company had been notified, in accordance with the DTRs, of the following interests in its ordinary share capital:

Name	Ordinary shares	% of capital	Nature of holding
Standard Life	75,201,413	7.004%	Direct and Indirect
Schroders plc	55,221,546	5.020%	Indirect

In the period from 30 September 2015 to 30 November 2015, we received further notifications from Standard Life and from Blackrock, Inc. As at the date of this report those notifications indicate that the holdings of Standard Life and Blackrock stood at 6.993% and 5.03% of capital respectively. 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 145. The Company has a single class of share capital which is divided into ordinary shares of 1 $\frac{1}{4}$ p each.

Rights and obligations attaching to shares

Voting

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

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

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

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

Deadlines for voting rights

Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the Annual General Meeting to be held on 1 March 2016 will be set out in the Notice of Annual General Meeting.

Dividends and distributions

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

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

Liquidation

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

- Divide among the members in specie the whole or any part of the assets of the Company; or
- Vest the whole or any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit.

Transfer of shares

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

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

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

Repurchase of shares

The Company obtained shareholder authority at the last Annual General Meeting (3 March 2015) to buy back up to 107,683,190 ordinary shares. The minimum price which must be paid for each ordinary share is its nominal value and the maximum price is the higher of 105% of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately before the purchase is made and the amount stipulated by article 5(1) of the Buy-back and Stabilisation Regulation 2003 (in each case exclusive of expenses). Share repurchases are used from time to time as a method to control the Group's leverage and decisions are made against strict price, volume and returns criteria that are agreed by the Board and regularly reviewed.

In the year under review, the Company repurchased a total of 3,457,020 ordinary shares of 14/77p each at prices between 347.0p and 390.7p per share. Following repurchase, these shares were held in treasury. Furthermore, the Employee Benefit Trust purchased a total of 377,860 ordinary shares of 14/77p at a price of 546.2p per share. The aggregate amount of consideration paid was £14.6m. The movement in earnings per share comprises profit growth and a change in the weighted average share base as a result of share repurchases and movements in shares held by the Employee Benefit Trust, the impact of which is as follows:

	% change	Underlying basic EPS
FY14		22.19p
Due to change in weighted average share base	+1.6%	0.37p
Due to change in underlying profit after tax	+11.0%	2.44p
FY15	+12.6%	25.00p

In the year under review no treasury shares were cancelled. Total share awards of 2,138,554 were made out of shares held by the Employee Benefit Trust.

Amendment of the Company's articles of association

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

Appointment and replacement of directors

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

Under the articles of association, at every Annual General Meeting of the Company, every director shall retire from office (but shall be eligible for election or re-election by the shareholders). The Company may by special resolution (or by ordinary resolution of which special notice has been given) remove and the Board, by unanimous decision, may 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 who may exercise all the powers of the Company, subject to the provisions of the Company's articles of association, the Companies Act 2006 and any ordinary resolution of the Company.

Shares held in the Employee Benefit Trust

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

Significant agreements

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

- Under a dual tranche US\$551 million and €218 million five-year multi-currency revolving credit facility agreement dated 26 June 2014 between, amongst others, Sage Treasury Company Limited and Lloyds Bank plc (as facility agent) and guaranteed by the Company, on a change of control, if any individual lender so requires and after having consulted with Sage Treasury Company Limited in good faith for not less than 30 days following the change of control, the facility agent shall, by not less than 10 business days' notice to Sage Treasury Company Limited, cancel the commitment of that lender and declare the participation of that lender in all outstanding loans, together with accrued interest and all other amounts accrued under the finance documents, immediately due and payable, whereupon the commitment of that lender will be cancelled and all such outstanding amounts will become immediately due and payable.
- Under a note purchase agreement dated 11 March 2010 relating to US\$50 million senior notes, Series B, due 11 March 2016 and US\$50 million senior notes, Series C, due 11 March 2017 between the Company and the note holders, on a change of control, the Company will not take any action that consummates or finalises a change of control unless at least 15 business days prior to such action it shall have given to each holder of notes written notice containing and constituting an offer to prepay all notes on a date specified in such offer which shall be a business day occurring subsequent to the effective date of the change of control which is not less than 30 days or more than 60 days after the date of the notice of prepayments. Where a holder of notes accepts the offer to prepay, the prepayment shall be 100% of the principal amount of the notes together with accrued and unpaid interest thereon and shall be made on the proposed prepayment date. No prepayment under a change of control shall include any premium of any kind.

- Under a note purchase agreement dated 20 May 2013 relating to US\$50 million senior notes, Series D, due 20 May 2018, US\$150 million senior notes, Series E, due 20 May 2020, US\$150 million senior notes, Series F, due 20 May 2023 and US\$50 million senior notes, Series G, due 20 May 2025 between Sage Treasury Company Ltd and the note holders and guaranteed by the Company, on a change of control of the Company, the Company will not take any action that consummates or finalises a change of control unless at least 15 business days prior to such action it shall have given to each holder of notes written notice containing and constituting an offer to prepay all notes on a date specified in such offer which shall be a business day occurring subsequent to the effective date of the change of control which is not less than 30 days or more than 60 days after the date of the notice of prepayments. Where a holder of notes accepts the offer to prepay, the prepayment shall be 100% of the principal amount of the notes together with accrued and unpaid interest thereon and shall be made on the proposed prepayment date. No prepayment under a change of control shall include any premium of any kind.
- Under a note purchase agreement dated 26 January 2015 relating to €55 million senior notes, Series H, due 26 January 2022, €30 million senior notes, Series I, due 26 January 2023 and US\$200 million senior notes, Series J, due 26 January 2025 between Sage Treasury Company Limited and the note holders and guaranteed by the Company, on a change of control of the Company, the Company will not take any action that consummates or finalises a change of control unless at least 15 business days prior to such action it shall have given to each holder of notes written notice containing and constituting an offer to prepay all notes on the date specified in such offer which shall be a business day occurring subsequent to the effective date of the change of control which is not less than 30 days or more than 60 days after the date of notice of prepayments. Where a holder of notes accepts the offer to prepay, the prepayment shall be 100% of the principal amount of the notes together with accrued and unpaid interest thereon and any applicable net loss and, in each case, including the deduction of any applicable net gain and shall still be made on the proposed payment date. No prepayment under a change of control shall include any premium of any kind.

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

The platform reseller agreement dated 31 January 2015 relating to the Company's strategic arrangements with Salesforce.com EMEA Limited contains a change of control right enabling Salesforce to terminate the agreement in the event there is a change of control in favour of a direct competitor of Salesforce.com EMEA Limited. The agreement contains post termination requirements upon Salesforce to support a transition for up to a specified period.

In respect of the platform reseller agreement with Salesforce.com EMEA Limited, "change of control" occurs where a corporate transaction results in the owners of the subject entity owning less than 50% of the voting interests in that entity as a result of the corporate transaction.

Financial risk management

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

Capital risk

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

Liquidity risk

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

Credit risk

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

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

Interest rate risk

The Group is exposed to interest rate risk on floating rate deposits and borrowings. The US private placement loan notes, which comprise 87% of borrowings, are at fixed interest rates and bank debt, which comprises 13% of borrowings, are at floating interest rates. At 30 September 2015, the Group had £263m (2014: £145m) 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 2015, the Group's principal borrowings comprised US private placement loan notes of £525m (2014: £432m), which have an average fixed interest rate of 3.48%, and bank debt of £82m (2014: £111m), which has an average floating interest rate of 0.93%.

Foreign currency risk

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

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

The Group's external US Dollar and Euro denominated borrowings are designated as a hedge of the net investment in its subsidiaries in the US and Eurozone. The foreign exchange movements on translation of the borrowings into Sterling have therefore been recognised in the translation reserve. Certain of the Group's intercompany balances have been identified as part of the Group's net investment in foreign operations. Foreign exchange effects on these balances that remain on consolidation are also reflected in the translation reserve. The Group's other currency exposures comprise those currency gains and losses recognised in the income statement, reflecting other monetary assets and liabilities of the Group that are not denominated in the functional currency of the entity involved. At 30 September 2015 and 30 September 2014, these exposures were immaterial to the Group.

Disclaimer

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

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

Statement of directors' responsibilities

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

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

In preparing these financial statements the directors are required to:

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

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

Directors' statement

The directors as at the date of this report, whose names and functions are listed in the Board of Directors on pages 60 to 61, confirm that to the best of their knowledge, the Group's financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group.

- To the best of their knowledge, the Directors' report and the Strategic report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces

Each director as at the date of this report further confirms that, so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware

- The director has taken all the steps that he or she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

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

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

By Order of the Board

M J Robinson
Company Secretary

2 December 2015

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Our opinion on the financial statements

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 2015 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.

What we have audited

The Sage Group plc's financial statements comprise:

Group	Parent company
Consolidated balance sheet as at 30 September 2015	Company balance sheet as at 30 September 2015
Consolidated income statement for the year then ended	Company accounting policies
Consolidated statement of comprehensive income for the year then ended	Related notes 1 to 9 to the financial statements
Consolidated statement of changes in equity for the year then ended	
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 17 to the financial statements	

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and 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 (United Kingdom Generally Accepted Accounting Practice).

Overview of our audit approach

Risks of material misstatement	<ul style="list-style-type: none"> – Revenue recognition. – Carrying value of goodwill. – Accounting for taxation.
Audit scope	<ul style="list-style-type: none"> – We performed an audit of the complete financial information of 6 components and audit procedures on specific balances for a further 6 components. – The components where we performed full or specific audit procedures accounted for 90% of adjusted Profit before tax* and 90% of Revenue.
Materiality	– Overall Group materiality is £16.9m which represents 5% of adjusted Profit before tax*.

* Profit before tax adjusted for non-recurring items as defined in 'The application of materiality' section of this report

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk	What we concluded to the Audit and Risk Committee
Revenue recognition Refer to the Audit Committee Report (page 70); and Notes 1 and 3.1 of the Group financial statements. The Group has reported revenues of £1,435.5m (2014: £1,353.5m). We focussed on the recognition of revenue as the timing of revenue recognition and its presentation in the income statement are subject to inherent complexities in the software industry. Management undertook a review of revenue recognition practices across the Group which resulted in changes in the accounting policies for a number of revenue related items as set out in Note 1.	The primary audit team assessed whether the revised revenue recognition policies are appropriate and in accordance with IFRS given the nature of the products and services and the manner in which these are provided by the Group to its customers. Component audit teams: <ul style="list-style-type: none"> – confirmed that the analysis on which the consideration by the primary audit team was based was consistent with the group's actual business practices; and – performed audit procedures to test the completeness and accuracy of revenue amounts to be adjusted in respect of their location. For significant revenue streams at each full and specific scope audit location: <ul style="list-style-type: none"> – We performed walkthroughs of each significant class of revenue transactions and assessed the design effectiveness of key controls. For a number of components we tested the operating effectiveness of controls; – For products and services where the risks and rewards are transferred over a period of time, we tested a sample of transactions to ensure that the amount of revenue was accurately calculated based on the state of completion of the contract and appropriately recognised; 	Following our audit procedures on the underlying fact patterns and technical analysis supporting management's conclusions from its review of revenue recognition practices across the Group, we agreed with the amount of and nature of the resulting adjustments that have been recorded by management, both in the current year and in the prior year comparatives. We concluded that revenue recognised in the year, and deferred as at 30 September 2015, is materially correct on the basis of our procedures performed both at group and by component audit teams.

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

Risk	Our response to the risk	What we concluded to the Audit and Risk Committee
<p>Revenue recognition (continued)</p> <p>We identified 3 specific risks of fraud and error in respect of improper revenue recognition given the nature of the Group's products and services as follows:</p> <ul style="list-style-type: none"> – Inappropriate cut-off and deferral of revenue; – Inappropriate accounting for complex one-off arrangements and new products/services; and – Inappropriate allocation of revenue between the components of bundled products. <p>Audit procedures on revenue at full and specific scope locations covered 90% of reported revenue.</p>	<ul style="list-style-type: none"> – Our procedures in relation to inappropriate accounting for complex one-off arrangements and new products or services were addressed at Group and component level through our procedures on the revised revenue recognition accounting policies outlined above; – 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. At certain components, we performed data analysis over full populations of transactions; and – 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. <p>We also considered the adequacy of the Group's disclosures in respect of the restatement of revenue in the current year and the accounting policies for revenue recognition in notes 1 and 3.1 respectively.</p>	
<p>Carrying value of goodwill</p> <p>Refer to the Audit Committee Report (page 70); and Notes 3.6 and 6.1 of the Group financial statements.</p> <p>We focussed on this area due the size of the goodwill balance £1,446m (2014: £1,433m) and because the directors' assessment of 'value in use' of the Group's Cash Generating Units ("CGUs") involves judgement about the future performance of the business and the discount rates applied to future cash flow forecasts.</p> <p>In particular, we focused our audit effort on the Brazil CGU due to the impairment charge of £62.3m recognised in the current year (2014: impairment charge of £44.3m). The remaining goodwill balance in relation to Brazil is £nil at 30 September 2015.</p> <p>Goodwill was subject to full scope audit procedures by the Primary audit team.</p>	<p>We challenged management's assumptions used in its impairment models for assessing the recoverability of the carrying value of goodwill. We focused on the appropriateness of CGU identification, methodology applied to estimate recoverable values, discount rates, and forecast cash flows. Specifically:</p> <ul style="list-style-type: none"> – We tested the methodology applied in the VIU calculation as compared to the requirements of IAS 36, Impairment of Assets, and the mathematical accuracy of management's model; – We obtained an understanding of and assessed the basis for key underlying assumptions for the 2016 budget. We challenged management on cash flow forecasting and the implied growth rates beyond 2016 by considering evidence available to support these assumptions and their consistency with findings from other areas of our audit and by performing sensitivity analysis; – The discount rates and long term growth rates applied within the model were assessed by an EY business valuation specialist, including comparison to economic and industry forecasts where appropriate; and – For Brazil, we performed sensitivity analyses on key assumptions in the model to recalculate a range of potential outcomes in relation to the impairment charge to be recognised in the year. <p>We considered the appropriateness of the related disclosures provided in notes 3.6 and 6.1 in the Group financial statements.</p>	<p>We concluded that the goodwill balance at 30 September 2015 is materially correct.</p>
<p>Accounting for taxation</p> <p>Refer to the Audit Committee Report (page 70); and Notes 4 and 11 of the Group Financial Statements.</p> <p>We focussed on this area as the Group has international operations and in the normal course of business the Directors make judgments and estimates in relation to tax issues and exposures, the final outcome of which could be significantly different to these estimates. The most significant of these relate to the Unites States, UK and Brazil.</p>	<p>We challenged and applied professional scepticism to the judgments and estimates made by management in relation to tax matters through the following audit procedures:</p> <ul style="list-style-type: none"> – We utilised relevant country tax specialists in testing the assumptions and estimates in relation to the level of provisions recognised for significant tax risks and the judgements made in determining the Group's deferred tax assets; – We confirmed that the Group's stated tax position in relation to both tax exposures or deferred tax assets were consistent with the underlying transactions and fact patterns; and – We inspected the Group's correspondence with relevant tax authorities, to consider the completeness of tax provisions for all relevant risks. <p>We also considered the adequacy of the Group's disclosures (in Notes 1, 4, and 11) in respect of tax and uncertain tax positions.</p>	<p>We concluded that management's judgements in relation to tax provisions for uncertain matters and deferred tax asset recognition were appropriate.</p>

The risks of material misstatement as set out in the table above are consistent with those reported by The Sage Group plc's previous external auditor with the exception of Archer litigation following the dismissal of the compensation claim against the Group in August 2015 as explained on page 122.

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 component 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 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 45 reporting components of the Group, we selected 12 components covering entities within UK and Ireland, France, Germany, Spain, North America, South Africa, and Brazil which represent the principal business units within the Group.

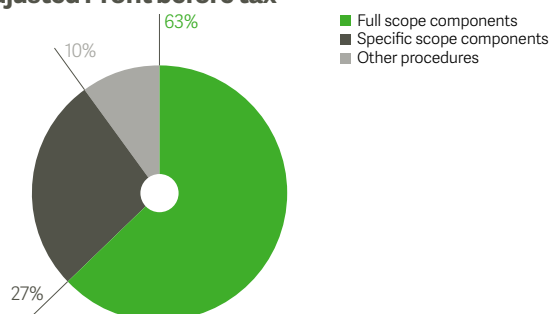
Of the 12 components selected, we performed an audit of the complete financial information of 6 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 6 components ("specific scope components"), we performed audit procedures on specific 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.

The reporting components where we performed audit procedures accounted for 90% of the Group's adjusted Profit before tax measure used to calculate materiality and 90% of the Group's Revenue. For the current year, the full scope components contributed 63% of the Group's adjusted Profit before tax measure used to calculate materiality and 58% of the Group's Revenue. The specific scope components contributed 27% of the Group's adjusted PBT measure used to calculate materiality and 32% of the Group's Revenue. 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 tested for the Group. We instructed a component team to undertake specified procedures over certain cash balances at one location. The Group audit risk in relation to revenue recognition was subject to audit procedures at each of the full and specific scope locations with revenue. The Group audit risk in relation to the carrying value of goodwill was subject to audit procedures by the primary audit team on the entire balance. The Group audit risk in relation to taxation was subject to full scope audit procedures in 5 components and limited scope procedures in 3 components.

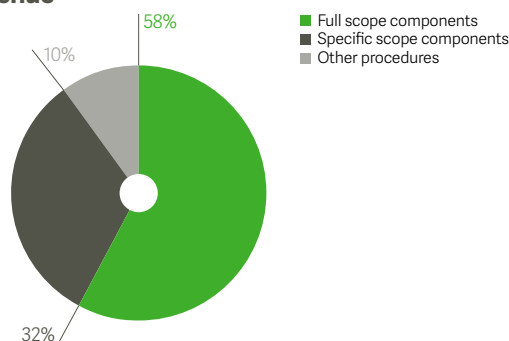
Of the remaining 33 components that together represent 10% of the Group's adjusted Profit before tax, none are individually greater than 4% of the Group's adjusted Profit before tax. For 5 components, including 2 in Asia and Australia, we performed review scope procedures. For the remaining components, we performed other procedures, including analytical review procedures and testing of consolidation journals, intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.

Adjusted Profit before tax



Revenue



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 6 full scope components, audit procedures were performed on 3 of these directly by the primary audit team and 3 by component audit teams. For the 6 specific scope components, work was performed by component auditors. We determined the appropriate level of involvement with the component teams to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

At the start of the audit, a Global Team Planning Event was held in the UK with representatives from all full and specific scope component audit teams in attendance. In addition, the Group audit team established a programme of planned visits that has been designed to ensure that as a first year audit the Senior Statutory Auditor, or her designate, would visit all full and 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, Germany, Spain, North America, South Africa, and Brazil. These visits involved discussing the audit approach with the component team and any issues arising from their work, meeting with local management, attending closing meetings, and reviewing key audit working papers on the Group risk areas. The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

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

<p>Materiality</p> <p><i>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.</i></p> <p>We determined materiality for the Group to be £16.9 million, which is 5% of Profit before tax adjusted for non-recurring items reported by the Group. We believe that adjusted Profit before tax provides us with a consistent year on year basis for determining materiality and is the most relevant performance measure to the stakeholders of the entity. Detailed audit procedures are performed on material non-recurring items.</p> <p>During the course of our audit, we reassessed initial materiality and the only change in final materiality was to reflect the actual reported performance of the Group in the year.</p>	Starting basis	<ul style="list-style-type: none">– Profit before tax – £275.8m
	Adjustments	<ul style="list-style-type: none">– Adjusted for non recurring items– Goodwill impairment charge of £62.3m
	Materiality	<ul style="list-style-type: none">– Totals £338.1m [materiality basis]– Materiality of £16.9m (5% of materiality basis)

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% of our planning materiality, namely £8.5m, reflecting that this is our first year as auditor of The Sage Group plc.

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 full and specific scope components was £0.9m to £4.3m.

Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.9m, which is set at 5% of planning 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group’s and the Parent company’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts 2015 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Respective responsibilities of directors and auditor

As explained more fully in the Directors’ Responsibilities Statement set out on page 97, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

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.

Opinion 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; and
- 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.

Matters on which we are required to report by exception

ISAs (UK and Ireland) reporting	<p>We are required to report to you if, in our opinion, financial and non-financial information in the annual report is:</p> <ul style="list-style-type: none"> – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or – otherwise misleading. <p>In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed.</p>	We have no exceptions to report.
Companies Act 2006 reporting	<p>We are required to report to you if, in our opinion:</p> <ul style="list-style-type: none"> – 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. 	We have no exceptions to report.
Listing Rules review requirements	<p>We are required to review:</p> <ul style="list-style-type: none"> – The directors' statement in relation to going concern, and longer-term viability, set out on page 93; and – The part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. 	We have no exceptions to report.

Statement on the Directors' Assessment of the Principal Risks that Would Threaten the Solvency or Liquidity of the Entity

ISAs (UK and Ireland) reporting	<p>We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to:</p> <ul style="list-style-type: none"> – the directors' confirmation 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 disclosures in the annual report that describe those risks and explain how they are being managed or mitigated; – the directors' statement 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 twelve months from the date of approval of the financial statements; and – the directors' explanation 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. 	We have nothing material to add or to draw attention to.
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Alison Duncan (Senior statutory auditor)

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

2 December 2015

Notes:

- The maintenance and integrity of The Sage Group plc web site is the responsibility of the directors; the work carried out by the auditor 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 web site.
- 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 2015

	Note	Underlying 2015 £m	Adjustments (note 3.6) 2015 £m	Statutory 2015 £m	Underlying as reported * 2014 (restated) £m	Adjustments (note 3.6) 2014 £m	Statutory 2014 (restated) £m
Revenue	2.1, 3.1	1,435.5	–	1,435.5	1,353.5	–	1,353.5
Cost of sales		(86.7)	–	(86.7)	(74.5)	–	(74.5)
Gross profit		1,348.8	–	1,348.8	1,279.0	–	1,279.0
Selling and administrative expenses		(968.9)	(82.7)	(1,051.6)	(918.0)	(61.4)	(979.4)
Operating profit	2.2, 3.2, 3.3, 3.6	379.9	(82.7)	297.2	361.0	(61.4)	299.6
Finance income	3.5	2.2	–	2.2	2.1	–	2.1
Finance costs	3.5	(23.6)	–	(23.6)	(22.2)	(0.8)	(23.0)
Finance costs – net	3.5	(21.4)	–	(21.4)	(20.1)	(0.8)	(20.9)
Profit before income tax		358.5	(82.7)	275.8	340.9	(62.2)	278.7
Income tax expense	4	(90.3)	8.8	(81.5)	(90.5)	0.7	(89.8)
Profit for the year		268.2	(73.9)	194.3	250.4	(61.5)	188.9
Profit attributable to:							
– Owners of the parent		268.2	(73.9)	194.3	249.5	(61.5)	188.0
– Non-controlling interest		–	–	–	0.9	–	0.9
		268.2	(73.9)	194.3	250.4	(61.5)	188.9
Earnings per share attributable to the owners of the parent (pence)							
– Basic	5	25.00p		18.11p	22.91p		17.26p
– Diluted	5	24.85p		18.00p	22.87p		17.24p

All operations in the year relate to continuing operations.

* Underlying as reported is at 2014 reported exchange rates.

Consolidated statement of comprehensive income

For the year ended 30 September 2015

	Note	2015 £m	2014 (restated) £m
Profit for the year		194.3	188.9
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss:			
Actuarial loss on post-employment benefit obligations	14.4	(4.8)	(0.4)
Deferred tax credit on actuarial loss on post-employment benefit obligations	14.4	0.6	0.4
		(4.2)	–
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations	14.3	(23.2)	(38.1)
		(23.2)	(38.1)
Other comprehensive expense for the year, net of tax		(27.4)	(38.1)
Total comprehensive income for the year		166.9	150.8
Total comprehensive income for the year attributable to:			
– Owners of the parent		166.9	149.9
– Non-controlling interest		–	0.9
		166.9	150.8

Consolidated balance sheet

As at 30 September 2015

	Note	2015 £m	2014 (restated) £m	As at 1 October 2013 (restated) £m
Non-current assets				
Goodwill	6.1	1,446.0	1,433.0	1,515.2
Other intangible assets	6.2	105.5	98.1	113.5
Property, plant and equipment	7	122.7	126.7	128.8
Deferred income tax assets	11	34.2	29.4	26.2
		1,708.4	1,687.2	1,783.7
Current assets				
Inventories	8.1	2.0	2.0	2.2
Trade and other receivables	8.2	320.9	321.5	311.2
Cash and cash equivalents (excluding bank overdrafts)	12.3	263.4	144.6	100.8
		586.3	468.1	414.2
Total assets		2,294.7	2,155.3	2,197.9
Current liabilities				
Trade and other payables	8.3	(311.2)	(279.5)	(276.2)
Current income tax liabilities		(31.4)	(23.7)	(35.7)
Borrowings	12.4	(33.6)	(125.4)	(21.0)
Provisions	9	(9.9)	(13.0)	(13.3)
Other financial liabilities	13.4	–	(60.1)	(30.0)
Deferred income		(436.5)	(426.2)	(433.0)
		(822.6)	(927.9)	(809.2)
Non-current liabilities				
Borrowings	12.4	(571.4)	(415.8)	(440.6)
Other financial liabilities		–	–	(54.2)
Post-employment benefits	10	(18.7)	(13.6)	(12.9)
Deferred income tax liabilities	11	(7.3)	(19.1)	(23.1)
Provisions	9	(10.4)	(8.3)	(6.3)
Deferred income		(2.2)	(2.7)	–
		(610.0)	(459.5)	(537.1)
Total liabilities		(1,432.6)	(1,387.4)	(1,346.3)
Net assets		862.1	767.9	851.6
Equity attributable to owners of the parent				
Ordinary shares	14.1	11.8	11.7	11.7
Share premium		541.2	535.9	532.2
Other reserves	14.3	66.9	90.1	60.2
Retained earnings		242.2	130.2	248.5
		862.1	767.9	852.6
Non-controlling interest		–	–	(1.0)
Total equity		862.1	767.9	851.6

The consolidated financial statements on pages 104 to 155 were approved by the Board of Directors on 2 December 2015 and are signed on their behalf by:

S Hare
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 30 September 2015

	Attributable to owners of the parent				
	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 October 2014 (restated)	11.7	535.9	90.1	130.2	767.9
Profit for the year	–	–	–	194.3	194.3
Other comprehensive income/(expense):					
Exchange differences on translating foreign operations (note 14.3)	–	–	(23.2)	–	(23.2)
Actuarial loss on post-employment benefit obligations (note 10)	–	–	–	(4.8)	(4.8)
Deferred tax credit on actuarial loss on post-employment obligations (note 4)	–	–	–	0.6	0.6
Total comprehensive (expense)/income for the year ended 30 September 2015	–	–	(23.2)	190.1	166.9
Transactions with owners:					
Employee share option scheme:					
– Proceeds from shares issued	0.1	5.3	–	–	5.4
– Value of employee services, net of deferred tax (note 14.2)	–	–	–	10.1	10.1
Purchase of treasury shares (note 14.4)	–	–	–	(14.6)	(14.6)
Expenses related to purchase of treasury shares	–	–	–	(0.1)	(0.1)
Close period share buyback programme (note 13.4)	–	–	–	60.0	60.0
Dividends paid to owners of the parent (note 14.5)	–	–	–	(133.5)	(133.5)
Total transactions with owners for the year ended 30 September 2015	0.1	5.3	–	(78.1)	(72.7)
At 30 September 2015	11.8	541.2	66.9	242.2	862.1

Consolidated statement of changes in equity continued

	Attributable to owners of the parent (restated)					Non-controlling interest £m	Total equity £m
	Ordinary shares £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m		
At 1 October 2013	11.7	532.2	60.4	267.0	871.3	(1.0)	870.3
Restatement (note 1)	–	–	(0.2)	(18.5)	(18.7)	–	(18.7)
At 1 October 2013 (restated)	11.7	532.2	60.2	248.5	852.6	(1.0)	851.6
Profit for the year	–	–	–	188.0	188.0	0.9	188.9
Other comprehensive income/(expense):							
Exchange differences on translating foreign operations (note 14.3)	–	–	(38.1)	–	(38.1)	–	(38.1)
Actuarial loss on post-employment benefit obligations (note 10)	–	–	–	(0.4)	(0.4)	–	(0.4)
Deferred tax credit on actuarial loss on post-employment obligations (note 4)	–	–	–	0.4	0.4	–	0.4
Total comprehensive (expense)/income for the year ended 30 September 2014	–	–	(38.1)	188.0	149.9	0.9	150.8
Transactions with owners:							
Employee share option scheme:							
– Proceeds from shares issued	–	3.7	–	–	3.7	–	3.7
– Value of employee services, net of deferred tax (note 14.2)	–	–	–	7.8	7.8	–	7.8
Purchase of treasury shares (note 14.4)	–	–	–	(89.5)	(89.5)	–	(89.5)
Expenses related to purchase of treasury shares	–	–	–	(0.2)	(0.2)	–	(0.2)
Close period share buyback programme (note 13.4)	–	–	–	(30.1)	(30.1)	–	(30.1)
Purchase of non-controlling interest (note 13.4)	–	–	68.0	(68.1)	(0.1)	0.1	–
Dividends paid to owners of the parent (note 14.5)	–	–	–	(126.2)	(126.2)	–	(126.2)
Total transactions with owners for the year ended 30 September 2014	–	3.7	68.0	(306.3)	(234.6)	0.1	(234.5)
At 30 September 2014 (restated)	11.7	535.9	90.1	130.2	767.9	–	767.9

Consolidated statement of cash flows

For the year ended 30 September 2015

	Note	2015 £m	2014 (restated) £m
Cash flows from operating activities			
Cash generated from continuing operations	12.1	418.6	382.4
Interest paid		(19.2)	(20.2)
Income tax paid		(84.6)	(107.2)
Net cash generated from operating activities		314.8	255.0
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash acquired	15.1	(47.3)	(14.1)
Purchases of intangible assets	6.2	(6.0)	(8.3)
Purchases of property, plant and equipment	7	(16.4)	(19.7)
Proceeds from sale of property, plant and equipment		2.1	1.1
Interest received	3.5	2.2	2.1
Net cash generated from investing activities		(65.4)	(38.9)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		5.4	3.7
Purchase of treasury shares		(17.7)	(91.0)
Purchase of non-controlling interest	13.4	–	(50.4)
Finance lease principal payments		(1.4)	(1.9)
Proceeds from borrowings		481.2	171.0
Repayments of borrowings		(474.5)	(71.8)
Movements in cash held on behalf of customers		12.5	15.5
Borrowing costs		(1.3)	(1.4)
Dividends paid to owners of the parent	14.5	(133.5)	(126.2)
Net cash used in financing activities		(129.3)	(152.5)
Net increase in cash, cash equivalents and bank overdrafts (before exchange rate movement)	12.2	120.1	63.6
Effects of exchange rate movement		(0.4)	(2.8)
Net increase in cash, cash equivalents and bank overdrafts		119.7	60.8
Cash, cash equivalents and bank overdrafts at 1 October	12.2	143.7	82.9
Cash, cash equivalents and bank overdrafts at 30 September	12.2	263.4	143.7

Basis of preparation and critical accounting estimates and judgements

1 Basis of preparation and critical accounting estimates and judgements

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

Basis of preparation

The consolidated financial statements of The Sage Group plc have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). The consolidated financial statements have been prepared under the historical cost convention, except where adopted IFRS require an alternative treatment. The principal variations from the historical cost convention relate to derivative financial instruments which are measured at fair value through profit or loss.

The financial statements of the Group comprise the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared at the end of the reporting period. The accounting policies have been consistently applied across the Group. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to benefit from its activities which is usually from date of acquisition.

Changes in accounting policy

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

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

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

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

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

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

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

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

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 2 to 58.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future, 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 and 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.

Basis of preparation and critical accounting estimates and judgements continued

1 Basis of preparation and critical accounting estimates and judgements continued

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 carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. 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. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised in equity.

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

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

Critical accounting estimates and judgements

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

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

Revenue recognition

Approximately 30% of the company's revenue is generated from sales to partners rather than to end users. The key judgement in accounting for the three principal ways in which our business partners are remunerated is determining whether the business partner is a customer of the Group in respect of the initial product sale. The key criteria in this determination is whether the business partner has paid for and taken on the risks and rewards of ownership of the software product from Sage. At this point the business partner is able to sell on the licence to the end user at a price of its determination and consequently bears the credit risk of the onward sale.

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

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

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

Goodwill impairment

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

The first is the ongoing appropriateness of the cash-generating units ("CGUs") for the purpose of impairment testing. In the current year CGUs were assessed in the context of the Group's evolving business model, the Sage 2020 initiative and the shift to global product development. As management continues to monitor goodwill at a country level and product cash flows are still predominantly generated by the existing product base within each country, it was determined that the existing CGUs remain appropriate.

The other key judgement area relates to the assumptions applied in calculating the value in use of the CGUs being tested for impairment. The key assumptions applied in the calculation relate to the future performance expectations of the business – average medium-term revenue growth, long term operating margin and long term growth rate – as well as the discount rate to be applied in the calculation. These key assumptions used in performing the impairment assessment are disclosed in note 6.1.

Tax provisions

The Group recognises certain provisions and accruals in respect of tax which involve a degree of estimation and uncertainty where the tax treatment cannot finally be determined until a resolution has been reached by the relevant tax authority. This approach resulted in providing £32.8m as at 30 September 2015 (2014: £26.3m).

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

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

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

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

Future accounting standards

The directors also considered the impact on the Group of other new and revised accounting standards, interpretations or amendments. The following revised and new accounting standard may have a material impact on the Group is currently issued but not yet effective for the Group for the year ended 30 September 2015:

- IFRS 15, "Revenue from Contracts with Customers".

The Group is in the process of assessing the impact that the application of this standard will have on the Group's financial statements.

2 Segment information

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

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

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

- Statutory results are the IFRS statutory results.
- 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. See note 3.6 for details of these adjustments.
In addition, the prior year underlying values are translated at current exchange rates, so that exchange rate impacts do not distort comparisons. Prior year underlying values at prior year exchange rates are “underlying as reported”; prior year and current year values at current year exchange rates are “underlying”.
- Organic is a non-GAAP measure. The contributions of current and prior year acquisitions and disposals are removed, so that results can be compared to prior year on a like for like basis.

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 CEO and CFO. The Executive Committee use organic and underlying data to monitor business performance. Operating segments are reported in a manner which is consistent with the operating segments produced for internal management reporting.

The Group is organised into four key operating segments, with Brazil being aggregated with AAMEA with which there are similar economic characteristics to form the International reporting segment. The UK is the home country of the parent. The reporting segments and their main operating territories are as follows:

- Europe (France, UK & Ireland, Spain, Germany, Switzerland, Poland, Portugal and Sagepay)
- North America (US and Canada)
- International (Brazil, Africa, Australia, Middle East and Asia)

The Africa operations are principally based in South Africa; the Middle East and Asia operations are principally based in Singapore, Malaysia and UAE.

Segment reporting

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

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

Revenue categories are defined in Note 3.1. Processing revenue has been disclosed separately for year ended 30 September 2015 and the prior year comparatives have been restated to this effect.

2.1 Revenue by segment

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

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

The 2014 comparatives have been restated in line with the changes in accounting policy (note 1).

Results for the year continued

2 Segment information continued

2.2 Operating profit by segment

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

	Year ended 30 September 2014 (restated)				
	Statutory £m	Underlying adjustments £m	Underlying as reported £m	Impact of foreign exchange £m	Underlying and organic £m
Operating profit by segment					
Europe	206.2	8.4	214.6	(11.4)	203.2
North America	88.4	4.3	92.7	4.8	97.5
International	5.0	48.7	53.7	(4.0)	49.7
Total operating profit	299.6	61.4	361.0	(10.6)	350.4

The results by segment from continuing operations were as follows:

Year ended 30 September 2015	Note	Europe £m	North America £m	International £m	Group £m
Revenue		753.0	477.0	205.5	1,435.5
Segment statutory operating profit		216.6	94.9	(14.3)	297.2
Finance income	3.5				2.2
Finance costs	3.5				(23.6)
Profit before income tax					275.8
Income tax expense	4				(81.5)
Profit for the year					194.3

No single customer contributed more than 10% of the Group's revenue in the current or prior year.

Reconciliation of underlying operating profit to statutory operating profit

	Europe £m	North America £m	International £m	Group £m
Underlying operating profit	223.0	102.4	54.5	379.9
Amortisation of acquired intangible assets	(6.4)	(7.5)	(4.3)	(18.2)
Fair value adjustments and goodwill impairment	–	–	(64.5)	(64.5)
Statutory operating profit	216.6	94.9	(14.3)	297.2

The results by segment from continuing operations were as follows:

Year ended 30 September 2014 (restated)	Note	Europe £m	North America £m	International £m	Group £m
Revenue		747.7	409.0	196.8	1,353.5
Segment statutory operating profit		206.2	88.4	5.0	299.6
Finance income	3.5				2.1
Finance costs	3.5				(23.0)
Profit before income tax					278.7
Income tax expense	4				(89.8)
Profit for the year					188.9

Year ended 30 September 2014 (restated)	Europe £m	North America £m	International £m	Group £m
Underlying operating profit (as reported)	214.6	92.7	53.7	361.0
Amortisation of acquired intangible assets	(6.9)	(2.7)	(4.9)	(14.5)
Fair value adjustments and goodwill impairment	–	–	(44.7)	(44.7)
Acquisition-related items	(0.1)	(1.6)	0.9	(0.8)
Litigation costs	(1.4)	–	–	(1.4)
Statutory operating profit	206.2	88.4	5.0	299.6

In 2015 the organic operating profit adjustment relates to the Exact and PayChoice acquisitions (note 15).

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	2015 £m	2014 £m
UK	298.6	279.1
France	221.2	230.7
USA	374.6	308.4
Other individually immaterial countries	541.1	535.3
	1,435.5	1,353.5

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	2015 £m	2014 £m
UK	295.8	297.3
France	217.0	235.8
USA	871.6	733.7
Other individually immaterial countries and consolidation adjustments	289.8	391.0
	1,674.2	1,657.8

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 on the consolidated balance sheet.

This note also provides a breakdown of any material recurring and non-recurring costs that have been reported separately on the face of the income statement.

3.1 Revenue

<i>Accounting policy</i>	
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 & Examples	Accounting Treatment
Recurring revenue Subscription contracts Maintenance and support contracts Pay as you go 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 is 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 stationary	Perpetual software licences and specified upgrades revenue is 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 business forms, hardware and stationary) is recognised as the products are shipped to the customer. Other services revenue (which include 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. 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.	

3.2 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	Note	2015 £m	2014 £m
Staff costs	3.3	639.2	601.5
Cost of inventories recognised as an expense (included in cost of sales)	8.1	8.0	12.5
Depreciation of property, plant and equipment	7	18.2	18.0
Amortisation of intangible assets	6.2	29.1	24.5
Fair value adjustments and goodwill impairment	3.6	64.5	44.7
Loss on disposal of property, plant and equipment	12.1	–	0.8
Other operating lease rentals payable		27.9	28.8
Net foreign exchange losses/		0.3	0.1
Acquisition-related items		2.0	2.4

The Group also incurred £141.2m (2014: £131.2m) of research and development expenditure in the year, of which £123.5m (2014: £118.5m) is included above in staff costs. See note 6.2 for the research and development accounting policy.

Services provided by the Group's auditors and network firms

During the year, the Group (including its overseas subsidiaries) obtained the following services from the Group's auditors at costs as detailed below:

	2015 £m	2014 £m
Fees payable to the Group's auditor for the audit of the Plc's companies and the consolidated accounts	0.9	0.3
Fees payable to the Group's auditor for the audit of the Company's subsidiaries	1.8	1.7
Fees payable to the Group's auditor for audit-related assurance services	0.1	0.1
Total audit and audit related services	2.8	2.1
Tax compliance services	–	0.6
Tax advisory services	–	0.3
Other non-audit services	–	0.1
Total fees	2.8	3.1

The 2015 Audit fees for the Group are higher than 2014, reflecting the complexities of a first year audit following the recent appointment of Ernst and Young as the Group's auditors (2014: PricewaterhouseCoopers). The fees are expected to reduce to historic levels in 2016.

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 72.

Results for the year continued

3 Profit before income tax continued

3.3 Employees and directors

Average monthly number of people employed (including directors)	2015 number	2014 adjusted number
By segment:		
Europe	7,277	6,961
North America	2,508	2,295
International	3,486	3,228
	13,271	12,484

Staff costs (including directors on service contracts)	Note	2015 £m	2014 adjusted £m
Wages and salaries		546.2	509.7
Social security costs		72.1	72.8
Post-employment benefits	10	11.8	11.0
Share-based payments	14.2	9.1	8.0
		639.2	601.5

The presentation of the 2014 comparatives has been revised with a reclassification between wages and salaries and social security costs and to exclude £15.3m of 2014 contractor costs previously disclosed in wages and salaries.

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

The key management figures given above include directors. Key management personnel are deemed to be members of the Executive Committee as shown on page 62.

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:	2015 Property, vehicles, plant and equipment £m	2014 Property, vehicles, plant and equipment £m
Within one year	29.4	29.5
Later than one year and less than five years	73.7	77.0
After five years	15.7	29.8
	118.8	136.3

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.

3.5 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.

	2015 £m	2014 £m
Finance income: interest income on short-term deposits	2.2	2.1
Finance costs:		
Finance costs on bank borrowings	(3.6)	(4.6)
Finance costs on US senior loan notes	(18.7)	(16.4)
Amortisation of issue costs	(1.3)	(1.2)
Imputed interest on put and call arrangement to acquire non-controlling interest and deferred consideration	–	(0.8)
Finance costs	(23.6)	(23.0)
Finance costs – net	(21.4)	(20.9)

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 apply 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, although not restricted to, fair value adjustments on financial instruments, and merger & acquisition ("M&A") activity which by its nature is irregular in its impact and includes amortisation, and acquisition related costs. These do not include operating or integration costs related to the acquisition. Recurring items are adjusted each year irrespective of materiality to ensure consistent treatment.

Non-recurring items

These items are those items which are non-recurring nature and are identified by virtue of either their size or nature. These items can include, but are not restricted to, gains and losses on the disposal of assets, impairment charges and reversals and restructuring. These are items which management judge to be of a one-off nature or non-operational, which would distort a reader of the Company's accounts understanding of underlying business performance.

Results for the year continued

3 Profit before income tax continued

3.6 Adjustments between underlying and statutory results continued

	Recurring 2015 £m	Non-recurring 2015 £m	Total 2015 £m	Recurring 2014 £m	Non-recurring 2014 £m	Total 2014 £m
Acquisition-related items						
Amortisation of acquired intangibles	18.2	–	18.2	14.5	–	14.5
Fair value adjustments	2.2	–	2.2	0.4	–	0.4
Litigation costs	–	–	–	–	1.4	1.4
Other acquisition-related items	–	–	–	0.8	–	0.8
Other items						
Goodwill impairment	–	62.3	62.3	–	44.3	44.3
Total adjustments made to operating profit	20.4	62.3	82.7	15.7	45.7	61.4
Acquisition-related items						
Imputed interest on put and call arrangements to acquire non-controlling interest and deferred consideration	–	–	–	0.8	–	0.8
Total adjustments made to profit before income tax	20.4	62.3	82.7	16.5	45.7	62.2

Recurring items

Acquired intangibles are assets which have previously been recognised as part of business combinations. These assets are predominantly brands, customer relationships and technology rights. Further details including specific accounting policies in relation to these assets can be found in note 6.2.

The current year fair value adjustment (£2.2m) relates to an accounting loss on fair valuation of the call option in relation to the possible acquisition of Mastermaq. The prior year fair value adjustment (£0.4m) related to the accounting loss on the settlement of the put and call arrangement to acquire 25% of the share capital of Folhamatic, within the Brazilian sub-group, from the non-controlling interest holder. This transaction occurred in August 2014. Further details can be found in note 13.4.

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

The prior year imputed interest adjustment on the put and call arrangement relates to the accounting adjustment made during the year to discount this liability to its present value. This entry was made up until the liability was settled in August 2014. As above, further details can be found in note 13.4.

Non-recurring items

As a result of the annual goodwill impairment review, an impairment of the goodwill held in the Brazilian business was recognised in 2015 and 2014. This impairment is driven by economic conditions in Brazil and a re-assessment of the future performance of the Brazilian business performed by management. Further details can be found in note 6.1.

The adjustment relating to litigation costs relates to the defence of the Archer Capital case, which was strongly rejected by management. In 2015 the claim brought by Archer Capital was dismissed on all grounds. No further costs were incurred in 2015.

All other litigation costs which may be incurred through the normal course of business are charged through operational expenses.

See note 4 for the tax impact of these adjustments.

4 Income tax expense

This note analyses the tax charge for this financial year which includes both current and deferred tax. Current tax expense represents the amount payable on this year's taxable profits and any adjustments relating to prior years. Deferred tax is an accounting adjustment to provide tax that is expected to arise in the future due to differences between accounting and tax bases.

This note outlines the tax accounting policies, the current and deferred tax charges in the year and presents a reconciliation of profit before tax in the income statement to the tax charge.

Accounting policy

The taxation charge for the year represents the sum of the tax currently payable and deferred tax. The charge is recognised in the income statement and statement of comprehensive income according to the accounting treatment of the related transaction.

Current tax payable or receivable is based on the taxable income for the period and any adjustment in respect of prior periods. Current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax arises due to certain temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases (note 11).

	Note	2015 £m	2014 £m
Analysis of charge in the year			
Current tax			
– Current tax on profit for the year		106.9	101.4
– Adjustment in respect of prior years		(11.0)	(4.2)
Current tax		95.9	97.2
Deferred tax			
– Origination and reversal of temporary differences		(13.9)	(5.3)
– Adjustment in respect of prior years		(0.5)	(2.1)
Deferred tax	11	(14.4)	(7.4)
The current year tax charge is split into the following:			
Underlying tax charge		90.3	90.5
Tax credit on adjustments between the underlying and statutory operating profit		(8.8)	(0.7)
Income tax expense		81.5	89.8

The majority of the current tax adjustment in respect of prior years of £11.0m (2014: £4.2m) reflects the resolution of a number of historical tax matters, including settlements with the Tax Authorities.

	2015 £m	2014 £m
Tax on items credited to other comprehensive income		
Deferred tax credit on actuarial loss on post-employment benefit obligations	(0.6)	(0.4)
Total tax on items credited to other comprehensive income/equity	(0.6)	(0.4)

Results for the year continued

4 Income tax expense continued

The tax for the year is higher (2014: higher) than the standard rate of corporation tax in the UK of 20.5% (2014: 22%). The differences are explained below:

	Note	2015 £m	2014 (restated) £m
Statutory profit on ordinary activities before income tax		275.8	278.7
Statutory profit on ordinary activities multiplied by rate of corporation tax in the UK of 20.5% (2014: 22 %)		56.5	61.3
Tax effects of:			
Adjustments in respect of prior years		(11.5)	(6.3)
Adjustments in respect of foreign tax rates		22.4	22.0
Non-deductible expenses and permanent items		6.6	4.5
Non-deductible impairment		10.5	9.8
Local business tax		3.3	2.8
R&D tax credits		(1.7)	(2.1)
Recognition of amortisation claims		(4.4)	(2.0)
Deferred tax on share options		(0.2)	(0.2)
Total statutory income tax		81.5	89.8

The effective tax rate on statutory profit before tax was 30% (FY14: 32%), whilst the effective tax rate on underlying profit before tax was 25% (FY14: 27%). The difference between the statutory effective tax rate and the underlying tax rate relates to an impairment which is not deductible for tax purposes.

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

The 2014 tax reconciliation has been restated to show the relationship between the group's statutory profit before income tax and income tax expense, rather than the relationship between underlying profit before tax and underlying tax charge, as presented in the 2014 financial statements.

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. Basic EPS is calculated on profit for the year attributable to equity shareholders divided by the weighted average number of shares in issue during the year. Diluted EPS shows what the impact would be if all outstanding, exercisable share options were exercised and treated as ordinary shares at the year-end.

This note also provides a reconciliation between the statutory profit figure, which ties to the consolidated income statement on page 104, 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 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 2015	Underlying as reported (restated) 2014	Underlying (restated) 2014	Statutory 2015	Statutory (restated) 2014
Earnings (£m)					
Profit for the year	268.2	249.5	241.7	194.3	188.0
Number of shares (millions)					
Weighted average number of shares	1,073.0	1,089.0	1,089.0	1,073.0	1,089.0
Dilutive effects of shares	6.5	1.7	1.7	6.5	1.7
	1,079.5	1,090.7	1,090.7	1,079.5	1,090.7
Earnings per share					
Basic earnings per share (pence)	25.00	22.91	22.19	18.11	17.26
Diluted earnings per share (pence)	24.85	22.87	22.16	18.00	17.24

	2015 £m	2014 (Restated) £m
Reconciliation between statutory and underlying earnings per share		
Earnings: Statutory profit for the year	194.3	188.0
Adjustments:		
Intangible amortisation excluding amortisation of acquired intangible assets	18.2	14.5
Other acquisition-related items	–	0.8
Goodwill impairment and fair value adjustments	64.5	44.7
Litigation costs	–	1.4
Imputed interest on put and call arrangement to acquire non-controlling interest and deferred consideration	–	0.8
Taxation on adjustments	(8.8)	(0.7)
Net adjustments	73.9	61.5
Earnings – underlying profit for the year (before exchange movement)	268.2	249.5
Exchange movement	–	(11.5)
Taxation on exchange movement	–	3.7
Net exchange movement	–	(7.8)
Earnings – underlying profit for the year (after exchange movement)	268.2	241.7

Exchange movement relates to the retranslation of prior year results to current year exchange rates as shown in the table on page 45 within the financial review.

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

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, meaning the best estimate of the value for which these assets could be sold in an arm's length transaction.

Goodwill represents the excess between the amount paid to acquire the businesses over the fair value of the net assets 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. Gains and losses on disposal of the entity include the carrying amount of the foreign exchange on the goodwill relating to the entity sold (except for goodwill taken to reserves prior to the transition to IFRS on 1 October 2004).

Goodwill is allocated to CGUs for the purpose of impairment testing. The recoverable amount of the CGU to which the goodwill relates is tested annually for impairment or when events or changes in circumstances indicate that it might be impaired.

Goodwill is allocated to CGUs expected to benefit from the synergies of the combination and the allocation represents the lowest level at which goodwill is monitored.

	2015 £m	2014 £m
Cost at 1 October	1,476.7	1,516.6
– Additions	61.9	7.6
– Exchange movement	(12.2)	(47.5)
At 30 September	1,526.4	1,476.7
Impairment at 1 October	43.7	1.4
– Impairment in the year	62.3	44.3
– Exchange movement	(25.6)	(2.0)
At 30 September	80.4	43.7
Net book amount at 30 September	1,446.0	1,433.0

In the current year the Group acquired Paychoice and recorded goodwill of £59.6m (note 15.1). The Group also incurred a fair value adjustment of £2.3m in relation to the acquisition of Exact which was acquired on 15 September 2014.

Goodwill impairment tests

The following table shows the allocation of the carrying value of goodwill at the end of the reporting period by CGU:

	2015 £m	2014 £m
France	186.3	196.7
UK & Ireland	180.6	180.6
Spain	107.0	112.9
Sage Pay Europe	23.6	24.2
Germany	32.1	31.4
Switzerland	34.5	32.8
Poland	5.8	6.2
Portugal	4.7	4.9
North America		
– Sage Business Solutions Division (SBS)	635.4	533.6
– Sage Payment Solutions Division (SPS)	165.0	154.1
Brazil	–	76.8
South Africa	36.3	39.7
Australia	19.0	20.4
Malaysia	11.2	14.0
Singapore	4.5	4.7
	1,446.0	1,433.0

The recoverable amounts of CGUs are determined as the higher of fair value less costs to sell and the value-in-use. In determining value-in-use, estimated future cash flows are discounted to their present value.

In all cases, the 2016 budget and the approved Group plan for the five years following the current financial year form the basis for the cash flow projections for a CGU. Beyond the five year plan these projections are extrapolated using an estimated long-term growth rate. The key assumptions in the value-in-use calculations are the average medium term revenue growth rate, the long-term operating margin and the long-term growth rate of net operating cash flows.

- The average medium-term revenue growth rate for the first five years is based on the 2016 budget and the approved Group 5-year plan. The average medium-term revenue growth rate applied to CGUs reflects the specific rates for each territory.
- The long-term operating margin (before central costs) assumed for a CGU's operations is based on the 2016 budget and the approved Group 5-year plan. The long-term operating margin 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	2015	2014
– Average medium-term revenue growth rate*	0% - 20%	1% - 15%
– Long-term operating margin before central costs	12% - 63%	26% - 62%
– Long-term growth rates to net operating cash flows	1.1% - 4.2%	1.3% - 5.1%

* Average Medium-Term Revenue Growth Rate is calculated on value in use projections that exclude intercompany revenue.

In accordance with IAS 36, key assumptions for those CGUs where significant goodwill is held are disclosed. These are deemed by management to be CGUs holding more than 10% of total goodwill. The discount rate, average medium-term revenue growth rate, long-term operating margin (before central costs) and long-term growth rate assumptions used for the value-in-use calculation are shown below:

	Local Discount Rate	Long-Term Growth Rate	Average Medium-Term Revenue Growth Rate*	Long-Term Operating Margin before central costs
2015				
– UKI	9.1%	2.5%	6.7%	47.3%
– France	8.5%	2.1%	4.9%	30.2%
– North America – SBS	8.9%	2.3%	10.0%	31.6%
– North America – SPS	8.9%	2.3%	10.0%	30.7%

Operating assets and liabilities continued

6 Intangible assets continued

6.1 Goodwill continued

2014	Local Discount Rate (post tax)	Long-Term Growth Rate	Average Medium-Term Revenue Growth Rate*	Long-Term Operating Margin before central costs
– UKI	8.0%	1.7%	4.2%	43.1%
– France	7.1%	1.5%	0.8%	39.3%
– North America – SBS	8.0%	2.4%	4.4%	32.1%
– North America – SPS	8.0%	2.4%	12.1%	35.2%

* Average Medium-Term Revenue Growth Rate is calculated on value in use projections that exclude intercompany revenue.

Discount rate

The Group uses a discount rate based on a local Weighted Average Cost of Capital ("WACC") for each CGU, applying local government yield bonds and tax rates to each CGU on a geographical basis. The discount rate applied to a CGU represents a post-tax rate that reflects the market assessment of the time value of money at the end of the Q3 2015 and the risks specific to the CGU. The discount rates applied to CGUs were in the range of 7.24% (2014: 6.03%) to 17.48% (2014: 17.05%), reflecting the specific rates for each territory.

Impairment charge

The Group performed its annual test for impairment in the third quarter of 2015. The recoverable amount exceeded the carrying value for all CGUs with the exception of Brazil. An impairment of £62.3m was recognised, driven by economic uncertainty in Brazil which is expected to continue in the future. The key assumptions used in the impairment calculation for Brazil were revenue growth of 9% per annum, long term operating margin of 24%, long term growth of 2.6%, and discount rate of 17.48%.

Sensitivity analysis

A sensitivity analysis was performed for each of the other CGUs and in the absence of goodwill in Brazil, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of any CGU to exceed its recoverable amount.

6.2 Other intangibles

Accounting policy

Intangible assets arising on business combinations are initially held at fair value less accumulated amortisation and impairment losses. 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	– 3 to 20 years
Technology/In process R&D ("IPR&D")	– 3 to 7 years
Customer relationships	– 4 to 15 years
Computer software	– 2 to 5 years

Other intangible assets that are acquired by the Group are stated at cost 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 if the Group can demonstrate all of the following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete the intangible asset and use or sell it;
- Its ability to use or sell the intangible asset; how the intangible asset will generate probable future economic benefits;
- The existence of a market or, if it is to be used internally, the usefulness of the intangible asset;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- Its ability to measure reliably the expenditure attributable to the intangible asset during development.

Generally, commercial viability of new products is not proven until all high risk development issues have been resolved through testing pre-launch versions of the product. As a result, technical feasibility is proven only after completion of the detailed design phase and formal approval, which occurs just before the products are ready to go to market. Accordingly, development costs have not been capitalised. However, the group continues to assess the eligibility of development costs for capitalisation on a project by project basis.

Costs which are incurred after the general release of internally generated software or costs which are incurred in order to enhance existing products are expensed in the period in which they are incurred and included within research and development expense in the financial statements (see note 3.2).

	Brands £m	Technology £m	Acquired IPR&D £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
Cost at 1 October 2014	36.7	83.3	0.3	5.6	64.4	111.6	301.9
– Additions	–	–	–	–	4.6	1.4	6.0
– Acquisition of subsidiaries	–	28.5	–	–	0.3	5.4	34.2
– Disposals	–	(0.1)	–	–	(0.2)	–	(0.3)
– Exchange movement	(2.4)	(5.4)	–	–	1.7	1.6	(4.5)
At 30 September 2015	34.3	106.3	0.3	5.6	70.8	120.0	337.3
Accumulated amortisation at 1 October 2014	21.9	67.6	0.3	5.6	28.4	80.0	203.8
– Charge for the year	2.3	9.2	–	–	10.9	6.7	29.1
– Disposals	–	–	–	–	(0.1)	–	(0.1)
– Exchange movement	(0.7)	(4.2)	–	–	0.7	3.2	(1.0)
At 30 September 2015	23.5	72.6	0.3	5.6	39.9	89.9	231.8
Net book amount at 30 September 2015	10.8	33.7	–	–	30.9	30.1	105.5

Operating assets and liabilities continued

6 Intangible assets continued

6.2 Other intangibles continued

	Brands £m	Technology £m	Acquired IPR&D £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
Cost at 1 October 2013	38.6	88.2	0.4	5.6	60.3	108.6	301.7
– Additions	0.2	0.5	–	–	7.5	0.1	8.3
– Acquisition of subsidiaries	–	–	–	–	–	6.6	6.6
– Disposals	–	–	–	–	(0.8)	(0.2)	(1.0)
– Exchange movement	(2.1)	(5.4)	(0.1)	–	(2.6)	(3.5)	(13.7)
At 30 September 2014	36.7	83.3	0.3	5.6	64.4	111.6	301.9
Accumulated amortisation at 1 October 2013	20.5	65.1	0.4	5.6	20.9	75.7	188.2
– Charge for the year	2.4	5.9	–	–	10.0	6.2	24.5
– Disposals	–	–	–	–	(0.8)	–	(0.8)
– Exchange movement	(1.0)	(3.4)	(0.1)	–	(1.7)	(1.9)	(8.1)
At 30 September 2014	21.9	67.6	0.3	5.6	28.4	80.0	203.8
Net book amount at 30 September 2014	14.8	15.7	–	–	36.0	31.6	98.1

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 initial purchase price less depreciation, which is an expense that is charged over the useful life of these assets to reflect annual 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 down to an asset's residual value over its useful economic life as follows:

Freehold buildings	– 50 years
Long leasehold buildings and improvements	– over period of lease
Plant and equipment	– 2 to 7 years
Motor vehicles	– 4 years
Office equipment	– 2 to 7 years

Freehold land is not depreciated.

The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

The carrying value of property, plant and equipment is reviewed for impairment whenever events indicate that the 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 2014	92.5	141.7	49.9	284.1
– Additions	0.1	11.3	5.0	16.4
– Disposals	–	(6.5)	(2.3)	(8.8)
– Acquisition of subsidiaries	–	1.0	–	1.0
– Exchange movement	(1.3)	(4.0)	1.7	(3.6)
At 30 September 2015	91.3	143.5	54.3	289.1
Accumulated depreciation at 1 October 2014	15.2	106.8	35.4	157.4
– Charge for the year	1.3	12.8	4.1	18.2
– Disposals	–	(6.1)	(0.6)	(6.7)
– Exchange movement	(2.3)	(0.7)	0.5	(2.5)
At 30 September 2015	14.2	112.8	39.4	166.4
Net book amount at 30 September 2015	77.1	30.7	14.9	122.7

Assets held under finance leases with a net book value of £1.0m (2014: £1.5m) are included in the above table.

	Land and buildings £m	Plant and equipment £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 October 2013	94.1	141.6	54.1	289.8
– Additions	2.3	11.6	5.8	19.7
– Disposals	(2.8)	(8.8)	(7.2)	(18.8)
– Acquisition of subsidiaries	–	–	0.2	0.2
– Exchange movement	(1.1)	(2.7)	(3.0)	(6.8)
At 30 September 2014	92.5	141.7	49.9	284.1
Accumulated depreciation at 1 October 2013	15.3	106.4	39.3	161.0
– Charge for the year	3.0	11.0	4.0	18.0
– Disposals	(2.6)	(8.4)	(5.9)	(16.9)
– Exchange movement	(0.5)	(2.2)	(2.0)	(4.7)
At 30 September 2014	15.2	106.8	35.4	157.4
Net book amount at 30 September 2014	77.3	34.9	14.5	126.7

Depreciation expenses of £18.2m (2014: £18.0m) have been charged through selling and administrative expenses (note 3.2).

8 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 provide an understanding of the credit risk faced by the Group as a part of everyday trading. Credit risk is further disclosed in the Directors' Report.

Operating assets and liabilities continued

8 Working capital continued

8.1 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.

	2015 £m	2014 £m
Materials	0.6	0.7
Work in progress	0.1	–
Finished goods	1.3	1.3
	2.0	2.0

The Group consumed £8.0m (2014: £12.5m) of inventories, included in cost of sales, during the year. There was no material write down of inventories during the current or prior year.

8.2 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.

	2015 £m	2014 £m
Amounts falling due within one year:		
Trade receivables	292.7	311.0
Less: provision for impairment of receivables	(17.8)	(25.5)
Trade receivables – net	274.9	285.5
Other receivables	20.6	20.8
Prepayments and accrued income	25.4	15.2
	320.9	321.5

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.

	2015 £m	2014 £m
Trade and other receivables (excluding prepayments and accrued income) by geographical location:		
Europe	210.7	212.8
North America	52.0	55.9
International	32.8	37.6
	295.5	306.3

In the current year, management have changed the disclosure of the company segments in line with note 2.

	2015 £m	2014 £m
Movements on the Group provision for impairment of trade receivables were as follows:		
At 1 October	25.5	27.7
Increase in provision for receivables impairment	5.7	6.4
Receivables written-off during the year as uncollectible	(6.1)	(4.5)
Unused amounts reversed	(6.0)	(2.7)
Exchange movement	(1.3)	(1.4)
At 30 September	17.8	25.5

In determining the recoverability of a trade receivable, the Group considers the ageing of each receivable and any change in the circumstances of the individual receivables. The directors believe that there is no further provision required in excess of the provision for impairment of receivables.

The creation and releases of the provision for impaired receivables have been included in selling and administrative expenses in the income statement. Amounts charged to the provision are generally written-off when there is no expectation of recovering additional cash.

At 30 September 2015, trade receivables of £30.2m (2014: £29.8m) were either partially or fully impaired.

	2015 £m	2014 £m
The ageing of these receivables was as follows:		
Not due	7.1	4.7
Less than six months past due	5.9	7.1
More than six months past due	17.2	18.0
	30.2	29.8

Trade receivables which were past their due date but not impaired at 30 September 2015 were £45.8m (2014: £33.7m).

	2015 £m	2014 £m
The ageing of these receivables was as follows:		
Less than six months past due	41.2	31.3
More than six months past due	4.6	2.4
	45.8	33.7

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.

8.3 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.

	2015 £m	2014 (restated) £m
Trade and other payables can be analysed as follows:		
Trade payables	23.3	41.5
Other tax and social security payable	41.8	52.9
Other payables	22.2	34.0
Cash held on behalf of customers (see note 12.3)	83.8	40.6
Accruals	140.1	110.5
	311.2	279.5

In the current year, the provision balance has been disclosed separately. See note 1 for details.

9 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 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 shall be 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.

Operating assets and liabilities continued

9 Provisions continued

	Legal £m	Building £m	Warranty £m	Total £m
At 1 October 2014	16.8	2.9	1.6	21.3
– Acquisition / disposal of subsidiaries	0.6	–	–	0.6
– New provision in the year	7.3	0.7	–	8.0
– Increase in provision	0.4	–	0.3	0.7
– Provision utilised in the year	(3.3)	–	(0.3)	(3.6)
– Unused amounts reversed	(5.4)	–	–	(5.4)
– Exchange movement	(1.2)	(0.1)	–	(1.3)
At 30 September 2015	15.2	3.5	1.6	20.3

	Legal £m	Building £m	Warranty £m	Total £m
Maturity profile				
< 1 year	7.9	0.8	1.2	9.9
1 – 2 years	0.3	–	0.2	0.5
2 – 5 years	7.0	–	0.2	7.2
> 5 years	–	2.7	–	2.7
At 30 September 2015	15.2	3.5	1.6	20.3

The Group offers a warranty cover in respect of products sold to third parties. The estimated liability is recorded when products are sold. These estimates are established using historical information on the average cost of warranty claims and management estimates regarding future claims. The timing of the cash flows associated with warranty provision is spread over the period of warranty with the majority of the claims expected in the first year.

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.

Legal provisions have been made in relation to ongoing disputes with third parties and other claims against the Group. The ageing of legal provisions is assessed regularly, based upon internal and external legal advice, as required.

10 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 does operate 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 in 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 relevant 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	2015 £m	2014 £m
Defined contribution schemes		9.8	9.0
Defined benefit plans		2.0	2.0
	3.3	11.8	11.0

Defined benefit plans

The most recent actuarial valuations of the post-employment benefit plans were performed by KPMG (France) and PwC (Switzerland) in October 2015 for the year ended 30 September 2015.

Weighted average principal assumptions made by the actuaries	2015 %	2014 %
Rate of increase in pensionable salaries	2.02	2.13
Discount rate	1.12	1.70
Inflation assumption	2.02	2.00

Mortality rate assumptions made by the actuaries	2015 years	2014 years
Average life expectancy for 65-year-old male	22.2	22.2
Average life expectancy for 65-year-old female	24.5	24.5
Average life expectancy for 45-year-old male	42.5	42.4
Average life expectancy for 45-year-old female	45.0	45.0

Operating assets and liabilities continued

10 Post-employment benefits continued

Amounts recognised in the balance sheet	2015 £m	2014 £m
Present value of funded obligations	(36.6)	(30.8)
Fair value of plan assets	17.9	17.2
Net liability recognised in the balance sheet	(18.7)	(13.6)

Major categories of plan assets as a percentage of total plan assets	£m	2015 %	£m	2014 %
Bonds (quoted)	6.3	35.2	9.3	54.1
Equities (quoted)	5.9	33.0	4.6	26.7
Other (unquoted)	5.7	31.8	3.3	19.2
	17.9	100.0	17.2	100.0

Expected contributions to post-employment benefit plans for the year ending 30 September 2016 are £2.0m (2014: expected contributions year ending 30 September 2015 £1.1m).

Amounts recognised in the income statement	2015 £m	2014 £m
Net interest costs on obligation	(0.3)	(0.4)
Current service cost	(1.7)	(1.6)
Total included within staff costs	(2.0)	(2.0)

The entire cost is included within selling and administrative expenses.

Changes in the present value of the defined benefit obligation	2015 £m	2014 £m
At 1 October	(30.8)	(30.3)
Exchange movement	(0.2)	1.8
Service cost	(1.7)	(1.6)
Plan participant contributions	(0.6)	(0.6)
Interest cost	(0.5)	(0.8)
Benefits paid	1.5	1.3
Actuarial loss – financial assumptions	(1.8)	(1.3)
Actuarial (loss)/gain – experience	(2.5)	0.7
At 30 September	(36.6)	(30.8)

Changes in the fair value of plan assets	2015 £m	2014 £m
At 1 October	17.2	17.4
Exchange movement	1.0	(1.0)
Interest income	0.2	0.4
Employer's contributions	0.9	0.9
Plan participant contributions	0.6	0.6
Benefits paid	(1.5)	(1.3)
Actuarial (loss)/gain on plan assets	(0.5)	0.2
At 30 September	17.9	17.2

Analysis of the movement in the balance sheet liability	2015 £m	2014 £m
At 1 October	(13.6)	(12.9)
Exchange movement	0.8	0.8
Total expense as recognised in the income statement	(2.0)	(2.0)
Contributions paid	0.9	0.9
Actuarial gain/(loss)	(4.8)	(0.4)
At 30 September	(18.7)	(13.6)

Sensitivity analysis on significant actuarial assumptions		2015 £m	2014 £m
Discount rate applied to Scheme obligations	+/- 0.5% pa	2.1	2.2
Salary increases	+/- 0.5% pa	0.9	0.6

11 Deferred income tax

Deferred income tax is an accounting adjustment to provide for tax that is expected to arise in the future due to differences in accounting and 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.

Deferred income tax has been calculated at 20.0% (2014: 20.0%) in respect of UK companies (being the corporation tax rate at which temporary differences are expected to reverse) and at the prevailing rates for the overseas subsidiaries.

During the year, effective from 1 April 2015, the standard rate of corporation tax in the UK changed from 21% to 20%. On 8 July 2015 the government announced its intention to reduce the standard rate to 19%, effective from 1 April 2017, with a further reduction to 18% from 1 April 2020. At the 30 September 2015, this change has not been substantively enacted and as such the tax balances below have not been remeasured to account for these planned changes.

	2015 £m	2014 (restated) £m
The movement on the deferred tax account is as shown below:		
At 1 October	10.3	3.1
Income statement credit	14.4	7.4
Acquisition of subsidiaries	2.3	0.3
Exchange movement	(1.7)	(0.9)
Other comprehensive income/equity movement in deferred tax	1.6	0.4
Transfer from current income tax liabilities	–	–
At 30 September	26.9	10.3

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. A potential deferred tax asset on losses of £10.7m has not been recognised as it is not expected that these losses will be recovered in the foreseeable future.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12, "Income Taxes") during the year are shown below.

The offsetting of these balances is shown within the reclassification line of the notes below. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Deferred tax assets and liabilities categorised as "other deferred tax" of £22.3m (2014: £19.6m) includes various sundry balances in relation to temporary differences on fixed assets, accounting provisions / accruals, goodwill amortisation and deferred revenue.

Operating assets and liabilities continued

11 Deferred income tax continued

	Intangible assets £m	Tax losses £m	Other £m	Total £m
Assets				
At 1 October 2014 (restated)	(8.6)	3.0	35.0	29.4
Income statement credit	3.3	0.3	2.9	6.5
Acquisition of subsidiaries	–	18.6	(0.3)	18.3
Reclassification to deferred tax liability	2.9	(18.3)	(0.9)	(16.3)
Other comprehensive income/equity movement in deferred tax	–	–	1.6	1.6
Exchange movement	(1.4)	(0.8)	(3.1)	(5.3)
At 30 September 2015	(3.8)	2.8	35.2	34.2
Liabilities				
At 1 October 2014 (restated)	(3.7)	–	(15.4)	(19.1)
Income statement credit	5.4	–	2.5	7.9
Acquisition of subsidiaries	(16.5)	–	0.5	(16.0)
Reclassification from deferred tax asset	(2.9)	18.3	0.9	16.3
Reclassification to other deferred tax liabilities	2.8	–	(2.8)	–
Exchange movement	2.2	–	1.4	3.6
At 30 September 2015	(12.7)	18.3	(12.9)	(7.3)
Net deferred tax (liability)/asset at 30 September 2015	(16.5)	21.1	22.3	26.9

	Intangible assets £m	Losses £m	Other £m	Total £m
Assets				
At 1 October 2013 (restated)	(9.0)	3.7	31.5	26.2
Income statement credit	(0.2)	(0.3)	1.7	1.2
Acquisition of subsidiaries	–	0.3	–	0.3
Reclassification to deferred tax liability	–	–	2.9	2.9
Other comprehensive income/equity movement in deferred tax	–	–	0.4	0.4
Change in tax rate	–	–	0.5	0.5
Exchange movement	0.6	(0.7)	(2.0)	(2.1)
At 30 September 2014 (restated)	(8.6)	3.0	35.0	29.4
Liabilities				
At 1 October 2013 (restated)	(12.3)	–	(10.8)	(23.1)
Income statement credit	3.0	–	3.2	6.2
Reclassification from deferred tax asset	–	–	(2.9)	(2.9)
Reclassification to other deferred tax	4.6	–	(4.6)	–
Change in tax rate	–	–	(0.5)	(0.5)
Exchange movement	1.0	–	0.2	1.2
At 30 September 2014 (restated)	(3.7)	–	(15.4)	(19.1)
Net deferred tax (liability)/asset at 30 September 2014 (restated)	(12.3)	3.0	19.6	10.3

Net debt and capital structure

12 Cash flow and net debt

This note analyses our operational cash generation, shows the movement in our net debt in the year, and explains what is included within our cash balances and borrowings at the year-end.

Cash generated from operations is the starting point of our cash flow statement on page 109. This section outlines the adjustments for any non-cash accounting items to reconcile our accounting profit for the year to the amount of physical cash we generated from our operations.

Net debt represents the amount of cash held less borrowings, overdrafts, finance lease payments due and cash held on behalf of customers.

Borrowings are mostly made up of fixed-term external debt which the Group has taken out in order to finance acquisitions in the past.

12.1 Cash flow generated from continuing operations

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

12.2 Net debt

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

Net debt and capital structure continued

12 Cash flow and net debt continued

12.2 Net debt continued

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

Included in cash above is £83.8m (2014: £40.6) 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.

12.3 Cash and cash equivalents (excluding bank overdrafts)

Accounting policy

For the purpose of preparation of the Consolidated statement of cash flows and the Consolidated balance sheet, cash and cash equivalents include cash at bank and in hand and short-term deposits with an original maturity period of three months or less. Bank overdrafts that are an integral part of a subsidiary's cash management are included in cash and cash equivalents where they have a legal right of set-off and there is an intention to settle net, against positive cash balances, otherwise bank overdrafts are classified as borrowings.

	2015 £m	2014 £m
Cash at bank and in hand	179.6	103.6
Cash held on behalf of customers	83.8	40.6
Short-term bank deposits	–	0.4
	263.4	144.6

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 2015, 83% 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.

12.4 Borrowings

Accounting policy

Assets held under finance leases are initially recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of borrowing on an effective interest basis.

Current	2015 £m	2014 £m
Bank overdrafts	–	0.9
Finance lease obligations	0.6	1.1
US senior loan notes – unsecured	33.0	123.4
	33.6	125.4
Non-current	2015 £m	2014 £m
Finance lease obligations	0.4	0.4
Bank loans – unsecured	80.0	108.0
US senior loan notes – unsecured	491.0	307.4
	571.4	415.8

Included in loans above is £604.0m (2014: £538.8m) of unsecured loans (after unamortised issue costs). These borrowings were utilised for acquisitions and managing the Group's minimum leverage target of 1x net debt to EBITDA.

In the table above, bank loans and loan notes are stated net of unamortised issue costs of £3.0m (2014: £3.5m). The Group has in the year incurred total issue costs amounting to £0.8m in respect of the note issue into the US private placement market. These issue costs were paid during the year ended 30 September 2015 and are allocated to the income statement over the term of the facility using the effective interest method.

Borrowings	Year issued	Interest coupon	Maturity	Loan value	
				2015 £m	2014 £m
US private placement					
– USD 200m loan note	2010	4.39%	11-Mar-15	–	123.4
– USD 50m loan note	2010	4.78%	11-Mar-16	33.0	30.8
– USD 50m loan note	2010	5.15%	11-Mar-17	33.0	30.8
– USD 50m loan note	2013	2.60%	20-May-18	33.0	30.8
– USD 150m loan note	2013	3.08%	20-May-20	99.1	92.6
– USD 150m loan note	2013	3.71%	20-May-23	99.1	92.6
– USD 50m loan note	2013	3.86%	20-May-25	33.0	30.8
– EUR 55m loan note	2015	1.89%	26-Jan-22	40.6	–
– EUR 30m loan note	2015	2.07%	26-Jan-23	22.2	–
– USD 200m loan note	2015	3.73%	26-Jan-25	132.2	–

There were £81.6m drawings (2014: £110.5m) under the multi-currency revolving credit facility of £525.2m (2014: £509.8m) expiring on 26 June 2019, which consists both of US\$551.0m (£364.1m, 2014: £339.9m) and of €218.0m (£161.1m, 2014: £169.9m) tranches.

Net debt and capital structure continued

13 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, cash at bank and in hand and other financial liabilities. These items are all classified as "financial instruments" under accounting standards. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

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. Credit risk is further disclosed in the Directors' Report.

Accounting policy

Financial assets and liabilities are recognised in the Group's balance sheet when the Group becomes party to the contractual provision of the instrument.

13.1 Fair values of financial instruments

For the following financial assets and liabilities: trade and other payables excluding tax and social security, trade and other receivables excluding prepayments and accrued income, short-term bank deposits, cash at bank and in hand and other financial liabilities, the carrying amount approximates the fair value of the instrument with the exception of borrowings due to these bearing interest at fixed rates which are currently higher than floating rates.

The fair value of borrowings is determined by reference to interest rate movements on the US \$ private placement market and therefore can be considered as a level 2 fair value as defined within IFRS 13.

	Note	2015		2014	
		Book value £m	Fair value £m	Book value £m	Fair value £m
Long term-borrowing	12.4	(571.4)	(572.8)	(415.8)	(418.0)
Short term borrowing	12.4	(33.6)	(34.1)	(125.4)	(125.4)

13.2 Maturity of financial liabilities

The maturity profile of the undiscounted contractual amount of the Group's financial liabilities at 30 September was as follows:

	2015			
	Borrowings £m	Trade and other payables excluding other tax and social security £m	Other financial liabilities £m	Total £m
In less than one year	33.6	269.4	–	303.0
In more than one year but not more than two years	33.5	–	–	33.5
In more than two years but not more than five years	213.7	–	–	213.7
In more than five years	327.1	–	–	327.1
	607.9	269.4	–	877.3

	2014			
	Borrowings £m	Trade and other payables excluding other tax and social security £m	Other financial liabilities £m	Total £m
In less than one year	125.4	226.6	60.1	412.1
In more than one year but not more than two years	30.8	–	–	30.8
In more than two years but not more than five years	172.4	–	–	172.4
In more than five years	216.1	–	–	216.1
	544.7	226.6	60.1	831.4

The maturity profile of provisions is disclosed in Note 9.

13.3 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:

	2015 £m	2014 £m
Expiring in more than two years but not more than five years	443.6	399.3

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.

13.4 Other financial liabilities

Accounting policy

The Group makes use of contingent contracts for the purchase of its own shares. These derivative contracts are accounted for as equity transactions and the contracts are not stated at their market values. The present value of the obligation to purchase the shares is recognised in full at the inception of the contract, even when that obligation is conditional. Any subsequent reduction in the total obligation arising from the early termination of a contract is credited back to equity at the time of termination.

Any embedded derivative assets arising out of any debt contracts are classified within other current and other non-current assets according to when they can be exercised.

The Group makes use of put and call options as part of its ongoing acquisition activity. The fair value of these options are measured at each reporting date and the fair value gains or losses are taken to the income statement.

	2015 £m	2014 £m
Current liabilities : Close period share buyback programme	–	(60.1)
Total other financial liabilities	–	(60.1)

The prior year fair value of the close period share buyback programme was calculated based on the value of the contractual legal agreement with Citigroup Global Markets Limited, which was also equal to the book value.

The put and call arrangement to acquire the remaining non-controlling interest's 25% share in Folhamatic in Brazil was settled during 2014 for consideration of £50.4m, increasing the Group's ownership of the Brazilian sub-Group to 100%:

	2015 £m	2014 £m
Opening fair value at 1 October	–	54.2
Consideration paid	–	(50.4)
Imputed interest recognised in the Consolidated income statement within finance costs	–	0.8
Loss/(gain) on fair value adjustments	–	0.4
Exchange movement	–	(5.0)
Closing fair value at 30 September	–	–

13.5 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.

Net debt and capital structure continued

13 Financial instruments continued

13.5 Sensitivity analysis continued

	2015		2014	
	Income (losses)/gains £m	Equity (losses)/gains £m	Income (losses)/gains £m	Equity (losses)/gains £m
1% increase in market interest rates	(1.4)	(1.4)	(2.5)	(2.5)
1% decrease in market interest rates	1.2	1.2	2.5	2.5
10% strengthening of sterling versus the US Dollar	(6.1)	(30.1)	(3.9)	(17.4)
10% strengthening of sterling versus the Euro	(7.1)	(20.9)	(5.9)	(28.0)
10% weakening of sterling versus the US Dollar	6.7	33.2	4.3	19.2
10% weakening of sterling versus the Euro	7.9	23.0	6.5	30.8

13.6 The minimum lease payments under finance leases fall due as follows:

	2015 £m	2014 £m
In less than one year	0.6	1.1
In more than one year but not more than five years	0.4	0.4
	1.0	1.5
Future finance charges on finance leases	–	–
Present value of finance lease liabilities	1.0	1.5

13.7 Hedge accounting

Accounting policy

The Group's external US Dollar and Euro denominated borrowings are designated as a hedge of the net investment in its subsidiaries in the US and Eurozone. The 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 and 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.

14 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. We incur a cost in respect of these schemes in our 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.

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.

14.1 Ordinary shares

Issued and fully paid	2015 shares	2015 £m	2014 shares	2014 £m
At 1 October	1,115,892,047	11.7	1,114,135,420	11.7
Proceeds from shares issued	2,406,701	0.1	1,756,627	–
At 30 September	1,118,298,748	11.8	1,115,892,047	11.7

Issues of ordinary shares

Under Executive Share Option Scheme, 1,501,758 $1\frac{4}{77}$ p ordinary shares were issued during the year for aggregate proceeds of £3.5m.

Under the Savings-related Share Option Scheme, 928,923 $1\frac{4}{77}$ p ordinary shares were issued during the year for aggregate proceeds of £1.9m.

14.2 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") and certain Restricted Share Plans ("RSPs") 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 plan was £9.1m (2014: £8.0m), all of which related to equity-settled share-based payment transactions. This charge is shown by scheme below. After deferred tax, the total charge was £8.9m (2014: £7.8m).

Scheme	2015 £m	2014 £m
Executive Share Option Scheme	–	–
Performance Share Plan	6.8	6.1
Restricted Share Plan	1.8	1.5
Savings-related Share Option Scheme	0.5	0.4
Total	9.1	8.0

Executive Share Option Scheme

Certain senior executives hold a total of 761,734 (2014: 2,338,990) options to subscribe for shares in the Company at prices ranging from 214.0p to 270.0p under the share option schemes approved by shareholders. There have been no grants of executive share options under the 1999 Executive Share Option Scheme ("ESOS") since June 2008. Long-term incentive awards are made under The Sage Group plc Performance Share Plan.

The performance targets governing the vesting of options were based on stretching EPS growth measured over a fixed three-year period from the start of the financial year in which the grant is made. 30% of options vested at the end of the period where the increase in EPS exceeded the Retail Prices Index ("RPI") by 15% (an average of 5% per year) and 100% of those options vested at that time where RPI was exceeded in that period by 27% (an average of 9% per year). Between those targets, options vested on a straight-line basis.

Options were valued using the Black-Scholes option-pricing model. The expected volatility was based on historical volatility over the previous four years. The expected life is the average expected period to exercise. The risk free rate of return was the yield on zero-coupon UK government bonds of a term consistent with the assumed option life of three years.

Net debt and capital structure continued

14 Equity continued

14.2 Share-based payments continued

A reconciliation of option movements over the year is shown below:

	2015		2014	
	Number '000s	Weighted average exercise price £	Number '000s	Weighted average exercise price £
Outstanding at 1 October	2,339	2.41	3,492	2.33
Forfeited	(75)	2.63	(63)	2.29
Exercised	(1,502)	2.30	(1,090)	2.20
Outstanding at 30 September	762	2.58	2,339	2.41
Exercisable at 30 September	762	2.58	2,339	2.41

	2015		2014	
	Weighted average remaining life years		Weighted average remaining life years	
Range of exercise prices £	Expected	Contractual	Expected	Contractual
2.14 – 2.70	–	1.0	–	1.4

The weighted average share price during the period for options exercised over the year was 477.8p (2014: 387.8p).

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 5,411,495 (2014: 5,519,987) awards were made during the year.

Awards prior to 2013

Annual awards under the Plan were limited to shares worth up to 300% of base salary. In practice, annual grants to executive directors were limited to shares with a maximum value on award of 210% of base salary except in exceptional circumstances, such as a promotion or recruitment or to reflect local market practice.

The performance shares were subject to performance conditions on a sliding scale based on EPS. 25% of the award vested at the end of the period if the increase in EPS exceeded RPI by 9% (an average of 3% per year); 100% of the award vested at that time only where RPI was exceeded in that period by 27% (an average of 9% per year). Between those targets, awards vested on a straight-line basis, and if those targets were not met there was no opportunity for re-testing. Awards were then subject to a total shareholder return (TSR) "multiplier" whereby the level of vesting based on EPS achievement was adjusted according to TSR performance over the same three-year period compared with a group of international software and computer services companies.

The comparator group for awards made in 2012 comprised the following companies:

– Adobe Systems	– Cegid	– Logica	– Salesforce.com
– ARM Holdings	– Dassault Systèmes	– Micro Focus International	– SAP
– Blackbaud	– Exact	– Microsoft	– Software AG
– Cap Gemini	– Intuit	– Oracle	

If Sage's TSR was ranked at lower quartile in the group, the multiplier was 0.75. If Sage's TSR was ranked at median in the group, the multiplier was 1. If Sage's TSR was ranked at upper quartile in the group, then the multiplier was 1.5. Straight-line pro-rating applied between 0.75 and 1, and between 1 and 1.5, but the multiplier could not be higher or lower than these figures.

Awards from 2013 onwards

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 from 2013 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	January 2015	January 2015	January 2015	May 2015	May 2015	June 2015	June 2015	September 2015	September 2015
Share price at grant date	£4.65	£4.65	£4.65	£5.44	£5.44	£5.13	£5.13	£4.91	£4.91
Number of employees	150	111	1	12	11	3	3	9	8
Shares under award	3,930,755	485,199	213,421	422,406	52,090	59,829	13,959	197,067	36,769
Vesting period (years)	3	3	3	3	3	3	3	2	2
Expected volatility	20%	20%	20%	20%	20%	20%	20%	20%	20%
Award life (years)	3	3	3	3	3	3	3	2	2
Expected life (years)	3	3	3	3	3	3	3	2	2
Risk free rate	0.67%	0.67%	0.67%	0.91%	0.91%	0.96%	0.96%	0.65%	0.65%
Expected dividends expressed as a dividend yield	–	–	–	–	–	–	–	–	–
Fair value per award	£4.13	£4.65	£3.06	£5.14	£5.44	£4.82	£5.13	£4.54	£4.91

Grant date	January 2014	March 2014	March 2014	August 2014	August 2014	September 2014	September 2014
Share price at grant date	£4.12	£4.20	£4.20	£3.67	£3.67	£3.70	£3.70
Number of employees	1	118	145	2	1	1	1
Shares under award	116,873	4,654,084	690,670	30,600	6,352	15,570	5,838
Vesting period (years)	3	3	3	3	3	3	3
Expected volatility	22%	22%	22%	21%	21%	20%	20%
Award life (years)	3	3	3	3	3	3	3
Expected life (years)	3	3	3	3	3	3	3
Risk free rate	1.10%	1.10%	1.10%	1.19%	1.19%	0.92%	0.92%
Expected dividends expressed as a dividend yield	–	–	–	–	–	–	–
Fair value per award	£3.49	£3.62	£4.20	£2.97	£3.67	£2.99	£3.70

Net debt and capital structure continued

14 Equity continued

14.2 Share-based payments continued

The expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed award life.

A reconciliation of award movements over the year is shown below:

	2015		2014	
	Number '000s	Weighted average exercise price £	Number '000s	Weighted average exercise price £
Outstanding at 1 October	13,891	–	16,739	–
Awarded	5,411	–	5,520	–
Forfeited	(4,697)	–	(8,347)	–
Exercised	(1,542)	–	(21)	–
Outstanding at 30 September	13,063	–	13,891	–
Exercisable at 30 September	–	–	–	–

	2015		2014	
	Weighted average remaining life years		Weighted average remaining life years	
Range of exercise prices	Expected	Contractual	Expected	Contractual
N/A	1.3	1.3	1.6	1.6

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 362,530 (2014: 1,151,427) 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 465 – 527p.

The plan options granted in December 2013 have vested at 67.5% of the total award, based upon FY15 organic revenue growth. These options were valued using the Black-Scholes option-pricing model. The expected volatility is based on historical volatility over the last two or three years, consistent with the award life. 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.

Grant date	December 2013
Share price at grant date	£3.72
Number of employees	7
Shares under award	880,881
Vesting period (years)	2
Expected volatility	20%
Award life (years)	2
Expected life (years)	2
Risk free rate	0.60%
Expected dividends expressed as a dividend yield	–

A reconciliation of award movements over the year is shown below:

	2015		2014	
	Number '000s	Weighted average exercise price £	Number '000s	Weighted average exercise price £
Outstanding at 1 October	1,451	–	720	–
Awarded	363	–	1,151	–
Forfeited	(296)	–	(420)	–
Exercised	(350)	–	–	–
Outstanding at 30 September	1,168	–	1,451	–
Exercisable at 30 September	–	–	–	–

	2015		2014	
	Weighted average remaining life years		Weighted average remaining life years	
Range of exercise prices	Expected	Contractual	Expected	Contractual
N/A	1.1	1.0	1.9	1.9

The Sage Group Savings-related Share Option Plan (the "SAYE Plan")

The Group operates an approved savings-related share option scheme for UK employees. The fair value is expensed over the service period of three, five or seven years on the assumption that 20% of options will lapse over the service period as employees leave the Group.

In the year, 1,241,905 (2014: 1,532,520) options were granted under the terms of the Savings-related Share Option Scheme.

14.3 Other reserves

	Translation reserve £m	Merger reserve £m	Other reserve £m	Total other reserves £m
At 30 September 2013 (restated)	67.1	61.1	(68.0)	60.2
Exchange differences on translating foreign operations (restated)	(38.1)	–	–	(38.1)
Purchase of non-controlling interest	–	–	68.0	68.0
At 30 September 2014 (restated)	29.0	61.1	–	90.1
Exchange differences on translating foreign operations	(23.2)	–	–	(23.2)
At 30 September 2015	5.8	61.1	–	66.9

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.

Other reserve

Other reserve relates to the recognition of a put and call arrangement to acquire the remaining non-controlling interest's 25% share in Folhamatic. This was acquired in 2014. See note 13.4.

Net debt and capital structure continued

14 Equity continued

14.4 Retained earnings

	2015	2014 (restated)
	£m	£m
Retained earning		
At 1 October	130.2	248.5
Profit for the year	194.3	188.0
Actuarial loss on post-employment benefit obligations (note 10)	(4.8)	(0.4)
Deferred tax credit on actuarial loss on post-employment obligations	0.6	0.4
Value of employee services net of deferred tax	10.1	7.8
Purchase of treasury shares	(14.6)	(89.5)
Expenses related to purchase of treasury shares	(0.1)	(0.2)
Close period share buyback programme (note 13.4)	60.0	(30.1)
Purchase of non-controlling interest (note 13.4)	–	(68.1)
Dividends paid to owners of the parent (note 14.5)	(133.5)	(126.2)
Total	242.2	130.2

The 2014 retained earnings balance was restated in line with the changes to the revenue recognition policy (note 1).

Treasury shares

Purchase of treasury shares

Shares purchased under the Group's buyback programme are not cancelled but are retained in issue and represent a deduction from equity attributable to owners of the parent. During the year the Group purchased 3,457,020 shares (2014: 24,206,805) at a cost of £12.4m (2014: £89.5m) representing 0.0% of issued share capital (2014: 2.2%). Shares were repurchased at a weighted average price of 359.0p per share; the highest and lowest prices paid for these shares were 390.7p per share and 347.0p per share respectively.

Close period share buyback programme

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

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 them by the Company for use in connection with the Group's share-based payments arrangements. The Trust holds 3,638,249 ordinary shares in the Company (2014: 5,407,155) at a cost of £0.6m (2014: £0.9m) and a nominal value of £38,272 (2014: £56,880).

The Trust originally purchased the shares in 2006, and further shares were acquired by the Trust in 2010 with the cost being reflected in retained earnings. These shares were acquired by the Trust in the open market using funds provided by the Company. In January 2013 the Company gifted 5,000,000 shares from purchased treasury shares to the Trust.

On 13 March 2015, the Trust agreed to satisfy the vesting of certain PSP awards, utilising a total of 1,760,694 shares held in the Trust. Furthermore, The Trust received additional funds of £2.2m which were used to purchase 377,860 shares in the market. These were used in the current year to satisfy an award under the RSP.

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 2015 was £18.2m (2014: £19.8m).

14.5 Dividends

Accounting policy

Dividends are recognised through equity when approved by the Company's shareholders or on payment, whichever is earlier.

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

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

14.6 Non-controlling interest

Non-controlling interests in equity in the Group balance sheet represent the share of net assets of subsidiary undertakings held outside the Group. The movement in the year comprises the profit attributable to such interests together with movements in respect of corporate transactions and related exchange differences.

	2015 £m	2014 £m
At 1 October	–	(1.0)
Non-controlling interest's share of profit of the year	–	0.9
Purchase of non-controlling interest	–	0.1
At 30 September	–	–

15 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 in detail and the effects on the results of the Group are highlighted.

Accounting policy

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values at the date of exchange, of assets acquired, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (Revised), "Business Combinations" are recognised at their fair values at the acquisition date.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in the income statement. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's total identifiable net assets acquired. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the difference is recognised directly in the Consolidated income statement. Any subsequent adjustment to reflect changes in consideration arising from contingent consideration amendments is recognised in the Consolidated income statement.

On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Acquisition-related items such as legal or professional fees are expensed to the income statement as incurred.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. The difference between fair value of any consideration paid and the relevant shares acquired of the carrying value of net assets of the subsidiary is recorded in equity.

Where the Group enters into put and call arrangements over shares held by a non-controlling interest, the Group continues to recognise the non-controlling interest until the ownership risks and rewards of those shares transfer to the Group.

15.1 Acquisitions made during the year

Acquisition of Paychoice

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

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

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

Summary of acquisitions	£m
Purchase consideration	75.2
Fair value of net identifiable assets	(15.6)
Goodwill	59.6

Fair value of acquisitions	£m
Intangible assets (note 6)	34.2
Property, plant and equipment (note 7)	1.0
Trade and other receivables	1.6
Cash and cash equivalents	29.6
Trade and other payables	(32.6)
Current borrowings	(2.6)
Non-current borrowings	(19.6)
Deferred tax assets	4.6
Provisions (note 9)	(0.6)
Total net identifiable assets acquired	15.6
Goodwill	59.6
Total purchase consideration	75.2

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

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

15.2 Contribution of acquisitions

From the dates of the acquisitions to 30 September 2015, the acquisitions contributed £27.5m to revenue and generated a loss before tax of £5.5m. Had these acquisitions occurred at the beginning of the financial year, contribution to Group revenue would have been £28.8m and the contribution to Group profit before tax would have been a loss of £5.8m.

15.3 Costs relating to business combinations in the year

Costs relating to business combinations in the year of £2.0m (2014: £2.4m) 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 Related party transactions

This note discloses any transaction by the Group with related parties, which are classified as companies or individuals who have an interest in the Group, including joint ventures, associated undertakings, investments and key management personnel.

The Group's related parties are its subsidiary undertakings and Executive Committee members. The Group has taken advantage of the exemption available under IAS 24, "Related Party Disclosures", not to disclose details of transactions with its subsidiary undertakings. Compensation paid to the Executive Committee is disclosed in note 3.3.

Supplier transactions occurred during the year between Sage South Africa (Pty) Ltd, one of the Group's subsidiary companies, and Ivan Epstein, President, International and Executive Committee member. These transactions relate to the lease of four properties in which Ivan Epstein has a minority and indirect shareholding. During the year £4.3m (2014: £3.2m) relating to these transactions was charged through selling and administrative expenses. There were no outstanding amounts payable for the year ended 2015 (2014: £nil).

Supplier transactions occurred during the year between Sage SP, S.L., one of the Group's subsidiary companies, and Álvaro Ramírez, who held the role of President, Europe and Executive Committee member during the year. These transactions relate to the lease of a property in which Álvaro Ramírez has a minority shareholding. During the year £1.0m (2014: £1.1m) relating to these transactions was charged through selling and administrative expenses. There were no outstanding amounts payable for the year ended 2015 (2014: £nil).

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

17 Group subsidiaries

While we present consolidated results in these financial statements, our structure is such that there are a number of different operating and holding companies that contribute significantly to the overall result.

Our subsidiaries are located around the world and each contributes to the profits, assets and cash flow of the Group.

The entities listed below and on the following page are subsidiaries of the Company or Group. The Group percentage of equity capital and voting rights is 100% for all subsidiaries listed. The results for all of the subsidiaries have been consolidated within these financial statements.

Incorporated subsidiaries

Name	Country of incorporation	Direct or indirect holding	Name	Country of incorporation	Direct or indirect holding
ACCPAC UK Limited	UK	Indirect	Protx Group Limited	UK	Indirect
Adonix Limited	UK	Indirect	Protx Limited	UK	Indirect
Apex Software International Limited	UK	Indirect	Quantec (Holdings) Limited	UK	Indirect
Apex Software Systems Limited	UK	Indirect	Sage (Belgique)	Belgium	Indirect
BSG (Best Software Ger.)	Germany	Indirect	Sage (UK) Limited	UK	Indirect
Computer Resources (Research) Limited	UK	Indirect	Sage Alchemex (Pty) Limited	South Africa	Indirect
Computer Resources (Software) Limited	UK	Indirect	Sage Baurer AG	Switzerland	Indirect
Computer Resources (Supplies) Limited	UK	Indirect	Sage Baurer GmbH	Germany	Indirect
Computer Resources Limited	UK	Indirect	Sage Brasil 3 Empreendimentos e Participacoes Limitada.	Brazil	Indirect
Creative Purpose Sdn Bhd	Malaysia	Indirect	Sage Brasil Software S.A.	Brazil	Indirect
eWare GmbH	Germany	Indirect	Sage Brazilian Investment One Limited	UK	Indirect
George Stamford Limited	UK	Indirect	Sage Brazilian Investment Two Limited	UK	Indirect
Handisoft Software Pty Limited	Australia	Indirect	Sage Business Solutions (NZ) Limited	New Zealand	Indirect
Hartley International Limited	UK	Indirect	Sage Business Solutions Pty Limited	Australia	Indirect
Intelligent Apps Holdings Limited	UK	Indirect	Sage CRM Solutions GmbH	Germany	Indirect
Interact UK Holdings Limited	UK	Indirect	Sage CRM Solutions Limited	UK	Indirect
IOB Informacoes Objetivas Publicacoes Juridicas Limitada	Brazil	Indirect	Sage Enterprise Solutions (Pty) Limited	South Africa	Indirect
KCS Global Holdings Limited	UK	Indirect	Sage Enterprise Solutions BV	Holland	Indirect
KHK Software AG	Switzerland	Indirect	Sage Enterprise Solutions Limited	UK	Indirect
Micropay Pty Limited	Australia	Indirect	Sage Euro Hedgeco 1	UK	Indirect
Multisoft Financial Systems Limited	UK	Indirect	Sage Euro Hedgeco 2	UK	Indirect
PACS Holdings Limited	UK	Indirect	Sage Far East Investments Limited	UK	Indirect
PAI Services LLC	US	Indirect	Sage Global Services Limited	UK	Indirect
Pastel Software (Europe) Limited	Ireland	Indirect	Sage Global Services US, Inc.	US	Indirect
Pastel Software (Ireland) Limited	Ireland	Indirect	Sage GmbH	Austria	Indirect
Pastel Software (UK) Limited	UK	Indirect			

Name	Country of incorporation	Direct or indirect holding	Name	Country of incorporation	Direct or indirect holding
Sage Hibernia Investments No.1 Limited	UK	Indirect	Sage Software International, Inc.	US	Indirect
Sage Hibernia Investments No.2 Limited	UK	Indirect	Sage Software Limited	UK	Indirect
Sage Hibernia Limited	Ireland	Indirect	Sage Software Middle East FZ-LLC	UAE	Indirect
Sage Hibernia Services Limited	Ireland	Indirect	Sage Software Namibia (Pty) Limited	Namibia	Indirect
Sage Holding Company Limited	UK	Direct	Sage Software Nigeria Limited	Nigeria	Indirect
Sage Holding France SAS	France	Indirect	Sage Software North America	US	Indirect
Sage Holdings Limited	UK	Indirect	Sage Software Sdn Bhd	Malaysia	Indirect
Sage HR Solutions AG	Germany	Indirect	Sage Software Solutions Pte Limited	Singapore	Indirect
Sage Irish Finance Company	Ireland	Indirect	Sage Software, Inc.	US	Indirect
Sage Irish Investments LLP	UK	Indirect	Sage South Africa (Pty) Limited	South Africa	Indirect
Sage Irish Investments One Limited	UK	Direct	Sage sp. zoo.	Poland	Indirect
Sage Irish Investments Two Limited	UK	Direct	Sage Spain Investment Company Limited	UK	Indirect
Sage Management & Services GmbH	Germany	Indirect	Sage Spain, S.L.	Spain	Indirect
Sage Newco SAS	France	Indirect	Sage St. Mary's Limited	Jersey (GB)	Indirect
Sage One Pty Limited	Australia	Indirect	Sage Technologies Limited	Ireland	Indirect
Sage Online Holdings Limited	UK	Indirect	Sage TML (Belgique)	Belgium	Indirect
Sage Overseas Holdings Limited	UK	Indirect	Sage Treasury Company Limited	UK	Direct
Sage Overseas Limited	UK	Indirect	Sage USD Hedgeco 1	UK	Indirect
Sage Overseas Limited Sucursal	Spain	Indirect	Sage USD Hedgeco 2	UK	Indirect
Sage Pay (Dublin) Limited	Ireland	Indirect	Sage Whitley Limited	UK	Indirect
Sage Pay (GB) Limited	UK	Indirect	Sage XRT Brasil Limitada.	Brazil	Indirect
Sage Pay (Pty) Limited	South Africa	Indirect	Sagesoft	UK	Indirect
Sage Pay Europe Limited	UK	Indirect	Sandco 1191 Limited	UK	Indirect
Sage Pay GmbH	Germany	Indirect	Sky Software Limited	UK	Indirect
Sage Pay Ireland Limited	Ireland	Indirect	Snowdrop Systems Limited	UK	Indirect
Sage Pay S.L.	Spain	Indirect	Snowdrop Systems Pty Limited	Australia	Indirect
Sage Pay SARL	France	Indirect	Softline Australia Pty Limited	Australia	Indirect
Sage Payment Solutions EFT, Inc.	US	Indirect	Softline Holdings USA Inc.	US	Indirect
Sage Payment Solutions, Inc.	US	Indirect	Softline Software Holdings Limited	UK	Indirect
Sage Payments (UK) Limited	UK	Indirect	Softline Software Inc.	US	Indirect
Sage Personalsoftware und Service GmbH	Germany	Indirect	Softline Software Limited	UK	Indirect
Sage Portugal – Software, S.A.	Portugal	Indirect	Softline Software USA LLC	US	Indirect
Sage SAS	France	Indirect	Syska Gesellschaft für betriebliche Datenverarbeitung mbH	Germany	Indirect
Sage Schweiz AG	Switzerland	Indirect	Syntax Sistemas S.A	Brazil	Indirect
Sage Services GmbH	Germany	Indirect	TAS Software Limited	UK	Indirect
Sage Singapore Holdings Pte. Limited	Singapore	Indirect	Tetra Limited	UK	Direct
Sage Software (India) Private Limited	India	Indirect	Tide 1 Limited	UK	Indirect
Sage Software (Maroc)	Morocco	Indirect	Tide2 Limited	UK	Indirect
Sage Software Asia Pte. Limited	Singapore	Indirect	Tide3 Limited	UK	Indirect
Sage Software Australia Pty Limited	Australia	Indirect	Tide4 Limited	UK	Indirect
Sage Software Botswana (Pty) Limited	Botswana	Indirect	Tide5 Limited	UK	Indirect
Sage Software Canada Holdings Limited	Canada	Indirect	Tide6 Limited	UK	Indirect
Sage Software Canada Limited	Canada	Indirect	Tide7 Limited	UK	Indirect
Sage Software East Africa Limited	Kenya	Indirect	Tonwomp	UK	Indirect
Sage Software GmbH	Germany	Indirect	Ulysoft	Tunisia	Indirect
Sage Software Holdings Inc.	US	Indirect			

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Company balance sheet
At 30 September 2015
Prepared using UK Generally Accepted Accounting Practice ("UK GAAP")

	Note	2015 £m	2014 £m
Fixed assets: investments	2	3,088.2	3,088.2
Current assets			
Cash at bank and in hand	3	3.1	0.9
Debtors	4	574.7	506.2
		577.8	507.1
Creditors: amounts falling due within one year			
Trade and other payables	5	(763.0)	(654.3)
Net current liabilities		(185.2)	(147.2)
Total assets less current liabilities		2,903.0	2,941.0
Creditors: amounts falling due after more than one year	6	(33.0)	(61.6)
Net assets		2,870.0	2,879.4
Capital and reserves			
Called up share capital	7.1	11.8	11.7
Share premium account	7.2	541.2	535.9
Other reserves	7.2	(101.8)	(87.2)
Profit and loss account	7.2	2,418.8	2,419.0
Total shareholders' funds		2,870.0	2,879.4

The financial statements on pages 157 to 162 were approved by the Board of Directors on 2 December 2015 and are signed on their behalf by:

S Hare
Chief Financial Officer

Company accounting policies

Company accounting policies

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 and applicable accounting standards in the United Kingdom. A summary of the more important Company accounting policies, which have been consistently applied, is set out below.

Foreign currencies

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange prevailing at the date of the balance sheet or at the agreed contractual rate. 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.

Parent Company profit and loss account

The amount of profit for the financial year before dividends within the accounts of the parent Company is £64.3m (2014: £538.0m). There is no material difference between the profits and losses as reported above and historical cost profits and losses and there are no other gains or losses in the year.

No profit and loss account or cash flow statement is presented for the Company as permitted by section 408 of the Companies Act 2006.

Auditors' remuneration

The audit fees payable in relation to the audit of the financial statements of the Company are £30,000 (2014: £27,000).

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 74 to 92.

Share-based payments

The Company issues equity-settled share-based payments to certain employees. 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 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 with the ability to purchase the Company's ordinary shares at a discount to the current market value at the date of the grant. 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.

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. This policy is in accordance with FRS 26, "Financial Instruments: Recognition and Measurement".

Results for the year

1 Dividends

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

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

Operating assets and liabilities

2 Fixed assets: investments

Equity interests in subsidiary undertakings are as follows:

	£m
Cost	
At 1 October 2014	3,224.0
At 30 September 2015	3,224.0
Provision for diminution in value	
At 1 October 2014	135.8
At 30 September 2015	135.8
Net book value	
At 30 September 2015	3,088.2
At 30 September 2014	3,088.2

The directors believe that the carrying value of the investments is supported by their underlying net assets.

Subsidiary undertakings, included in the Group accounts for the year ended 30 September 2015, are shown in note 17 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 consolidated financial statements. The accounting reference date of all subsidiaries is 30 September, except for Brazilian subsidiaries which have an accounting reference of 31 December due to Brazilian statutory requirements.

3 Cash at bank and in hand

	2015 £m	2014 £m
Cash at bank and in hand	3.1	0.9

4 Debtors

	2015 £m	2014 £m
Amounts owed by Group undertakings	574.7	505.9
Other debtors	–	0.3
	574.7	506.2

Operating assets and liabilities

5 Creditors: amounts falling due within one year

	2015 £m	2014 £m
Bank loans and overdrafts	–	0.9
Amounts owed to Group undertakings	729.3	465.2
Other creditors	–	60.1
Accruals and deferred income	0.7	4.7
US senior bank loans – unsecured	33.0	123.4
	763.0	654.3

Other creditors relate to outstanding liabilities of £nil (2014: £60.1m) arising under an irrevocable close period buyback agreement for the purchase of the Company's own shares.

6 Creditors: amounts falling due in more than one year

	2015 £m	2014 £m
In more than two years but not more than five years		
US senior loan notes – unsecured	33.0	61.6
	33.0	61.6

Included in loans above is £66.0m (2014: £185.0m) of unsecured loans (after unamortised issue costs).

The Company has US\$100.0m (£66.0m, 2014: £185.1m) of US senior loan notes, which were issued into the US private placement market in 2010. These notes mature US\$50.0m (£33.0m, 2014: £30.8m) in 2016 and US\$50.0m (£33.0m, 2014: £30.8m) in 2017 and carry interest coupons of 4.78% and 5.15% respectively. In March 2015 US\$200.0m (£132.2m) notes matured.

In the table above, bank loans and loan notes are stated net of unamortised issue costs of £nil (2014: £0.1m). In the prior year the Company wrote off the remaining issue costs amounting to £0.5m in respect of the refinancing of its revolving credit facility in a subsidiary of the parent company.

Net debt and capital structure

7 Equity

7.1 Called up share capital

Issued and fully paid	2015 shares	2015 £m	2014 shares	2014 £m
At 1 October	1,115,892,047	11.7	1,114,135,420	11.7
Proceeds from shares issued	2,406,701	0.1	1,756,627	–
At 30 September	1,118,298,748	11.8	1,115,892,047	11.7

Share-based payments

The grants and related accounting treatment adopted by the Company under FRS 20, "Share-based Payment", are identical to those adopted by the Group under IFRS 2, "Share-based Payment".

7.2 Reserves

	Treasury shares £m	Merger reserve £m	Capital redemption reserve £m	Total other reserves £m	Share premium account £m	Profit and loss account £m	Total £m
At 01 October 2014	(149.9)	61.1	1.6	(87.2)	535.9	2,419.0	2,867.7
Employee share option scheme:	–	–	–	–	5.3	–	5.3
– New shares issued	–	–	–	–	–	9.1	9.1
– Value of employee services	–	–	–	–	–	–	–
Utilisation of treasury shares	–	–	–	–	–	–	–
Purchase of treasury shares	(14.6)	–	–	(14.6)	–	–	(14.6)
Expenses related to purchase of treasury shares	–	–	–	–	–	(0.1)	(0.1)
Close period share buyback programme	–	–	–	–	–	60.0	60.0
Profit for the financial year	–	–	–	–	–	64.3	64.3
Dividends paid to owners of the Company	–	–	–	–	–	(133.5)	(133.5)
At 30 September 2015	(164.5)	61.1	1.6	(101.8)	541.2	2,418.8	2,858.2

	Treasury shares £m	Merger reserve £m	Capital redemption reserve £m	Total other reserves £m	Share premium account £m	Profit and loss account £m	Total £m
At 01 October 2013	(60.5)	61.1	1.6	(2.2)	532.2	2,035.6	2,570.0
New shares issued	–	–	–	–	3.7	–	3.7
Utilisation of treasury shares	0.1	–	–	0.1	–	(0.1)	–
Purchase of treasury shares	(89.5)	–	–	(89.5)	–	–	(89.5)
Expenses related to purchase of treasury shares	–	–	–	–	–	(0.2)	(0.2)
Close period share buyback programme	–	–	–	–	–	(30.1)	(30.1)
Profit for the financial year	–	–	–	–	–	538.0	538.0
Dividends paid to owners of the Company	–	–	–	–	–	(126.2)	(126.2)
Equity-settled transactions	–	–	–	–	–	2.0	2.0
At 30 September 2014	(149.9)	61.1	1.6	(87.2)	535.9	2,419.0	2,867.7

Notes to the Company financial statements continued

Net debts and capital structure continued

7 Equity continued

7.2 Reserves continued

Treasury shares

Purchase of treasury shares

During the year the Company purchased 3,457,020 shares (2014: 24,206,805) at a cost of £12.4m (2014: £89.5m). Shares were repurchased at a weighted average price of 359.0p per share; the highest and lowest prices paid for these shares were 390.7p per share and 347.0p per share respectively. Shares purchased under the Group's buyback programme are retained in issue until cancelled and represent a deduction from equity attributable to owners of the parent.

Close period share buyback programme

In 2014 the Company operated a close period buyback programme for £60.1m. No such programme is in place for 2015.

Employee share trust

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 3,638,249 ordinary shares in the Company (2014: 5,407,155) at a cost of £0.6m (2014: £0.9m) and a nominal value of £38,272 (2014: £56,880).

The Trust originally purchased the shares in 2006, and further shares were acquired by the Trust in 2010 with the cost being reflected in retained earnings. These shares were acquired by the Trust in the open market using funds provided by the Company. In January 2013 the Company gifted 5,000,000 shares from purchased treasury shares to the Trust.

On 13 March 2015, the Trust agreed to satisfy the vesting of certain PSP awards, utilising a total of 1,760,694 shares held in the Trust. Furthermore, The Trust received additional funds of £2.2m which were used to purchase 377,860 shares in the market. These were used in the current year to satisfy an award under the RSP.

The cost of funding and administering the scheme is 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 2015 was £18.2m (2014: £19.8m).

Other notes

8 Related party transactions

The Company has taken advantage of the exemption available under FRS 8, "Related Party Disclosures", not to disclose details of transactions with its wholly owned subsidiary undertakings.

Measure	Description	Why we use it
Underlying		
	<p>Prior period underlying measures are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations.</p> <p>Underlying operating profit excludes:</p> <p>Recurring items:</p> <ul style="list-style-type: none"> – Amortisation of acquired intangible assets – Acquisition-related items – Fair value adjustments on non-debt-related financial instruments <p>Non-recurring items that management judge are one-off or non-operational</p> <p>Underlying profit before tax excludes:</p> <ul style="list-style-type: none"> – All the items above – Imputed interest – Fair value adjustments on debt-related financial instruments. <p>Underlying profit after tax and earnings per share excludes:</p> <ul style="list-style-type: none"> – All the items above net of tax. 	<p>Underlying measures allow management and investors to compare performance without the potentially distorting effects of foreign exchange movements, one-off items or non-operational items.</p> <p>By including part-period contributions from acquisitions, disposals and products held for sale in the current and/or prior periods, the impact of M&A decisions on earnings per share growth can be evaluated.</p>
Organic		
	In addition to the adjustments made for underlying measures, organic measures exclude the contribution from acquisitions, disposals and products held for sale in the current and prior period.	Organic measures allow management and investors to understand the like-for-like performance of the business.
Underlying cash conversion		
	Underlying cash conversion is underlying cash flow from operating activities divided by underlying operating profit. Underlying cash flow from operating activities is statutory cash flow from operating activities less net capital expenditure and adjusted for movements on foreign exchange rates and non-recurring cash items.	Underlying cash conversion informs management and investors about the cash operating cycle of the business and how efficiently operating profit is converted into cash.
Underlying (as reported)		
	Where prior period underlying measures are included without retranslation at current period exchange rates, they are labelled as underlying (as reported).	This measure is used to report comparative figures for external reporting purposes where it would not be appropriate to retranslate. For instance, on the face of primary financial statements.
Processing revenue		
	Processing revenue is revenue earned from customers for the processing of payments or where Sage colleagues process our customers' payroll.	
Recurring revenue		
	Recurring revenue is revenue earned from customers for the provision of a good or service, where risks and rewards are transferred to the customer over the term of a contract, with the customer being unable to continue to benefit from the full functionality of the good or service without on-going payments.	
Software subscription revenue		
	Subscription revenue is revenue earned from customers for the provision of a good or service, where the risk and rewards are transferred to the customer over the term of a contract. In the event that the customer stops paying, they lose the legal right to use the software and the Company has the ability to restrict the use of the product or service. (Also known as 'Pay to play').	
Software and software related services ("SSRS")		
	SSRS revenue is for goods or services where the entire benefit is passed to the customer at the point of delivery. It comprises revenue for software or upgrades sold on a perpetual license basis and software related services, including hardware sales, professional services and training.	

Glossary continued

A&RC

Audit and Risk Committee

AAMEA

Africa Australia Middle East Asia

AGM

Annual General Meeting

API

Application Program Interface

ASB

Annualised Subscriber Base

CAGR

Compound Annual Growth Rate

CFO

Chief Financial Officer

CGU

Cash Generating Unit

CMD

Capital Markets Day

CR

Corporate Responsibility

CRM

Customer Relationship Management

DEFRA

Department for Environment, Food & Rural Affairs

DTR

Disclosure Rules and Transparency Rules

EBITDA

Earnings Before Interest Taxes Depreciation and Amortisation

EBT

Employee Benefit Trust

EPS

Earnings Per Share

ERP

Enterprise Resource Planning

ESOS

Executive Share Operating Scheme

EU

European Union

FaaS

Feature as a Service

FCF

Free Cash Flow

FY14

Financial year ending 30 September 2014

FY15

Financial year ending 30 September 2015

GAC

Global Accounting Core

HR

Human Resources

IFRS

International Financial Reporting Standards

ISV

Independent Software Vendor

KPI

Key Performance Indicator

LSE

London Stock Exchange

LTIP

Long Term Incentive Plan

PBT

Profit Before Tax

PSP

Performance Share Plan

R&D

Research and Development

S&M

Sales and Marketing

SSRS

Software & Software Related Services

TSR

Total Shareholder Return

WLE

Women's Leadership Exchange

WRVS

Royal Voluntary Service

Shareholder information

Financial calendar

Annual General Meeting	1 March 2016
Dividend payments	
Final payable – year ended 30 September 2015	4 March 2016
Interim payable – period ending 31 March 2016	3 June 2016
Results announcements	
Interim results – period ending 31 March 2016	5 May 2016
Final results – year ending 30 September 2016	30 November 2016

Shareholder information online

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

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

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

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