![Sage]

Annual Report and
Accounts 2016

Business builders

Sage is the market leader for integrated accounting, payroll and payment solutions.

Discover more about Sage online
www.sage.com

Our Strategy –
read more on p16

Customers
for life

Winning in
the market

Revolutionise
business

Capacity
for growth

One Sage

2016 Financial highlights

Organic revenue growth

6.1%

6.0% 6.1%
15 **16**

Organic operating margin

27.2%

26.5% 27.2%
15 **16**

Underlying basic EPS growth

9.0%

12.6% 9.0%
15 **16**

Underlying cash conversion

100%

106% 100%
15 **16**

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 assets held for sale of standalone businesses 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 46.

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

We serve business builders.

Those who look deeper, reach higher and strive harder, whilst measuring success on relationships, partnerships and communities – not just profit.

Sage helps drive today's business builders with new generation software to manage everything from money to people. Because when business builders do well, we all do.

2016 has been a key year in our transformation and the business continues to perform, delivering consistent returns for our shareholders, whilst ensuring we do business the right way for the benefit of our customers, colleagues and communities.

Customers
for life

Winning in
the market

Revolutionise
business

Capacity
for growth

One Sage

41%

of entrepreneurs believe that
in the future, everyone will
work from a mobile device.

Revolutionise business

"Sage One is in my handbag, in my pocket, wherever my tech is – and that's why it's perfect for the business."

Gemma Price
Superfood Market Co-Founder

The world is becoming more mobile and revolutionary technology is freeing business builders from the shackles of their desk. Gemma uses **Sage One Accounting** to manage her business on her PC, tablet or smartphone at home, in the office and on the move.

Be Sage

Customers
for life

Winning in
the market

Revolutionise
business

Capacity
for growth

One Sage

The average
small business
owner spends

52 hours

a week just keeping up with their admin.

Be an entrepreneur

Be Sage

"We've been a customer of Sage since 2000 and I'm a raving fan: I love the software and it's made my business so much easier to run."

Jeremy Corner
CEO of Blue Eyed Sun

As a business owner and entrepreneur, Jeremy has many priorities to juggle. Jeremy uses **Sage 50 Accounts** and **Sage 50 Payroll**, which automate financial and administrative processes, freeing up precious hours to focus on growing his business.

Customers
for life

Winning in
the market

Revolutionise
business

Capacity
for growth

One Sage

75%

of entrepreneurs have an ambition
to grow their business in the next
three years.

Build your business

Be Sage

"We would not be where we are today without Sage. Sage is going to help us grow in the next 10 years because it's developing tools that allow us to scale our business."

Alan Turanski
President and Beekeeper at GloryBee Foods

GloryBee Foods uses a range of Sage products including **X3**, which provides the company with a suite of the latest accounting and payment solutions to help the business grow.

Business

Sage is enabling the businesses of entrepreneurs...

The Golden Triangle
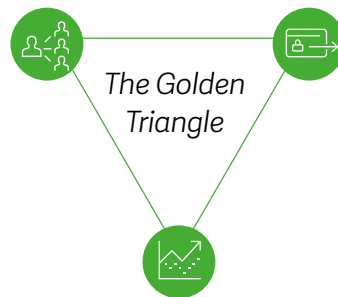
Supporting entrepreneurs with the right products

Our new generation software helps to drive today's business builders. The "Golden Triangle" of seamlessly integrated solutions for Accounting, Payroll & Human Capital Management (HCM) and Payments automates workflow and the movement of money. We provide software deployed on desktops and in the cloud to maximise customer choice.

Accounting
Our range of accounting solutions allows customers to issue invoices, analyse business performance and manage cashflow, taxes, stock, budgets and more.

Payroll & HCM
Our Payroll & HCM solutions are simple, secure and efficient; helping our customers to remain compliant, pay their employees accurately and on time, and to deliver a great employee experience.

Payments
Our payments offerings and partnerships enable our customers to receive payments through their websites, in person using a card reader, or directly from electronic invoices, as well as making outgoing payments.

Organic revenue by region

North
America
34%

Europe
53%

International
13%
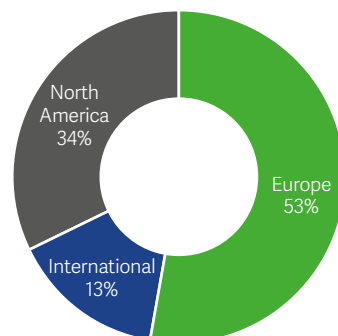
Our unrivalled ecosystem

Our ecosystem is the network of partners and platforms which we work with across 23 countries to service our three million customers. Ranging from accountants, value-adding partners, developers and cloud platforms to name a few, this community works seamlessly with us to provide exceptional experiences to our customers.

builders

and delivering a compelling investment proposition.

The right strategy for our markets

Our strategy responds directly to the market in order to realise the significant opportunities available. We are transforming our business to grow market share and improve the quality of growth, always ensuring we keep our customers, communities and people at the heart of what we do.

See our strategy on p16

Delivering sustainable returns

We are focused on doing well by doing right to deliver superior shareholder returns. The transition to ever closer subscription relationships with our customers not only enables us to provide better support but also gives us excellent visibility over our revenue streams.

Our attention to resource allocation provides potential for strategic investment in our go to market capability coupled with rigorous cost control to deliver strong operating margins and capacity for growth.

We target free cash conversion of revenue in the 15% – 20% range which supports our progressive dividend policy. We are one of very few businesses in the FTSE 100 that have delivered an increased ordinary dividend every year since 1999.

See our performance on p46

16 year dividend history

Growing the annual dividend per share

01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16

Be Sage
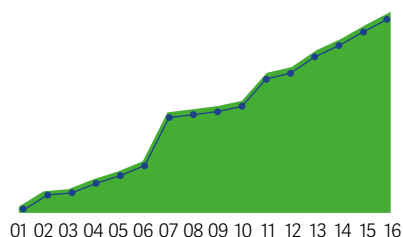
The market opportunity and how we approach it

Small & Medium Businesses

Small & Medium Businesses are the lifeblood of the global economy and make up 99% of all businesses, driving two thirds of new job creation. There is a significant opportunity for growth within the markets in which we operate.

The Small & Medium Businesses market encompasses many types of business with varying complexities and requirements. We constantly strive to understand the characteristics of businesses of different sizes to help us better serve them as they grow and their needs evolve.

Our market

Software solutions in our market comprise Accounting, Payroll & HCM, Payments, or a full suite of business management solutions.

Increasingly, software solutions are hosted on a public server and accessed in the cloud, though we also provide the option of solutions hosted locally and accessed 'on-premise'.

Sage is the only worldwide company who can provide such software solutions to take the business from start-up, to scale-up, through to enterprise, allowing the customer to migrate seamlessly across the product range, as illustrated below.

		Accounting solutions	Payment solutions	Payroll solutions
Start-up 0 – 9 employees	**68m** businesses in our markets — Only around one in 10 businesses of this size use dedicated software to manage their accounting and payroll processes.	sage One		sage One Payroll
Scale-up 10 – 200 employees	**4m** businesses in our markets — Most businesses have solutions to maintain appropriate records and perform multiple functions.	sage Live	sage Pay (incoming payments) / sage Payments (outgoing payments)	sage 50 Payroll
Enterprise 200+ employees	**150k** businesses in our markets — Businesses are more complex and often require extensive, multi-functional, cross-border solutions.	sage X3		sage X3 People

Growth opportunities

White space

Of the 72 million Small & Medium Businesses in the countries where we operate, only around one in 10 currently uses a purchased software solution to manage their accounting and payroll processes. The others use alternative means such as pen and paper or spreadsheets: these businesses represent the white space opportunity.

● **Purchased application**

● **Alternative means**

The cloud

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

Forecasts show cloud spending growing at a rate of approximately 17% per annum to 2018, largely attributable to expansion in the market: traditional software spending 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 by investing in innovative technology for both cloud and on-premise deployment.

+17%

Growth in public cloud spend year on year
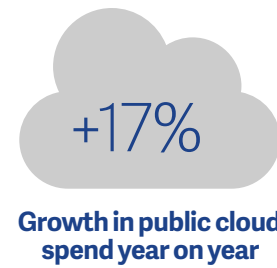
Evolving technology

Technology evolves rapidly and business needs are becoming ever more mobile and social led.

The Sage ecosystem allows us to develop the latest applications and also to partner with other technology companies to seamlessly integrate with other best in class applications on leading cloud platforms.
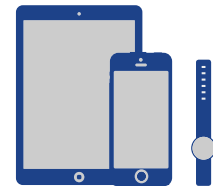
Customer led strategy

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

This provides us with a deep understanding of customer demand drivers, which is integral to developing our strategy. We combine this with our knowledge of local markets to develop intuitive, tailored technology solutions and provide exceptional levels of customer support and advice.

Our latest product designs are customer led, including features based on customer requests and demand drivers.

Fragmented market

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

Sage is one of the market leaders in every country in which we operate and our ambition is to grow our position as a global market leader.

Top 3 providers account for only

¼

of market spend

Creating 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

Talented people
Over 13,000 of our colleagues around the world collaborate to provide technology expertise and an exceptional customer experience.

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

Market and technology insight
We constantly focus on the latest technology to ensure our products remain indispensable to customers in a continually evolving market.

Resource allocation
We flex our resources to focus on market-leading growth products.

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

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

Activate

Develop deeper customer relationships by bringing the latest technology and listening to the needs of our inactive customers.

Attract

Attract new customers by winning in the market, offering each customer a choice of market-leading products, supporting a strong partner and accountant ecosystem and providing first-class support.

Our customer journey

Unrivalled support
Our knowledgeable customer service team answers over 30,000 calls a day, providing support and business advice.

Solution migration
We offer customers the chance to scale-up software as their business grows and provide mobile technology for access to data anywhere.

Grow

Grow with our customers by revolutionising business, providing additional features and services.

Retain

Create exceptional customer experiences to earn customers for life.

Cross selling
We encourage customers to purchase several Sage products, completing the golden triangle to provide a seamlessly integrated suite of business solutions.

Up-selling
We enable customers to upgrade features and services within their product to optimise the experience.

Value created from our business model

Group organic revenue growth
Organic revenue

£1,567m

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).

Organic operating profit

£427m

Shareholder returns
Dividends paid

£145m

Society
Tax charge for the year

£67m

Community
Colleagues enabled to volunteer

13,000

days given by colleagues in their communities

Delivering value for our shareholders

"The Group continues to meet its shareholder commitments, delivering 6% organic growth and 27% organic operating margin for FY16."

Donald Brydon
Chairman

This has been an important year in Sage's transformation and a year of sustained performance. I am delighted to report that Sage continues to meet its commitments to shareholders, delivering 6% organic revenue growth and 27% organic operating margin for FY16, whilst taking very important steps to deliver change in the business to support our long term aspirations. In every part of the business I observe a genuine sense of raised ambition from our people and a firm desire to drive our success to new heights.

Since our Capital Markets Day in June 2015, Sage's transformation has continued successfully along the course we committed to at that time. Whilst there is still much to deliver in order to fully realise our strategy, I am very encouraged by the initial progress made under the direction of Stephen Kelly and his new management team. There have been many changes in the senior team bringing together a new operating model with relevant management skills. Sage has increased its pace of decision making and there has been a step change in the speed and scale of innovation and levels of agility in product development. At the same time, customer satisfaction scores have risen in almost all areas.

Our cloud accounting solutions such as Sage One continue to reach a rapidly expanding market, with paying subscribers in Sage One growing by 81% for the year. We are also bringing the power of the cloud to existing customers with connected versions of market leading products such as Sage 50, Sage 100 and Sage 300. Our renewed strategic partnership with Microsoft to combine the deep functionality of Sage 50C with the innovative mobility of Microsoft Office 365 is an example of our commitment to supporting customers for life, however they choose to deploy their software.

"Customers for life" is just one of the clear strategic pillars around which Sage is developing. Elsewhere in this report you will find detail around the others.

In July, we hosted Sage Summit in Chicago. It was one of the largest gatherings of Small & Medium Business owners anywhere in the world. I was delighted to attend with other members of the Board and personally met many inspiring entrepreneurs, business partners and customers. The 15,000 registered attendees were presented with clearly articulated roadmaps for our major products and also got the first glimpse of innovative new solutions, like our chatbot, Pegg. Sage is committed to supporting the success of Small & Medium Businesses everywhere in the world as an indispensable business ally.

The Board has enjoyed a year of continuity and benefits from the collective expertise of members who have all actively engaged with the business over the last 12 months. Ruth Markland will step down from the Board at the AGM in February 2017 after completing over ten years' service. We have all greatly appreciated her dedication, experience and the wealth of knowledge and insight she has brought to Sage. Inna Kuznetsova has also decided not to stand for re-election at the AGM. Although with us for a shorter time than Ruth, she brought a new perspective to our deliberations and we thank her for her service. I am pleased to confirm that Drummond Hall has accepted the appointment of Senior Independent Director and his appointment will take effect from the end of the Annual General Meeting.

The Board has reviewed its composition with respect to both skills and diversity and as a consequence has commenced the search for successors to Ruth and Inna. As reported elsewhere we benefited from a review of our performance by Ffion Hague and continue to find our objective setting process adds value. On 30th September 2016, Michael Robinson retired from his position as Legal Counsel and Company Secretary and I thank him for his calm and unwavering support during his 14 years with Sage.

Perform and Transform

We deliver good governance with our world-class Board of Directors and Executive Committee, who together, provide the leadership to steer us through our transformation whilst ensuring the business continues to perform to a high standard.

The Board wholly supports the initiatives being undertaken to ensure that Sage not only continues to comply with relevant regulations, but develops a market leading system of controls and culture. These are central to ensuring that Sage is scalable and capable of supporting the growth expected of the Group in the coming years. The initiatives' sponsor is Steve Hare and he has our full backing to embed the rigorous principles approved. At the same time the Board has commenced new work to better define the accompanying culture necessary for sustained success. On 30 November 2016 Sage announced a dividend for the year 2015/16 of 14.15p per share, an increase of 8%.

I would like to thank Stephen Kelly and his team for all their endeavours in the past year. The next twelve months will represent another year of tireless efforts to continue on our path of transformation, whilst continuing to deliver to all our stakeholders, including partners, customers, colleagues and shareholders.

Donald Brydon
Chairman

Delivering for our stakeholders

Our strategy responds directly to the market in order to realise the significant opportunities available. We are transforming our business to grow market share and improve the quality of growth, always ensuring we keep our customers, communities and people at the heart of what we do.

Customers for life

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

See page 18

One Sage

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

See page 26

Winning in the market

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

See page 20

Capacity for growth

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

See page 24

Revolutionise business

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

See page 22

Perform...

We introduced our updated strategy at our Capital Markets Day in June 2015, signalling the start of several years of transformation.

2016 has been a pivotal year in our transformation and the business continues to perform, achieving organic revenue growth and organic operating margin in line with guidance:

Organic revenue growth

6%

Organic operating margin

27%

See overleaf

...And transform

2017 will be another key year of transformation, where we expect to maintain organic revenue growth of at least 6% and an organic operating margin of at least 27%, with accelerating momentum as we exit FY17.

During 2017 we will focus on reinvesting our savings into sales and marketing to continue to improve our ability to win in the market.

Organic revenue growth will make up 80% of the overall bonus weighting for executive directors in 2017. See page 84 for more detail on 2017 bonus.

Customers for life

Providing exceptional experiences

Putting our customers at the heart of everything we do to provide exceptional experiences. This involves providing choice, indispensable advice and the right product for the customer – however they want to deploy their solution.

Our priorities

We want to serve customers for life as their indispensable and trusted ally when facing business issues. Developing ever closer relationships helps us to deliver a superior experience to customers. Our subscription model is central to developing this tighter bond and is mutually beneficial, providing great value and benefits to the customer and increasing our customer retention. We will never force migration and will always offer choice to our customers.

We continue to provide value-adding solutions to the customer, freeing up their time so that they can continue building their business. This means more integrated, complementary solutions, hassle-free migrations for those ready to move to the next product and exceptional levels of customer service and support.

Our latest solutions are customer-led, with features built based on customer requests.

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 37.

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 32 and see more about our progress in the CEO report on page 30.

Perform...

Our subscription model
in stats:

32%

growth in software subscription
revenue year-on-year

46%

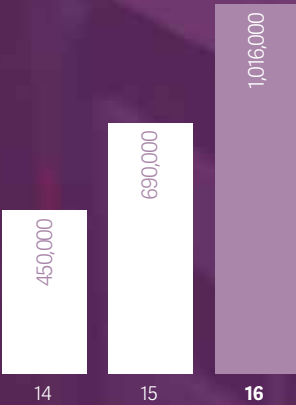increase in software subscription
contracts year-on-year

10%

growth in recurring revenue year-on-year

86%

contract renewal rate

Software subscription contracts

14	15	**16**
450,000	690,000	1,016,000

See overleaf

...Transform

Frylite Limited

Our customer for life commitment provides choice and success pathways to support businesses as they expand. As Frylite has grown, the business has migrated up from Sage 50 to Sage 200 to match the increasing complexity of its processes to a capable solution which supports continued successful growth.

"We were taking on a lot of new customers every day so we needed a bigger, more powerful package. We have seen a lot of benefits of using Sage 200 – integration with other software packages is key for us and because Sage are established, they have a great support system."

Justin Barrett
Financial Controller, Frylite Limited

www.sage.com/investors

rylite
The natural choice
VEGETABLE OIL

18.40kg 20Litres

Winning in the market

Growing our market share

Outpacing the competition to gain market share and sustain our ambition to be the leader in our chosen markets. Our purpose is to serve the world's business builders. Providing the very best technology and services, combined with an emotive brand strategy that puts people at the heart of our operations, will unlock huge opportunities for growth.

Our priorities

We are winning in the market with our range of next-generation cloud accounting, payroll & HCM and payments products (see page 10), providing solutions that cater for all sizes of Small & Medium Businesses from start-up, through scale-up to enterprise. These products will be the default product choice for new customers unless their particular needs are better served by another of Sage's products.

We aim to make the entire customer sales experience from enquiry to product deployment and customer success as seamless as possible. Our regional Customer Business Centres (CBCs) coordinate the sales of our cloud solutions to new customers and maintain relationships with customers as they grow (see page 24 for details).

We are also investing in an always-on, digital marketing platform to ensure a consistent, modern and user-friendly online presence across Sage.

We are uniting all of our sales and marketing under one emotive brand strategy. This integrated approach will differentiate us from the competition whilst creating deeper connections in the market that will increase brand loyalty and advocacy.

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 on pages 37 and 38.

How we will measure our progress

As we grow market share, the primary measure for winning in the market is the adoption of our cloud products. Read more about our KPIs on page 32 and see more about our progress in the CEO report on page 30.

Perform...

Growing market share by attracting customers to our latest cloud technologies.

In July 2016 we hosted Sage Summit, the world's largest gathering of entrepreneurs.

Sage Summit in numbers:

15,000
attendee registrations

Over 1bn
social impressions

Over 3,000
news articles written about Sage Summit

See overleaf

...Transform

Check and Balance Firm

We are winning in the market with solutions that are built with a mobile-first and socially-connected mindset.

Check and Balance is a tax preparation and accounting firm that focuses on Small & Medium Businesses. Founder Tiffany Wilson was looking for a mobile accounting solution to service her clients flexibly, on the move with her tablet when she was introduced to Sage One.

"Switching over to Sage One was the best decision I could have ever made for my business. Sage is really helping me to innovate and grow with my business because I've got everything in the cloud now. It's been an awesome experience."

Tiffany Wilson
Owner, Check and Balance Firm

www.sage.com/investors

Revolutionise business

Simplifying customers' lives

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

Our priorities

Revolutionising business at Sage means delivering our new, exciting solutions like Sage One, which can be accessed by smartphone, Sage Live, which won the Salesforce award for most innovative product of 2016, and X3 which we are launching in the cloud, but also revolutionising our much-loved existing suite of products. We are releasing hybrid on-premise / cloud versions of Sage 50, 100 and 300, providing both high-functionality and the flexibility to work from multiple locations and devices.

In 2016 we announced a partnership of Sage 50 and Office 365, bundling the two products to allow enhanced analytics, sharing of documents between colleagues and access to the business anywhere.

We also launched Pegg, the world's first accountancy chatbot, in July 2016 (see overleaf).

We use the most appropriate, industry-leading development platforms for each of our products and select the latest applications to integrate with our software to continue to evolve our ecosystem.

The risks that could impact our success

Working collaboratively and with agility is key to ensuring our product development can outpace a rapidly 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 strategic partnerships and third party reliance 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 12 for the business model).

The lead indicator that we are delivering on our strategy is our annualised software subscription base ("ASB"), given that our very latest features are available on subscription. Read more about our KPIs on page 32 and see more about our progress in the CEO report on page 30.

Perform...

Meet Pegg, the world's first accounting chatbot.

Pegg makes running your business as easy as texting.

Users can log an expense or income, add receipts and check their spending habits all without leaving their favourite messaging apps like Facebook and Slack.

Through Pegg, we're making accounting almost invisible, so business builders can spend more time doing what they love.

1st

accountancy chatbot developed in the world

Over

3,800

users in 85 countries by year end

Featured in over

300

media articles

See overleaf

...Transform

Kingpin

Kingpin is an integrated marketing agency, helping technology brands connect with audiences. As a fast-growing business, it was important for Kingpin to be able to focus on growing customers and clients.

Sage Live provides Kingpin with access to real-time information on connected devices meaning the company can meet clients and hold board meetings anywhere.

"We experienced 20% growth last year. For us, it's not about saving money, it's about saving time and working smarter. Sage Live enables one single point of view of my customers and takes away a lot of the headache of managing business – I see this as transformational. I would recommend Sage Live. Our search took a long time and hitting something that also worked with our CRM system was really hard to find until Sage Live came around."

James Foulkes
Co-Founder, Kingpin

Capacity for growth

Increasing efficiencies

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

Our priorities

Throughout our transformation we are focused on progressing towards a single, united operating model to provide consistently excellent support to both colleagues and customers. We have realigned key functions such as Marketing, Product Delivery and Technology, whilst ensuring the function remains strongly connected to the country and the customer. We ensure the responsibility for the customer remains under the remit of that country, with sales and service provided locally, in local language, by Sage experts.

This united model drives efficiencies and creates synergy across countries. The savings in formerly decentralised back office functions are being reinvested into the business to drive growth.

We are continuing to improve our always-on digital marketing platform. Our customer business centres (CBCs) deploy this platform, staffed 24 hours a day with solutions experts who can nurture the incoming leads to identify which product will best suit the customer's needs, rather than marketing a product and identifying suitable customers.

For instance, on a Sage Live qualified lead, the CBC team takes on all contact from product demos, to post implementation success coaches, ensuring that new users gain maximum value from the product from day one.

The digital marketing and CBC formula can be repeated in other regions from the existing hubs in Dublin and Atlanta, utilising the same best in breed applications and generating standardised management information to aid comparability of performance.

The risks that could impact our success

Business Model transition has been identified as a principal risk, this is considered on page 38.

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%). Read more about our KPIs on page 33 and see more about our progress in the CEO report on page 31.

Perform...

By reducing unnecessary cost from back office functions to reinvest in the go-to-market model:

General and admin expense as a proportion of revenue reduced by

2.2%

during FY16

£51m

Annualised cost savings

See overleaf

...Transform

Digital Marketing

We're reallocating resources to invest in a scalable and efficient digital marketing platform to generate demand for our sales teams.

Throughout FY16 we procured and implemented 12 digital marketing systems to provide a new digital platform to leapfrog our competitors. This involved:

P

People
Appointing the best leadership and digital professionals

P

Platform
Creating a perpetual demand engine, across web to lead, delivering 5,000 leads per week

P

Programs
Moving marketing from product to solution-based campaigns

P

Process
Creating a united media strategy, saving £1m per year in agency fees and a 37% reduction in cost per lead

One Sage

Working collaboratively

Our people and our culture, working collaboratively with pace and agility to put our customers first. This means keeping customers at the heart of everything we do and focusing on their success, always striving to over-achieve.

Our priorities

Our brand story provides us with a unified culture that will unlock the power of people. Providing our colleagues with an emotive purpose and a set of goals and principles allows us to realise our ambition efficiently – the Sage way. It's a privilege to serve so many business builders and our one Sage culture enables us to delight them all.

We continue to align the values of our colleagues with engagement through All Hands meetings, Sage TV, broadcasting live to all colleagues, and Sage FY17 Kick-Offs, where each major Sage office around the world was visited by management meeting approximately 10,000 colleagues as well as customers, partners and accountants.

Doing business the right way through one Sage also extends to our communities. Sage Foundation has been highly instrumental in achieving this (see page 60), and enables us to support our communities, all the while improving colleague job satisfaction, staff retention and attracting new talent.

The risks that could impact our success

As we introduce new ways of working and increase the pace of execution, there is increased stress on our operating cadence which may impact certain aspects of our principal risks. For example, our control environment, business processes and technology infrastructure must continue to support the efficient and effective operation of the business.

Read more about our supporting control environment principal risk at page 39.

How we will measure our progress

Doing business the right way and giving back to the community is incredibly important to us. Our Foundation Days KPI measures how much time Sage colleagues have spent volunteering at charitable causes throughout the year. Read more about our KPIs on page 33.

Perform...

We strive towards excellence in governance with our refreshed suite of 56 internal policies.

We implemented these policies throughout FY16 with communication and training to support all colleagues to ensure we remain fully committed to good governance throughout the transformation and beyond.

Doing the right thing

...Transform

Working together to achieve our vision.

In order to support this we have launched our new goal-setting process, VSGM.

V

Vision
The aspirational primary objectives of the organisation

S

Strategy
The approach employed to achieve the vision

G

Goals
Personal objectives set in support of achieving the strategy and vision

M

Measures
Specific targets to determine whether goals have been achieved

Goal-setting begins with the CEO and cascades down through leadership. Senior management goals are aligned to strategic pillars and shared throughout Sage.

This transparent approach aligns colleagues to the Sage Way to embed our collaborative culture across the organisation. It also enables our people and managers to have straight-forward conversations about how they are progressing towards their goals and supporting our overall strategy throughout the year.

Chief Executive's review

When business builders do well, we all do

"FY16 saw Sage continue to deliver on the commitment made at our June 2015 Capital Markets Day to perform and transform."

Stephen Kelly
Chief Executive Officer
@SKellyCEO

Performance

I am pleased that we have made good progress in performance and transformation, consistent with our presentations made at the Capital Markets Day (CMD) back in June 2015. At CMD, we shared with investors the growth strategy underpinned by the five strategic pillars of Winning in the Market (New Customer Acquisition); Customer for Life (C4L); Revolutionise Business; Capacity for Growth and One Sage. FY16 has been a pivotal year in our transformation programme and, most importantly, the business continues to perform. As we have highlighted to investors, FY16 was one of the years of highest potential risk in the transition of the business. At CMD, we clearly outlined our strategy and continue to achieve profitable growth, providing best-in-class support for the Business Builder entrepreneur. We delivered revenue growth of 6% with 27% operating margins in line with

guidance provided last year. I am particularly pleased to note that higher quality recurring revenue was double digit – the first time for a decade. The strategy for Business Builders is delivering in line with our expectations and supports the Sage business model of quality organic growth; superior operating margins; strong free cash generation (enabling a progressive dividend) combined with selective acquisitions to accelerate the strategy.

Strong revenue growth of 7% in Europe (10% recurring revenue) and 8% (16% recurring revenue) in International has been balanced by 4% revenue growth (9% recurring revenue) in North America, due mainly to challenges in the Payments business. Growth in Europe and North America has been led through strong performance in our Customer for Life (C4L), whilst growth in the International region has been driven by Winning in the Market (new customer acquisition).

As part of the C4L strategy, within recurring revenue, software subscription revenue grew by 32% and the number of software subscription contracts grew by 46% to just over one million. Our contract renewal rates grew by 2 percentage points from 84% to 86% for the year coupled with continuing improvement in our Net Promoter Scores (NPS).

Organic processing revenue grew by 6% in the year reflecting strong growth in Europe of 12% driven by Sage Pay in the UKI, and International of 50%, driven by payroll processing, balanced by slower growth in North America of 3% that delivered strong payroll processing growth and a flat year-on-year in payments.

Organic SSRS revenue declined by 8% in the year reflecting the planned transition to a subscription model as explained at our 2015 Capital Markets Day.

Business Transformation

We achieved an operating margin of 27% in FY16 in line with guidance, whilst transforming our business by reducing cost from our back office to reinvest in sales and marketing to support 'Winning in the Market'.

We have reorganised the go-to-market functions and hired a proven leader, Blair Crump, the recently appointed Sage President, to ensure that in FY17 we will see a laser focus on new customer acquisition.

During the year we reduced the general and administrative (G&A) expense as a proportion of revenue to 16% (FY15: 19%). We have secured annualised savings of £51m from G&A and have incurred an exceptional charge of £110m, £76m of which relates to G&A, therefore giving an associated payback period of under two years, in line with our guidance.

The extent of the transformation is substantial. Of our top leadership, 72% has changed in the last two years and half of the new leaders are internal promotions. The overall headcount remained stable during the year and yet 3,000 new colleagues have joined Sage. 32% of the Senior Management Team is now female, up from 25% in the prior year. We will continue to hire people to support our growth plans whilst at the same time driving for productivity, efficiency, high performance and inclusion.

In FY16 as we communicated, there was an exceptional charge of £110m, incurred as part of phase one of the transformation. In FY17 we have identified additional cost saving opportunities of at least £50m which we will reinvest in our go-to-market functions in order to accelerate our ability to acquire new customers. This will create a further exceptional charge, with a targeted payback of under two years.

Success in our technology strategy

Our suite of cloud accounting solutions continues to drive the 'Winning in the Market' strategy to generate revenue and increase market share:

– Sage One paying subscriptions increased by 81% to 313,000 during the year and revenue increased by 54%. The majority of the increase in customers was driven by Europe and in International, which delivered a triple digit increase in paying customer numbers;

– X3 revenue grew by 18%, with particular success in the International region which achieved revenue growth of 74%. Customer numbers in X3 have increased by 25%;

– Sage Live, launched in USA and UK in February 2016 was awarded 'Best Salesforce

Developer Community' innovation award and has now left 'incubation', gaining momentum as a powerful mobile first, real-time accounting engine. We now have over 600 Sage Live customers, with over 400 added in the past 90 days.

– Sage 50 Accounts remains a popular choice with our installed base, with functionality continually increasing as the product enhances its cloud functionality through Sage Drive and Sage 50C. In the year Sage 50 Accounts delivered triple digit subscription revenue growth in the UKI, US and Canada. The overall Sage 50 family of payroll and accounting solutions now accounts for 29% of all revenue.

Progress in areas targeted to improve performance

As a management team focused on improvements throughout the business, we share our 'watch list' regularly. During FY15 we highlighted areas of the business that were underperforming relative to Sage's overall performance, being Enterprise Europe, Small and Medium Business North America and Payments North America. We continue to believe that progress will be non-linear and that we expect the watch list to vary over time.

Enterprise Europe
Enterprise Europe delivered full year growth of 5% compared to a decline in the prior year. The strategic product within this portfolio, X3, grew by 12%, with particular success in the UKI where revenue grew by 17% and customer

numbers grew by 41%. We are confident of continued growth of X3 and further progress in the Enterprise segment.

Small and Medium Businesses North America
Revenue has grown by 4% for the full year in this segment, compared with 4% in the prior year.

This segment continues to be a focus: some progress is notable with Sage 100 Cloud and Sage 300 Cloud products starting to gain momentum with software subscription revenue growing by 60% and 63% respectively. Sage Construction and Real Estate has also been a success, growing by 7% in the year and adding over 1,000 customers – a record for this part of the business.

Payments North America
Payments North America has remained flat year-on-year. Challenges in this segment reflect margin compression in line with industry trends and new account shortfall due to slower progress in marketing and the partner channel. In order to drive growth in FY17 we are now offering the power of the combination of Payments, Accounting and Payroll and therefore differentiating our value proposition by bundling these solutions, and offering new and updated product and process functionality. Payments marketing now has a separately dedicated team and is expected to significantly improve lead generation and referrals.

Perform and Transform

"The organic revenue growth of 6% is driven by higher quality recurring revenue, which grew at the fastest rate in a decade. The strategy is working – with customers embracing closer relationships with Sage, evidenced by a 46% increase in the number of subscription contracts and a contract retention rate of 86%.

Phase one of the transformation programme has been successfully delivered. For phase two we have ensured that we have the core management team, processes and culture to deliver the best technology ecosystem for our customers – those business builders that drive the world's economy, creating jobs, growth and prosperity. Phase two of the transformation will continue to be non-linear and focus on driving more technology innovation with increasing focus on new customer acqusition as well as continuing to improve execution against the strategy for Business Builders. We are already starting to see Sage drive faster innovation, a more customer-obsessed DNA and colleagues making a difference in all of our communities through the Sage Foundation.

For FY17, the second full fiscal year of our transformation, our full year guidance for FY17 is for at least 6% organic revenue growth and at least 27% organic operating margin. We will continue to front-load investment in growth in H117, consistent with our execution last year. Consequently, we anticipate stronger H2 growth and accelerating momentum as we exit FY17."

Progress of execution

Throughout FY16 we have executed on our transformation by driving improvements through each of our strategic pillars. There is strong evidence that our strategy is working, with continued improvements planned for FY17.

Customers for Life

Progress

We are building higher quality relationships with our customers through subscription. Software subscription revenue has increased by 32% and the number of software subscriptions has increased by 46% to just over one million.

By providing excellent levels of customer service and the latest technology we continue to build up our contract renewal rates. The contract renewal rate has grown to 86% in the year, compared to 84% in FY15, with the best renewal rates in North America and Europe at 89% and 88% respectively.

Cross-sell campaigns are starting to gain traction: in the UKI 37% of Sage 50 Accounts customers also have Sage 50 Payroll.

Our NPS score measures customer satisfaction and has increased by 61% on the prior year.

Focus

We will continue to focus on the move to subscription, scaling up cross-sell in FY17 to improve the average number of products held by our customers and implementation of our customer journey maps, which highlight how customers from start-up to scale-up to enterprise can choose Sage as their cloud accounting partner for life.

Winning in the Market

Progress

Our suite of cloud accounting products designed to win in the market is showing progress. X3 revenue grew by 18% in the year with 74% growth in the International region. Sage One paying subscriptions grew by 81% to 313,000, of which 61,000 were added in the UKI and 23,000 each in both Brazil and South Africa, representing evidence of Sage's international strength.

Products continue to develop at pace. Sage One updates are available every two weeks, leading to over 1,500 design improvements and over 150 new or improved features in FY16.

In July 2016 we hosted Sage Summit, the world's largest gathering of entrepreneurs. We had 15,000 registered attendees, generated one billion social impressions and over 3,000 media articles were written from the conference.

Our digital marketing strategy is starting to deliver: we increased our social media following by 220%, leapfrogging our competitors, and tripled engagement with our content on social channels, as well as increasing our lead to conversion rate in Q4 – a trend we will continue to build upon.

We have made significant progress implementing our web domain consolidation strategy seeing 14% growth in web traffic to all Sage properties and 77% growth in organic traffic to Sage.com.

Focus

FY17 will be a year of focus on execution of the 'Winning in the Market' cloud accounting product roadmaps in each country, for Sage One, Sage Live and X3 Cloud with significant upgrades and distribution planned for the products. Product roadmaps are now updated monthly, outlining country roll-out plans, major releases and key feature updates. In addition, we will scale up the Customer Business Centres (CBCs); take Sage Summit 'on the road' around major cities; and elevate Sage's brand as the popular cloud accounting choice for Business Builders. During FY17, Sage is planning 27 major cloud product launches across our geographies.

Revolutionise Business

Progress

We launched Pegg, the world's first accounting Chatbot at Sage Summit in July 2016 gaining over 9,000 new users to Sage in 125 different countries.

We continued to build our ecosystem through Sage Marketplace, an online hub to access complementary partner applications. 215 ISV apps have been signed to Sage Marketplace during the year, of which 86 have been fully integrated.

We have launched the Sage One mobile app and new versions of Sage One for Partners and Accountants as we continue to move our Sage One solutions on to our Global Accounting Core (GAC).

Sage Live was developed in 26 weeks with early adopter customers contributing to the build of the product. Product updates are released on a bi-monthly basis and we now have over 600 customers, many of whom are 'live' following a rapid period of implementation.

In Spain, a country that has not launched any new products since 2010, we are launching five major products in six months (Sage One GAC, Sage Live, Sage 50C and Sage 200C), all in local language and locally compliant based on the new, agile model of development.

Focus

During FY16 we continued to develop our Sage ecosystem with further expansion to be sustained throughout FY17. Partner-driven solutions will be available on Sage Marketplace for six of our growth products and the suite of ISV apps will continue to increase. Further innovation is planned for Chatbots, artificial intelligence, machine learning and data sciences.

ıllıl Capacity for growth

Progress

We are measuring the return on our investment in go-to-market functions. Within the marketing department, the people cost to marketing expense ratio has decreased from 46:54 to 39:61, moving in line with IDC benchmarking.

We have created greater capacity to reach prospects through the consolidation of our digital media strategy and a single worldwide media agency. This has enabled a more consistent approach to media, faster time to market and a 25% reduction in agency fees. The first year of implementation achieved a significant increase in the performance of demand related media investment, reflected in a 37% decrease in cost per enquiry.

We have made some early changes in other areas of the go-to-market functions as we start to integrate areas of sales and marketing operations and reduce non-quota carrying sales support roles.

We have streamlined our property portfolio from 139 to 78 premises. Core Sage properties have been upgraded to provide an outstanding workplace for colleagues in Atlanta, Lawrenceville, London and Dublin.

We are establishing the critical platforms for growth with our CBCs, digital marketing platforms, Sage partnership programme and our updated brand.

Focus

During FY17 we will continue our focus on expanding the platform for sales and marketing to drive new customer acquisition. We will further leverage the power of our CBCs, which provide one touchpoint for the customer so we can coordinate leads from initial contact, selecting a product, through to aftersales success coaching. Our CBCs are currently located in Dublin and Atlanta and the same formula will be applied to other locations as we continue to roll-out this approach.

One Sage

Progress

We have reduced fragmentation and misalignment within our business:

– We have continued to consolidate the Sage One towards a single code base;

– The new Operating Design has been rolled out around the world and provides a consistent operating model.

Colleague engagement has increased with All Hands meetings and Sage TV broadcasting live to all colleagues, and Sage FY17 Kick-Offs, where each major Sage office around the world was visited by management meeting approximately 10,000 colleagues as well as customers, partners and accountants.

We have increased our colleague engagement through Sage Foundation. 13,000 days were donated by Sage colleagues to volunteer through Sage Foundation in the year and 110 charities and non-profit partners globally benefited from grants awarded by the Foundation.

To strive towards Excellence in Governance, we have introduced a suite of 56 refreshed policies to ensure our business remains fully committed to good governance throughout the transformation and beyond. In FY16 Sage was recognised in the top four of the FTSE 100 for governance in a study by the Institute of Directors.

Goal setting has been aligned throughout Sage by Vision, Strategy, Goals, Measures (VSGM), with the CEO's FY17 objectives now cascaded down through the organisation, aligning colleague objectives to both leadership and the strategic pillars.
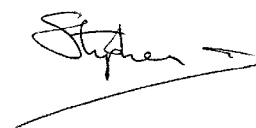
Focus

Further focus on the next phase of Excellence in Governance with the Sage Excellence in Controls programme and integrated business planning for FY17 and cultural change to encourage consistency.

Outlook

FY17 signals the start of phase two of our transformation to execute the strategy for Business Builders. We will build on the strong foundations built during phase one in FY16 as follows:

– Rigour in implementation of the country customer journey maps for C4L and Winning in the Market.

– Increased focus on new customer acquisition with our award winning cloud accounting products. This includes launching Sage Live in a further five countries with user experience improvements and new services for Sage Live for Accountants with Practice Management; increasing functionality in Sage One with improvements to banking, user experience, reporting and partnering with Accountants and shifting the product focus on X3 towards cloud-first development and subscription pricing. Sage One and Sage Live are both now sold and supported through CBCs.

– We will continue efficient investment in the marketing function to increase the number and conversion rate on marketing qualified leads and improve return on investment.

– Continuing the Capacity for Growth initiative, we will drive further opportunities for cost saving identified to be achieved in FY17 of at least £50m with an associated exceptional cost and payback of less than two years.

– Cost savings to be further reinvested into sales and marketing and product innovation to continue to drive new customer acquisition.

As we progress into Phase two of the transformation programme, our guidance for full-year FY17 is at least 6% revenue growth and at least 27% operating margin. Consistent with FY16 there is a planned strategic investment bias towards the first half of the year and therefore we expect margins to be lower than 27% in H117 and higher margin in H2 to achieve the blended 27% margin for the full year. With the front-load investment in growth in H117, we anticipate stronger H2 growth and accelerating momentum as we exit FY17.

Stephen Kelly
Chief Executive Officer

Measuring our progress

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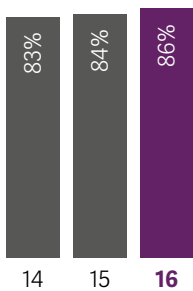
Customers for life

Renewal rate

86%
FY15: 84%

14	15	**16**
83%	84%	86%

Description:
If we are successful in delighting customers with technology and service levels, they will respond when it is time to renew their contracts. Calculated as the number of contracts successfully renewed in the year as a percentage of those 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 that 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 86%.

Winning in the market

Adoption of Sage One
Paying subscriptions

313,000
FY15: 173,000

14	15	**16**
86,000	173,000	313,000
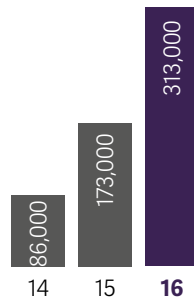
Description:
We use our suite of cloud accounting products to attract new customers. Our KPI considers the revenue generated from cloud products and includes the number of paying subscriptions at the end of the year for Sage One (all editions) and revenue growth for Sage X3.

Adoption of Sage X3
Revenue growth

18%
FY15: 11%

14	15	**16**
7%	11%	18%

Performance:
Sage One paying subscriptions have continued to increase throughout the year, driving FY16 subscriptions up to 313,000. X3 adoption has continued to progress with 18% revenue growth for the year.
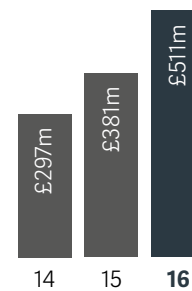
Revolutionise business

Annualised Software Subscription Base ("ASB")

£511m
FY15: £381m

14	15	**16**
£297m	£381m	£511m

Description:
ASB is the leading indicator for how our move to subscription is progressing. Growth is supported by our latest technology updates which are delivered regularly on subscription. ASB is the amount of organic software subscription revenue in the last month of the period multiplied by twelve.
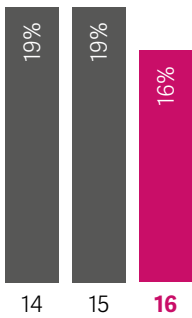
Performance:
Our progressive move to subscription continues to gain momentum with growth in ASB of 34% for the year to £511m.

Capacity for growth

General and administrative expense ratio ("G&A%")

16%
FY15: 19%

19%	19%	16%
14	15	**16**

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

Performance:
Throughout our transformation we have been moving towards a single, united operating model. In FY16 we have reduced our G&A cost as a proportion of revenue by over 2%.

One Sage

Sage Foundation Days

13,000

Description:
Doing business the right way is important at Sage (see more at page 60). Giving back to the community through Sage Foundation allows our colleagues to volunteer to work with charitable causes and we encourage every colleague to take up to five Sage Foundation days per year.

This is the first year we have had a quantitative measure of one Sage, which recognises the importance of Sage Foundation within our organisation.

Performance:
In the first year of applying this KPI we have donated 13,000 days to Sage Foundation.

Financial measures

Underlying EPS growth

9.0%
FY15: 12.6%

8.2%	12.6%	9.0%
14	15	**16**
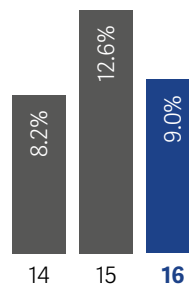
Description:
Underlying basic EPS is defined as underlying profit after tax divided by the weighted average number of ordinary shares in issue during the year, excluding those held as treasury shares. Underlying profit after tax is defined as profit attributable to owners of the parent excluding:

– Recurring items including amortisation of acquired intangible assets, acquisition related items, fair value adjustments, foreign currency movements on intercompany balances and imputed interest.

– Non-recurring items that management judge to be one-off or non-operational

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

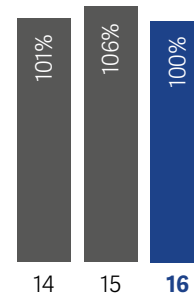For a reconciliation of underlying basic EPS to statutory basic EPS, turn to page 132.

Performance:
Underlying EPS growth primarily reflects increased operating profit and a lower effective tax rate.

Underlying Cash Conversion

100%
FY15: 106%

101%	106%	100%
14	15	**16**

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

Performance:
The business remains highly cash generative with strong underlying cash conversion of 100%.

Product portfolio management

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

Framework management

Growth products

We retain customers for life with our on-premise and hybrid products, and win in the market with our cloud accounting products.

We invest all of our sales and marketing (S&M) spend and almost all of our research and development (R&D) spend on these products. Product development is increasingly based on customer feedback and requests, and the best features from our on-premise products are applied to our cloud solutions and vice versa. This ensures we have the most competitive suite of products to retain and grow our market share.

Customers for life – On-premise and hybrid accounting solutions
Our on-premise and hybrid solutions have been developed over years, delivering functionally-rich products tailored to the regulatory framework of each country.

We continue to leverage the power and productivity of our on-premise solutions to combine with the flexibility and automation of cloud technology, producing hybrid solutions that give customers the best of both worlds.

Winning in the market – cloud accounting products
Our cloud accounting products are our primary tool to attract new customers.

We now have a suite of universal, cloud-based products that are disrupting the market with revolutionary features, allowing the customer to run their business from the palm of their hand. Our cloud products are suitable for sole traders through to enterprise businesses.

Heritage products

Heritage products are those that are no longer driving significant growth.

We will not end-of-life any product which has satisfied on-plan customers, but R&D investment will be limited to minor enhancements, bug fixes and building migration tools. Over time, we expect our customers to migrate to a growth product to obtain enhanced functionality. There is no pressure to do this – our aim is to protect and support our customer base and be there as a trusted partner throughout their business life. However, our investment in migration tools enables the customer to experience a seamless move to the next product when they are ready to do so.

The evolution of our products – Sage 50

Sage 50, a firm customer favourite, has continued to develop over more than thirty years. This growth product, which is available in many of our geographies, constantly evolves to incorporate the latest features and technology. Traditionally a desktop solution, Sage 50 in now available both on-premise and in the cloud enabling flexibility without compromising functionality. See more on how the product is developing in the UK at sage.co.uk\roadmap

Delivering for our customers

"Sage 50 Accounts with Drive is the best software I've found. It helps businesses grow really fast."

Adam Sopher, Joe & Seph's Popcorn Co-Founder

Adam uses Sage 50 with Sage Drive on subscription which updates via the cloud so he can access the latest technology and remain compliant as his business scales.

Cloud accounting products from start-up, through scale-up to enterprise

Start-up

sage One

Our cloud accounting product 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 no training required, Sage One can be used on laptop, tablet or mobile. The Sage One Accounting mobile app lets users create and send invoices and access their data from anywhere with an internet connection.

24/7 support is provided and the product complies with local regulations as standard. Updates, which are principally customer demand driven, are made live every 14 days.

Makes accounting and invoicing simple for start-ups

Scale-up

sage Live

Our cloud accounting product ideally suited to Small & Medium Businesses with around 10 to 200 employees. Sage Live enables one virtual office where business owners, their accountant and employees can all contribute to the business.

Sage Live is a revolutionary product 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. Customers can personalise the software to focus on what really matters in the business and eliminate low-value tasks.

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.

The start of a real-time, social accounting revolution for Small & Medium Businesses

Enterprise

sage X3

Our business management cloud accounting solution 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. X3 can be deployed either on-premise or in the cloud. Either solution offers the same rich functionality to maximise customer choice and allow the customer to select the right solution for their business.

Taking the complexity out of running mid-sized and larger businesses

Managing risk

During 2016 we moved into the execution phase of our business transformation, bringing together all parts of the business as a connected whole (One Sage). Our external risk landscape continues to change as both the business and marketplace evolve. To respond to the pace of change, and need for greater visibility across our business, we continued to enhance our risk management during 2016 and this remains a major focus for the Board.

During the year, we have maintained a focus on driving risk consideration in our decision making. We continue to create appropriate and scalable processes and practices, enabling us to grow the business the right way. We have further developed our three lines of defence model to support this, including establishing a Sage Compliance function.

Principal risks

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

The Directors and Global Risk Committee carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. This assessment includes consideration of any potential impact of the result of the UK's EU referendum upon our principal risks. The Board continues to monitor the risk environment, and reviews the appropriateness of the principal risks to the business. These are formally reviewed at the beginning of each year in consultation with the Audit and Risk Committee, and continue to be proactively managed by executive sponsors and risk owners, supported by Sage's Risk function. On an ongoing basis, we also consider the local relevance of the principal risks, and additionally identify and escalate local risks as appropriate.
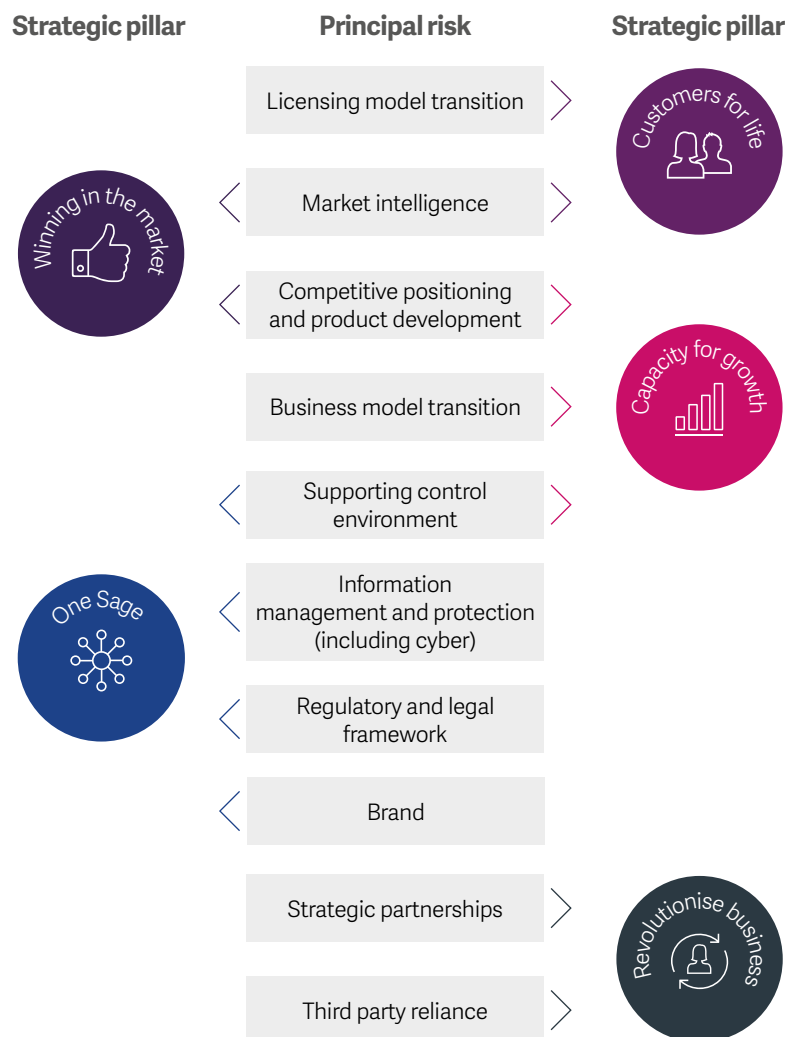
Principal risks are formally reported to the Global Risk Committee on a quarterly basis, alongside escalated local risks. We manage risk in line with our risk management policy and approach, as set out in Risk Management on page 42.

Currently there are ten principal risks which we monitor and report against. These risks are aligned to successful delivery of our strategy and mapped against the strategic pillars to which they relate, as set out opposite.

The principal risks, and associated appetite statements and metrics, are refreshed and updated on an ongoing basis during the year, and during 2016 enhancements included the introduction of capability metrics for each principal risk, recognising the importance of colleagues in managing risk. We continually monitor the likelihood and potential impact associated with each principal risk, and no significant changes were observed in the current year.

To enhance monitoring and reinforce accountability, during the year we revised our principal risk dashboards to include successes, challenges and proposed actions to manage the risks and introduced regular meetings with the executive sponsors and risk owners.

A range of measures are in place to manage and mitigate our principal risks, while other activities are in the process of being developed or deployed. These are detailed in the following table.

Strategic pillar	Principal risk	Strategic pillar
	Licensing model transition	Customers for life
Winning in the market	Market intelligence	
	Competitive positioning and product development	
	Business model transition	Capacity for growth
	Supporting control environment	
One Sage	Information management and protection (including cyber)	
	Regulatory and legal framework	
	Brand	
	Strategic partnerships	Revolutionise business
	Third party reliance	

Principal risk	Risk background	Management and mitigation

Licensing model transition

Sage does not successfully manage its transition to subscription licensing against defined timelines and targets or appropriately adapt its customer approach.

Strategic alignment:

Customers for life

Sage is transitioning from a perpetual to a subscription-based licensing model.

In addition to providing additional value for customers, this transition assists with cash flow; offers a platform for cross-selling; and lowers attrition rates, which in turn aids revenue forecasting.

It also provides regular customer engagement and enhanced opportunities to develop these relationships.

The speed of transition needs to be balanced against any reduction in short-term revenues.

– An approved licensing model transition strategy is in place
– A series of approved subscription revenue targets are defined, which span multiple years and support successful and balanced delivery of our strategy
– Ongoing monitoring and review of the approved targets takes place at country, regional and Group levels to proactively manage the licence transition, and revenue targets
– New products are being offered on a subscription only basis, to support achievement of overall revenue targets
– Customer Business Centres (CBCs) are established in North America and Europe to integrate digital marketing, sales and service operations for customers using Software as a Service (SaaS), and support planned growth ambitions

In progress:
– Additional CBCs are being created, to better manage ongoing customer relationships and the sales cycle

Market intelligence

Sage fails to understand and anticipate changes in the external environment, including customer needs, emerging market trends, competitor strategies and regulatory or legal requirements.

Strategic alignment:

Customers for life

Winning in the market

Sage has previously operated as a federated set of operating companies, using local definitions and methodologies to capture market data.

The alignment of federated activities allows consolidation of data across geographies and product to provide a single Sage view, enabling trends and white space opportunities to be identified.

In order to develop a consolidated understanding of its market and customer needs, Sage is developing its market intelligence capability, and aligning this with competitive positioning and product development activities.

– A Market and Competitive Intelligence team is established, which has Group responsibility for Market Intelligence
– Market intelligence surveys are undertaken, to identify market opportunities
– Brand health surveys are undertaken in order to understand customer perception of the Sage brand and its products
– An approved internal communications plan is delivered, to share market intelligence to build brand awareness
– Market data is provided through a Market Data portal, allowing ease of access and improved analysis

In progress:
– Action to support the increasing awareness and quality of the Market Data portal
– Ongoing refinement and improvement of market data through feedback from the business

Key

↑ Improving risk environment

⊖ Static risk environment

Principal risk	Risk background	Management and mitigation
Competitive positioning and product development		
Sage is unable to clearly identify the approach to market, or deploy competitive advantage, including product development. Strategic alignment: **Winning in the market** **Capacity for growth**	The competitive environment in which Sage operates continues to see significant development. Sage must translate market intelligence into effective strategies targeting attractive market segments with appropriate products and continually work to reinforce competitive superiority. During the transition to 'One Sage' products, we continue to manage the local product base and plan and evolve these in line with longer-term aspirations.	– A Product Marketing team is established to oversee competitive positioning and product development – A Product Delivery team is established to develop and deliver products – Battlecards are in place for key products in all countries, setting out the strengths and weaknesses of competitors and their products – Defined 'customer for life' roadmaps are in place, detailing how products fit together, and any interdependencies – A BattleApp has been released to provide timely information to sales channels In progress: – Prioritised product development based on 'customer for life' roadmaps – Sage-wide standard templates are to be launched for Battlecards to ensure consistent information is provided – Analysis of product investments is being enhanced to further consider anticipated return on investment
Business model transition		
Sage does not successfully manage its transition to a 'One Sage' operating model against defined timeframes. Strategic alignment: **Capacity for growth**	Sage has operated as a federated set of operating companies. The move to a 'One Sage' model provides enhanced governance, process harmonisation, efficiencies and scalability.	– An approved Business Model Transition Strategy is in place, supported by an overarching plan detailing the goal, overall time plan, and scheduled adoption by countries and functions – A programme authority lead is managing transition activity – Clear governance is in place to support the strategy and overarching plan through the Executive Committee and programme steering group – Consolidated operational reporting is in place and provides oversight of progress and supports consistency of direction, and management of potential conflicts In progress: – Country / function transitions are progressing in line with overarching plan – Ongoing monitoring and management of implementation through the Transformation Forum, including monitoring of success factors against defined transition activities

Key

↑ Improving risk environment

⊖ Static risk environment

Principal risk	Risk background	Management and mitigation

Supporting control environment

Sage's control environment, business processes and technology infrastructure do not support the efficient and effective operation of the business.

Strategic alignment:

One Sage

Capacity for growth

Sage's footprint has developed often through acquisition. Aligning and rationalising these systems and processes, is required to support the 'One Sage' operating model.

- Established Global and Regional Risk Committees oversee the risk and internal control environment, sets the tone-from-the-top
- Shared Service Centres are established in Newcastle and Johannesburg, enabling the creation of consistent and consolidated systems and processes
- The Excellence in Governance initiative has developed a Sage-wide policy suite, alongside colleague training and revision to management structures
- Customer Business Centres (CBCs) are built around core systems to underpin operational consistency and expansion, including Salesforce CRM and Sage's own X3 for General Ledger activity. As volumes scale, all new customers for CBC supported products are being entered directly into these systems

In progress:
- Shared Service Centres in Newcastle and Johannesburg are in the stabilisation phase following installation of X3 General Ledger
- Post stabilisation plans for migration of other country General Ledgers is on-track with plans
- Following the success of the Excellence in Governance initiative, an Excellence in Controls initiative to enhance the supporting control environment has commenced
- Selection and deployment of a Governance, Risk and Compliance technology solution is underway

Information management and protection (including cyber)

Sage fails to adequately understand, manage and protect information.

Strategic alignment:

One Sage

Sage's footprint has developed through a process of acquisition, each arriving with its own processes and activities appropriate to a smaller business, but which did not develop in line with Sage's growth.

Harmonising and rationalising these, as necessary, is required to support the 'One Sage' operating model and to allow a business view on all data being held and processed, including management and protection.

During 2016, we have broadened the risk to include all data, both internal Sage related information, and external customer related information.

- Accountability is established within both OneIT and Product for all internal and external data being processed by Sage. OneIT and Product Services report to the Chief Information Officer and Chief Product Delivery Officer respectively
- A network of Information Security Officers supports the business
- Formal certification schemes are maintained, across appropriate parts of the business, and include internal and external validation of compliance
- Structured and ad-hoc IT internal audit activity is undertaken by Sage Assurance against an agreed plan, and reported to management and the Audit and Risk Committee
- A revised Sage information security policy suite has been launched
- The Incident Management framework was revised and updated, to include the rating of incidents and requirements for escalation

In progress:
- Information Security is being aligned with the existing Governance structures (Global and Regional Risk Committees), to establish clear accountability
- Awareness training for Information Management and protection is being rolled out

Principal risks and uncertainties continued

Principal risk	Risk background	Management and mitigation
Regulatory and legal framework		
Sage does not understand and operate within the applicable regulatory and legal framework. Strategic alignment: One Sage	Sage's services operate within a complex regulatory and legal environment. Monitoring this evolving regulatory and legal environment enables timely and appropriate steps to ensure ongoing compliance.	– All legal resources across Sage report directly to the General Counsel and Company Secretary – Legal services use internal and external resources to monitor planned and realised changes in legislation – All product contracts are reviewed and approved through Legal services – An agreed suite of policies is in place as defined through the Excellence in Governance initiative, and has been revised, to support key legislation, including data protection and anti-bribery – A Code of Conduct is in place across the business which provides clarity over how colleagues are expected to behave. Completion of Code of Conduct training is mandatory for colleagues, and confirmation of understanding is recorded and monitored – Whistleblowing and Incident Management Policies and procedures are in place. These have been updated and processes enhanced in 2016, to ensure appropriate treatment of identified events and management visibility In progress: – The appointment of a Sage Head of Compliance and creation of a Sage Compliance function to reinforce the drive towards a 100% compliance culture
Sage brand		
Sage does not deliver clear and consistent branding to the market. Strategic alignment: One Sage	Following several years of acquisition, work continues to develop and harmonise the Sage brand. Whilst it is well recognised and trusted by customers in many core markets, brand awareness remains inconsistent. A clear and consistent brand enables customers to understand Sage values.	– A Brand team is in place which has overall responsibility for developing the Sage Brand – All countries must comply with Sage's Brand Governance and Brand Guidelines, which are designed to execute the Sage Masterbrand Strategy. The timeframes for compliance of all products are defined, and any exceptions must be approved through the Brand team – A Digital Asset Management (DAM) tool is in place which workflows requests and approvals, and acts as a single information repository – Ongoing reviews of customer experience are performed (Net Promoter Scores), and output is reviewed across both countries and products to identify variance, and develop improvement plans – Sage Summit 2016 took place in Chicago – The Sage Foundation was expanded across Sage during FY16, aligned with our values and behaviours In progress: – All branded assets must be uploaded to the Brand Library, and any exceptions from brand guidelines reported to the Chief Marketing Officer – Compliance Programme to be rolled out, to assess and educate on compliance with Brand Governance and Brand Guidelines – Brand awareness campaign to be launched to improve Brand recognition – Sage Summit will take place across eight cities in 2017

Key

⬆ Improving risk environment

⊖ Static risk environment

Principal risk	Risk background	Management and mitigation

Strategic partnerships

Sage fails to identify, build and maintain strategic partnerships. Strategic alignment: Revolutionise business	There are increasing instances where developing strategic partnerships will benefit Sage. The governance and control around engagement and use must be defined, as well as management of the ecosystem. During 2016, we have broadened the risk to include our extended distribution network (Sage Partner Programme).	– A Partner and Alliances team is established to oversee the selection and management of Sage's strategic alliances and partners, including accountability for active management of relationships – Definitions are in place to ensure clarity and consistency over strategic alliances and partners, to enable appropriate and consistent management of these arrangements – All contracts for strategic alliances require approval through legal services – Defined legal provisions are required for inclusion in contracts. Any variance in provisions must be recorded as part of the formal contract approval process In progress: – Ongoing review and development of the Sage Partner Programme – A financial model for the Sage Partner Programme is being developed

Third party reliance

Sage does not understand and manage its third party ecosystem. Strategic alignment: Revolutionise business	Several Sage customer service offerings are delivered or supported using third parties, whilst Sage remains accountable for quality of performance. The third party ecosystem must be understood and effectively managed, in order to limit Sage's exposure.	– A Procurement function ensures key controls are applied in the selection and on-boarding of third parties – The Procurement function supports the business with the selection of third parties and negotiation of contracts – Legal resources are used in contract negotiation – A Procurement Lifecycle Policy and procedures are defined, agreed and published. These contain clear roles and responsibilities for colleagues and align with existing processes, including investment approval In progress: – Implementation of the Procurement Lifecycle Procedures is underway, including classifying third parties for business criticality, and associated actions – Rationalisation of the third party ecosystem is continuing

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

Developing the financial viability statement
In developing the viability statement, it was determined that a three-year period should be used. This period was selected as it aligns our viability statement with our planning time horizon for our three-year strategic plan and is appropriate given the nature and investment cycle of a technology business. This represents a change from the prior year when the viability statement was prepared using a five-year period, which aligned with the Business Transformation plan that covered the period through to 2020. Now that the Business Transformation is in its implementation phase, a three-year strategic planning period is considered appropriate.

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

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

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

As set out in the Audit and Risk Committee's report on page 77, 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' viability statement is contained in the Directors' Report on page 101.

Risk management

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

How we identify risk

Our risk identification process follows a dual approach, seeking:

– to identify risks using a top down approach. These principal risks are those which threaten delivery of our strategy

– to identify risks using a bottom up approach at the country and regional level. Such risks are those which threaten local business activity

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

Our risk appetite

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

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

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

Risk management process — Measure, Assess, Evaluate, Mitigate

How we manage risk

Our risk management framework continually identifies, evaluates, analyses, manages and mitigates 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. Sage Risk continues to review and develop its approach to guide, support and challenge the business in managing risk, transforming the business and delivery of the strategy.

To supplement business as usual risk management activities, Sage Risk undertakes a number of targeted in-depth reviews against identified risks each year. In 2016 these were conducted against four of the principal risks, namely Business Model Transition, Market Intelligence, Supporting Control Environment and Third Party Reliance. In each case Sage Risk has worked to critically review activities and collaboratively improve practices and processes, for which ownership remains within the business. Following each review, Sage Risk has remained engaged with the business to provide guidance, support and challenge. The results of these reviews feed into the quarterly risk reporting cycle to the Global Risk Committee.

Risks continue to be owned and managed within the business, and are overseen and supervised through the Global and Regional Risk Committees, which are described on pages 44 and 45. During 2016, Sage Risk has reviewed and revised its organisational structure. The responsibilities of each risk colleague now include specific geographic scope, together with alignment to both principal risks and Sage business functions. These changes ensure that Sage Risk can continue to effectively support colleagues and functions within the business during the business transformation, and support in-country risk management. To assist colleagues in understanding how to identify and report risks, compulsory risk management training for all colleagues has been developed for launch in January 2017.

Underpinning this, Sage has continued to develop its three lines of defence model to ensure accountability and transparency and set out the roles and responsibilities of each Sage colleague. The model and its effective operation is intended to support a strong control environment with appropriate governance, risk and control procedures embedded across Sage. In support of this model a Sage Compliance function has been created. The compliance team will support the business in continuing to develop the internal control framework, nurture our aim of a 100% compliance culture and ensure that we continue to embrace our values and behaviours in the Sage Way.

Values and behaviours

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

The Sage Values and Behaviours set out how Sage's strategy should be executed. Our Code of Conduct supports and reinforces the required values and behaviours expected across Sage, including compliance with ethical standards.

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

During 2016 we have revised, consolidated and published a Sage-wide policy framework on the Sage Academy. To facilitate colleague understanding and requirements of the policy framework, a number of training courses have been created and rolled-out to all colleagues, with tests of competency and understanding. Behaviour forms a significant part of our colleague performance management process, and reinforces Sage's values and behaviours.

Principal risks and uncertainties continued

Risk governance

We operate a formal governance structure to manage risk.

Risk Governance

Board

The Board has overall responsibility for risk management, actively supporting the implementation of risk management, and establishing the Group's risk appetite. It monitors risk trends and themes on an ongoing basis.

Audit and Risk Committee

The Audit and Risk Committee supports the Board in setting the Group's risk appetite and ensuring that processes are in place to identify and manage the Group's principal risks. At each meeting, the committee reviews the principal risks, associated appetite statements and metrics, to assess whether they continue to be relevant and aligned to the achievement of Sage's strategic objectives and within an acceptable tolerance for the Group. The committee also monitors the adequacy and effectiveness of the control environment through the review of internal audit reports from Sage Assurance and consideration of relevant reporting from management, Sage Risk and the external auditor.

Further information on the committee's activity in 2016 is set out in the Audit and Risk Committee section on pages 76 to 80.

Executive Committee

The Executive Committee is responsible for establishing the risk agenda, for the internal reporting and ongoing management of risks, and for the stewardship of the risk management approach. The Executive Committee identifies and assesses Sage's principal risks on an ongoing basis, and for each principal risk, sponsorship is assigned to a member of the Executive Committee.

Global Risk Committee

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

– Oversee cultural change;

– Establish clear governance and accountability for risk, and any associated (remediation) activities;

– Provide direction to regions and countries, including creation and deployment of common methodologies and practices;

– Provide a point of escalation;

– 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';

– Review and approve defined policies; and

– Provide the Board and Audit and Risk Committee with sufficient effective information to enable them to discharge their risk reporting requirements.

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

Regional Risk Committees
Three Regional Risk Committees were operational through 2016, in Europe, International and North America. Each Committee met four times during 2016.

A further Regional Risk Committee has been established for Latin America, and met for the first time in October 2016. The Regional Risk Committees meet in advance of the Global Risk Committee, supporting its operation and the management of principal and local risks within each region. In addition to managing identified local risks, they also monitor the deployment of risk management activities throughout the countries within their regions, and provide associated escalation and reporting.

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

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

Sage Compliance
Sage Compliance is led by the Head of Compliance, who has been appointed to focus on building this new function and Sage's compliance capability. The function will seek to support the business in continuing to develop an appropriate internal control framework, nurturing a 100% compliance culture and ensuring that it continues to embrace the values and behaviours set out in the Sage Way.

Sage Assurance
Sage Assurance is led by the Head of Assurance, and its purpose and activities are set out in Internal Audit section of the Audit and Risk Committee report on pages 79 to 80.

Continuing strong performance and business transformation

Steve Hare
Chief Financial Officer

Group performance

The Group achieved revenue growth of 6.1% (FY15: 6.0%) and an operating profit margin of 27.2% (FY15: 26.5%).

The quality of growth is demonstrated by recurring revenue growth of 10.4% (FY15: 9.0%) including growth in software subscription revenue of 32% (FY15: 29%).

Organic figures neutralise the impact of foreign currency fluctuations and exclude the contribution from current and prior period acquisitions when relevant. A reconciliation of operating profit to statutory operating profit is shown on page 48.

Statutory performance has been impacted by movements in key exchange rates during the year, particularly in South Africa and Brazil, combined with exchange rate re-alignment following the EU referendum in Sterling against Euro and US Dollar translation. Statutory figures also include the contribution of acquisitions and disposals.

The Group achieved full year organic operating profit margin of 27.2% (FY15: 26.5%). The current year statutory operating profit is stated after non-recurring costs incurred relating to business transformation and recurring costs relating to amortisation of acquisition related intangible assets and other acquisition related charges.

FY16 has been a key year of transformation with significant progress made in delivering cost savings in G&A. During the year, savings of £51m of G&A were realised, which were fully reinvested in our go-to-market functions of sales and marketing. An associated exceptional cost of £110m has also been recognised in the year, with both the exceptional cost and the associated saving broadly in line with guidance. Of the £110m exceptional charge, £76m relates to G&A and £34m to go-to-market functions. There is a £2m non-recurring credit in relation to the Archer litigation claim.

We have identified further annualised cost saving opportunities of at least £50m for FY17 which will create a further exceptional expense with a target payback period of under two years.

Revenue mix
Segmental reporting
Consistent with our FY15 results, the business is split into three regions: Europe, North America and International.

Recurring revenue
The Group delivered recurring revenue growth of 10% (FY15: 9%), driven by the year-on-year increase in subscription revenue of 32% (FY15: 29%). This growth represents the continuing planned transition from licensing to higher quality subscription revenue.

Contract renewal rates have reached 86% (FY15: 84%) with subscription contract renewal rates now over 90%. Recurring revenue now represents 70% of Group revenue (FY15: 67%).

Processing revenue
Processing revenue has grown by 6% (FY15: 2%), reflecting strong performance in payroll processing and an increase in Sage Pay revenue in the UKI, offset by flat growth in Payments North America.

SSRS revenue
SSRS revenue declined by 8% (FY15: -1%) in line with the continued transition to subscription based revenue, offset slightly by growth in Professional Services of 2% and Training of 7%

Revenue
Statutory revenue grew by 9% to £1,569m, reflecting organic growth, combined with foreign exchange movements experienced throughout the year. The impact of foreign exchange of £44m in FY15 reflects a currency tailwind following the EU referendum. The average exchange rates used to translate the consolidated income statement for the year are set out on page 49.

Operating profit
Organic operating profit increased by 9% to £427m (FY15: £392m) in line with revenue and the organic operating profit margin increased by 0.7% to 27.2% in line with guidance issued in FY15. Statutory operating profit increased by £3m, although the operating profit margin fell by 1.6%.

Adjustments between underlying and statutory operating profit
Non-recurring items separated from underlying operating profit of £427m include £110m of non-recurring costs in relation to the Business Transformation comprised of people organisation charges of £51m, net property exit costs of £40m and other directly attributable costs of £19m, offset by a £2m credit in relation to the Archer litigation claim. Recurring items of £19m represents amortisation of acquisition related intangible assets and other acquisition related charges.

Net finance cost
The statutory net finance cost for the year was £25m (2015: £21m) and the underlying net finance cost was £22m (2015: £21m). The difference between underlying and statutory net finance costs for the year reflects a fair value adjustment to a debt related instrument and FX movements on intercompany balances.

Financial and operating review continued

Revenue

	Statutory			Organic		
	FY16	FY15	Change	**FY16**	FY15	Change
Europe	**£827m**	£753m	+10%	**£827m**	£776m	+7%
North America	**£535m**	£477m	+12%	**£535m**	£513m	+4%
International	**£207m**	£206m	+1%	**£205m**	£189m	+8%
Group	**£1,569m**	£1,436m	+9%	**£1,567m**	£1,477m	+6%

Operating profit

	Statutory			Organic		
	FY16	FY15	Change	**FY16**	FY15	Change
Group	**£300m**	£297m	+1%	**£427m**	£391m	+9.2%
Margin	**19.1%**	20.7%	−160bps	**27.2%**	26.5%	+70bps

Revenue mix

	Recurring revenue			Processing revenue			SSRS revenue		
Organic	**FY16**	FY15	Change	**FY16**	FY15	Change	**FY16**	FY15	Change
Europe	**£642m**	£582m	+10%	**£36m**	£32m	+12%	**£149m**	£161m	−7%
North America	**£308m**	£284m	+9%	**£157m**	£153m	+3%	**£70m**	£76m	−8%
International	**£142m**	£123m	+16%	**£11m**	£7m	+50%	**£52m**	£59m	−12%
Group	**£1,092m**	£989m	10%	**£204m**	£192m	+6%	**£271m**	£296m	−8%
% of total revenue	**70%**	67%		**13%**	13%		**17%**	20%	

Organic to statutory reconciliations

	FY16			FY15		
	Revenue	**Operating profit**	**Margin**	Revenue	Operating profit	Margin
Organic	**£1,567m**	**£427m**	**27.2%**	£1,477m	£391m	26.5%
Organic adjustments[1]	**£2m**	**–**		£3m	£1m	
Underlying	**£1,569m**	**£427m**	**27.2%**	£1,480m	£392m	26.5%
Impact of foreign exchange[2]	**–**	**–**		(£44m)	(£12m)	
Underlying (as reported)	**£1,569m**	**£427m**	**27.2%**	£1,436m	£380m	26.5%
Recurring items[3]	**–**	**(£19m)**		–	(£21m)	
Non-recurring items[4]	**–**	**(£108m)**		–	(£62m)	
Statutory	**£1,569m**	**£300m**	**19.1%**	£1,436m	£297m	20.7%

1. Organic adjustments comprise contributions from acquisitions, disposals and assets held for sale of standalone businesses.

2. Impact of retranslating FY15 results at FY16 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 including business transformation costs.

Taxation

The statutory income tax expense was £67m (FY15: £82m). The effective tax rate on statutory profit before tax was 24% (FY15: 30%). The FY15 statutory tax rate included exceptional impairment charges which were not deductible for tax purposes. As there are no similar items in the current year, the FY16 statutory tax rate has reduced.

The effective tax rate on underlying profit before tax was 26% (FY15: 25%). The underlying tax rate has increased in the period as the FY15 rate included one-off credits which are not recurring in FY16.

Earnings per share

Underlying basic earnings per share increased by 9% to 27.84p (FY15: 25.54p) and statutory basic earnings per share increased to 19.28p (FY15: 18.11p) due to increased operating profit and a lower effective tax rate.

Cash flow and net debt

Cash flow	FY16	FY15
Underlying operating profit	£427m	£392m
Exchange rate translation movements	–	(£12m)
Underlying operating profit (as reported)	£427m	£380m
Non-recurring items	(£58m)	–
Depreciation/amortisation/profit on disposal	£30m	£29m
Share-based payments	£8m	£9m
Working capital and balance sheet movements	(£10m)	£5m
Exchange rate translation movements	£1m	(£5m)
Statutory cash flow from operating activities	£398m	£419m
Net interest paid	(£20m)	(£18m)
Tax paid	(£92m)	(£85m)
Net capital expenditure	(£32m)	(£20m)
Free cash flow	£254m	£296m

	FY16	FY15
Statutory cash flow from operating activities	£398m	£419m
Non-recurring cash items	£58m	–
Net capital expenditure	(£32m)	(£20m)
Eliminate exchange rate translation movements	£1m	£5m
Underlying cash flow from operating activities	£425m	£403m
Underlying cash conversion1	100%	106%

1. Refer to the Glossary on page 170 for information on Non-GAAP measures.

The Group remains cash generative with underlying cash flows from operating activities of £425m, which represents strong underlying cash conversion of 100%.

A total of £145m was returned to shareholders through ordinary dividends paid. Net debt stood at £397m at 30 September 2016 (30 September 2015: £425m).

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 £614m (US$551m and €218m tranches). There were no drawings on the RCF at 30 September 2016 (FY15: £82m).

Total USPP loan notes at 30 September 2016 were £575m (US$650m and EUR€85m), (2015: £525.4m, US$700m and EUR€85m). Approximately £35m (US$50m) of USPP borrowings were repaid in March 2016. This repayment was funded by free cash flow.

Foreign exchange

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

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

Average exchange rates (equal to GBP)	FY16	FY15	Change
Euro (€)	1.28	1.35	-5%
US Dollar ($)	1.42	1.54	-8%
South African Rand (ZAR)	21.05	18.55	+13%
Australian Dollar (A$)	1.94	1.97	-2%
Brazilian Real (R$)	5.18	4.64	+12%

Capital structure and dividend

With consistent and strong cash flows, the Group retains considerable financial flexibility going forward. The Board's main strategic policy remains an acceleration of growth, both organically and through targeted acquisitions. The growth underpins the Board's sustainable, progressive dividend policy with surplus cash 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 14.15p per share (FY15: 13.10p per share). The ordinary dividend for the year is covered two times by underlying earnings per share.

Steve Hare
Chief Financial Officer
29 November 2016

Europe

Organic revenue growth	FY16	FY15
UK & Ireland	**+7%**	+7%
France	**+6%**	+5%
Spain	**+7%**	+3%
Germany	**+7%**	+4%
Rest of Europe	**+3%**	+1%
Europe	**+7%**	+5%

Revenue in Europe grew by 7% in the year (FY15: 5%). Within Europe, there were strong results in UKI, France, Spain and Germany which all delivered growth in excess of the Group growth rate, balanced by modest growth in Poland and flat performance in Switzerland, our smaller European entities.

Europe delivered recurring revenue growth of 10%, of which software subscription revenue grew by 28% with an overall contract renewal rate of 88%. The region continues to deliver on the transition to a recurring revenue model driving growth through the installed base.

Processing revenue grew by 12% in Europe (FY15: 9%) largely due to the growth in Sage Pay in the UKI.

SSRS revenue declined by 7% (FY15: -4%) due to the continued planned decline in licences, offset by growth in upgrades to modernised products and professional services linked to X3 'big deals' in France.

X3 revenue grew by 12% in the region, with double digit growth in UKI, France and Spain and an increase of 22% in X3 customer numbers in the region.

Sage One paying subscriptions in Europe grew by 62% demonstrating further momentum of the product footprint.

The focus in Europe in FY17 will be to drive further revenue growth through new customer acquisition.

UK & Ireland – strong growth driven by C4L
UKI revenue grew by 7% (FY15: 7%) in the year, driving growth through the Customer for Life strategy. Retention rates have now risen to 86%. Within recurring revenue, software subscription revenue grew by 39% driven by successes in Sage 50 Payroll and especially in Sage 50 Accounts which delivered triple digit subscription revenue growth as the solution continues to drive revenue growth through ever-increasing functionality.

The UKI also delivered strong performance on X3 with 17% revenue growth in the year, both due to new customer acquisition and migration and implementation of the customer journey map.

Sage One paying subscriptions in the UKI grew by 66% driven mainly by the Accountants channel.

Processing growth of 11% was driven by the increase in Sage Pay due to growth of e-commerce within the UKI and an increase in customers.

SSRS decline of 13% reflects the planned transition to subscription.

France – Success in i7 upgrades and X3
In France, revenue grew by 6% (FY15: 5%). Recurring revenue growth of 8% is below Group growth due to the early pace of subscription in the country (recurring revenue represents 85% of revenue), with software subscription growth of 14% in the year.

During FY16, the i7 upgrade delivered revenue increases due to successful customer experience, cross-sell and up-sell campaigns with scope to further increase revenue into FY17.

X3 has also been a success in France: X3 customer numbers grew by 28%, now representing 51% of Group X3 customers. France also had success targeting larger deals, winning 20 with a revenue per contract in excess of £100k.

The decline in SSRS reflects transition to subscription, offset by SRS growth for professional services and training to implement X3.

Spain – strong subscription revenue growth
Revenue growth of 7% (FY15: 3%) was driven by a growth in software subscription revenues of 52%. Improvements in retention rates were driven through customer experience campaigns and successful targeting of the existing base with cross-sell and up-sell.

Spanish local growth products, Contaplus and Murano, both remain popular delivering double digit growth.

Germany – strong subscription revenue growth
Germany delivered revenue growth of 7% (FY15: 4%). From April 2016, all new contracts signed in Germany are done so on subscription which, combined with bundling propositions, has led to an increase in software subscription revenue of 48%. OfficeLine, the flagship local product in Germany has grown revenue by 15% in the year.

North America

Organic revenue growth	FY16	FY15
North America	**+4%**	+4%

North America delivered revenue growth of 4% (FY15: 4%) with recurring revenue growth of 9% (FY15: 9%) and processing revenue growth of 3% (FY15: -1%) offset by a decline in SSRS of 8% (FY15: -5%).

Growth in North America was below Group growth of 6%, partly due to flat revenue within the payments business. Excluding payments revenues, year-on-year growth in North America was 6%.

Recurring revenue growth of 9% includes an increase in software subscription revenue of 84%. There has been strong performance in the year from Sage 50 US and Sage 50 Canada, both of which achieved triple digit growth in subscription revenue with customers benefiting from functionally-rich products and increased flexibility through cloud-based solutions. Canada also drove growth through success in Sage Drive and mobile invoicing functionality.

The strong growth in subscription in the region shows positive signs that recurring growth rates can continue to increase. Focus for FY17 will be to drive further growth from new customer acquisition to reduce reliance on the installed base.

Sage One subscriptions grew by 65% year-on-year, driven by Accountant referrals.

X3 growth of 7% in the year reflects a modest start to the year, but a strong second half which grew by 18% as the product begins to gain momentum through new leadership, improved sales and marketing alignment, pipeline growth and a focus on larger deals.

Processing revenue growth of 3% reflects strong growth in payroll processing of 25% due to licensee acquisitions and new customer additions. Payments revenue remained flat year-on-year reflecting challenges in margin compression in line with industry trends and new account shortfall due to slower progress in the partner channel and in marketing. In order to drive growth in this segment we are now differentiating our product by bundling payments, payroll and accounting, offering updated functionality and focusing marketing to improve lead generation and referrals.

SSRS revenue fell by 8% in the year as licence based customers continued the planned transition to subscription.

International

Organic revenue growth	FY16	FY15
Africa	**+19%**	+16%
Brazil	**+12%**	+8%
Australia	**+3%**	+5%
Middle East and Asia	**-18%**	+33%
International	**+8%**	+14%

Organic revenue in the International region grew by 8% year-on-year (FY15: 14%), with recurring revenue growth of 16% (FY15: 14%) and processing revenue growth of 50% (FY15: 18%), offset by a decline in SSRS of 12% (FY15: growth of 13%).

Growth in the region has been driven by strong performance in Brazil and South Africa, both of which have had success in new customer acquisition through Sage One and X3, balanced by a decline in revenue in Asia.

Africa – winning in the market with X3 and Sage One
Organic revenue growth of 19% reflects double digit growth across recurring, processing and SSRS revenue streams. Africa's revenue growth is driven by new customer acquisition with a 77% growth in X3 revenue and 71% growth in Sage One revenue, with Sage One paying subscriptions increasing by 23,000 in the year.

Recurring revenue growth is driven by a 32% increase in software subscription revenue with triple digit software subscription revenue growth in X3 and its two local growth products, Sage Evolution ERP and Sage VIP People HRIS.

Organic processing revenue growth of 27% reflects strong performance in payroll processing.

Organic SSRS revenue grew by 12% due to X3 licence revenue growth.

Brazil – resilient software growth despite tough economic conditions
Brazil's revenue grew by 12% reflecting a 14% increase in recurring revenue and a 1% increase in SSRS, achieving high revenue growth despite recession in the country where GDP declined by 4%. This highlights the indispensable nature of Sage to support Business Builders during challenging economic times. New customer acquisition has driven the growth in recurring revenue: focus has been successfully shifted during the year to drive sales internally rather than through the Accountant network, with the product gaining pace and 10,000 units added in October alone.

As we introduced X3 into the Brazilian market and signed up business partners during the year, we have now secured 41 customers (FY15: 4).

The slight growth in SSRS reflects X3 licence sales offset by the trend to transition customers to subscription.

Australia, Middle East and Asia
In Australia, revenue growth of 3% was slow, but this does not reflect success in Sage One which grew by 12,000 units in the year mainly through the Accountants channel, and in professional services which grew by 22% due to X3 implementations.

Middle East and Asia revenue declined by 18% reflecting 17% growth in the Middle East, offset by decline in Malaysia and Singapore. Declining revenue in Asia represents a one-off revenue gain in FY15 due to legislative change in Malaysia in the prior year and a lack of new product introductions which will be addressed in FY17. Following the introduction of Blair Crump as Sage President and the reorganisation of regional management, we are confident we have the leadership in place to drive growth in Asia.

Doing business the right way

At Sage we believe in doing business the right way. This means supporting our stakeholders in every area of business, which is embedded into our strategy and one Sage culture.

Engaging with our stakeholders

Customers

Small to medium businesses and entrepreneurs, we keep our customers at the heart of everything we do at Sage. Our strategic pillars are aligned to provide the best service to the customer and we engage frequently with our Small & Medium Business community. In July 2016 we hosted thousands business builders in Chicago for four days – the biggest ever meeting of entrepreneurs.

Colleagues

Attracting and retaining the right people is essential at Sage. We treat our colleagues with respect and encourage collaboration through the one Sage strategic pillar.

Communication to colleagues is incredibly important and leadership engage with colleagues regularly and holistically through colleague calls and video conferences, internal social networks and town hall meetings down to small fireside chats with the CEO.

Communities

Our communities are important to us and we want to see them thrive. Sage Foundation was established in June 2015 and provides an opportunity for Sage to engage with and give back to the community.

The wider environment

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

Why is doing business the right way important?

Doing business the Sage Way is embedded within our strategy. We believe that engaging with our stakeholders and providing the best possible service leads to a more successful company with stronger returns that can be returned to investors and reinvested into our stakeholder community.

People
This motivates our colleagues and helps attract and retain the best talent

Community
We invest in our community through Sage Foundation

Customers
This then drives excellent customer service and encourages innovation

Investors
This provides strong revenue growth and returns to investors and the community

Board reporting
Our Corporate Responsibility (CR) policy has been endorsed by the Board, which is 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 Conduct, 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 colleagues 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 Conduct to ensure that any additional business commitments or client and supplier relationships they may have are clear and transparent.

Modern slavery
Sage recognises and respects all human rights as defined in the United Nations Universal Declaration of Human Rights. In accordance with the requirements of the Modern Slavery Act 2015, we have published a statement setting out what steps we have taken to ensure that slavery and human trafficking are not taking place in any of our supply chains or any part of our business. This Board-approved statement is available on our website, with a link visible from our homepage.

Our procurement processes and policies, and relationships with our suppliers, are key to ensuring our awareness of impacts through our supply chain. We aim to ensure that goods and services originate from sources that do not jeopardise human rights, safety, or the environment, and expect our suppliers to observe business principles consistent with our own. During the year, we have analysed our supplier base across the Group to understand where the risk in the supply chain may be from a modern slavery perspective. Our standard form procurement contracts include

language requiring suppliers to comply with applicable anti-slavery and human trafficking legislation, including the Modern Slavery Act 2015. We are currently reviewing our entire procurement process and will be introducing specific measures through our Procurement Life Cycle Policy to ensure that our obligations under the Act are passed through our supply chain. Our Procurement team will be educated in the Act and we will introduce key control points on modern slavery during our diligence, selection and contracting process.

We are committed to conducting every aspect of our business with honesty, integrity and openness, respecting human rights and the interests of our employees, customers and third parties, as detailed in our Code of Conduct.

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.

People are at the heart of our business

Every day Sage colleagues support millions of entrepreneurs all over the world to build their businesses. This is our honour and a privilege that we take seriously. Sage is committed to creating an environment where colleagues can be passionate, engaged and aligned with strategy, living core values every day and delighting customers. A fundamental aspect of Sage's contribution to our communities: Sage Foundation and its 2 + 2 + 2 model leads the way in corporate philanthropy, empowering colleagues to dedicate five days per year as volunteers to support local communities and charities close to their hearts.

"We have a clear mission when it comes to our people at Sage... One aligned and engaged team, living our values and creating the best workplace for colleagues. By unleashing the organisation's energy, we will realise our vision and ambitions."

Sandra Campopiano
Chief People Officer

2016 has been an exciting year at Sage, with a strong focus on customers, partners, colleagues and communities. Ambitions for the business are bold and this requires a strong high performance culture and underpinning people strategy. Talent management lies at the heart of Sage's ability to execute strategy and the priorities this year have been strategic alignment, building capability and colleague engagement.

During the year colleagues were asked why they love working at Sage. They used words such as entrepreneurial, inspiring, family friendly, collaborative, flexible and challenging and shared their views on social media. These words describe the culture Sage is building.

Sage values and behaviours are embedded into the key talent processes including induction, recruitment, performance and talent reviews. They provide a simple framework for everyday decisions.
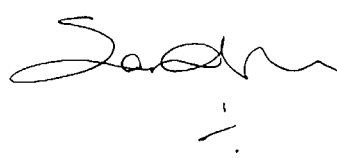
The year has seen significant investment in systems and tools to attract, develop and reward diverse high performing talent, offering compelling careers to those who join and building a reward structure that gives all colleagues a chance to share in success. In May 2016 Sage announced Fairsail as the cloud HCM platform of choice to accompany the Sage X3 business solution; Sage will implement this HCM system internally across all geographies, providing a step change in streamlined systems and processes for colleagues.

It is recognised that diversity of thought, inclusion and equal opportunity drives genuine innovation. This year Sage communicated its continued commitment to diversity and inclusion with plans, resources and targets affirming its desire that all colleagues can truly be themselves at work and develop a great career supporting customers and their dreams. New capability has been hired to complement existing talent including digital marketing, sales and product management expertise and a new bespoke Executive Development Programme designed and deployed to provide critical transformational leadership skills to leaders.

Ensuring colleagues understand how they contribute to Sage vision and strategy continues to be an important focus. This vital alignment will be supplemented with the introduction of a new process called VSGM (see pages 26 and 56) which helps to ensure everyone in the business is working on the things that will deliver our strategy and results.

Providing a great workplace for over 13,000 colleagues across 23 countries will unleash pride and energy to deliver an exceptional experience for customers and partners. Many facilities have been upgraded in the last 12 months creating a refreshing one Sage brand and this will continue with a programme of ongoing investment into next year.
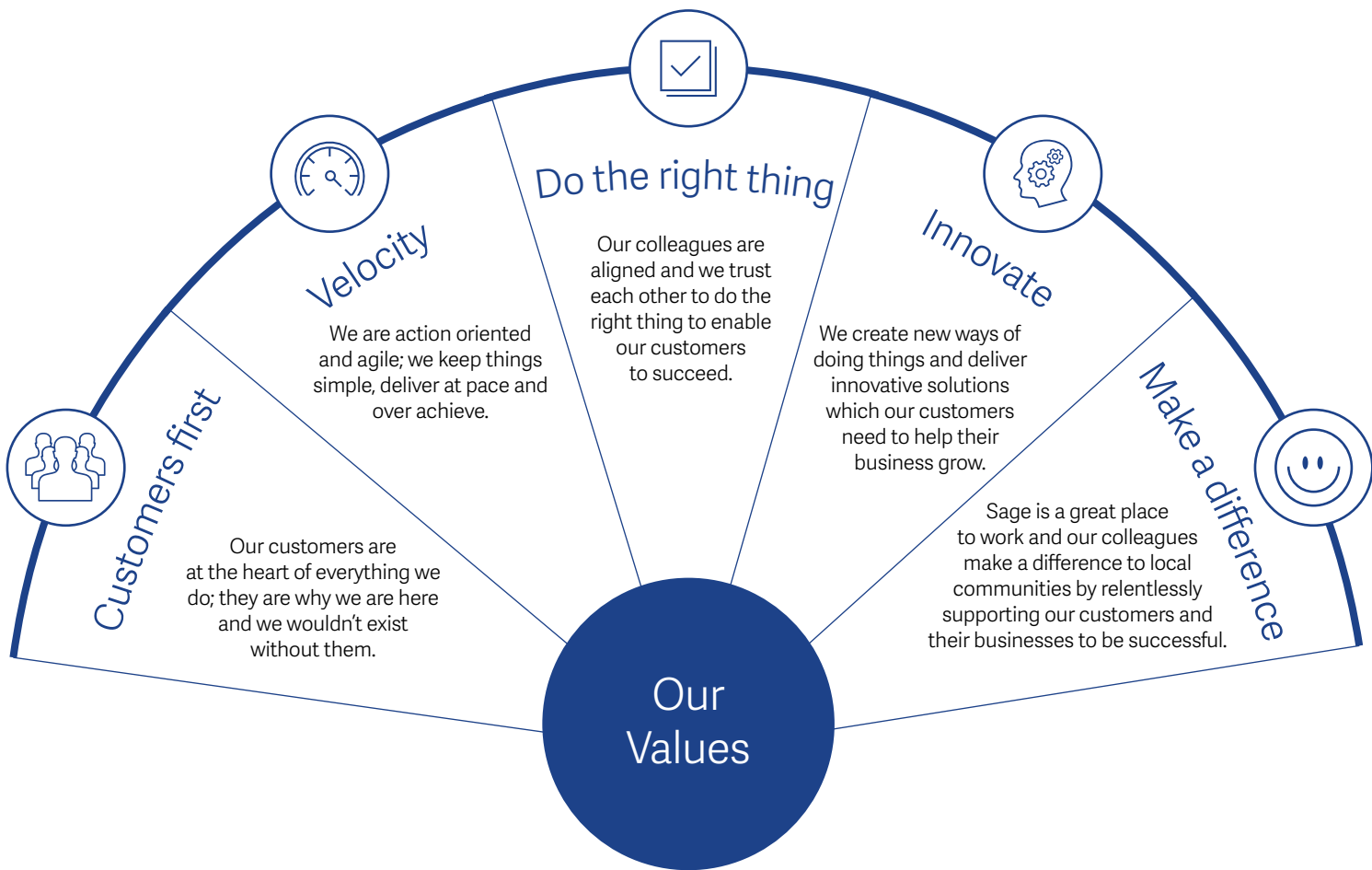
Finally, giving a powerful sense of purpose beyond the work itself through the activities of Sage Foundation will continue to be woven into the fabric of the organisation's culture. Sage is hugely proud of the positive impact Sage Foundation is making on colleague engagement and the communities and charities that desperately need help. Sage has plans to expand that influence further in the upcoming year and beyond.

Sandra Campopiano
Chief People Officer

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Sage colleagues: Performing and Transforming

In 2016 the priority has been supporting leaders and colleagues as Sage performs and transforms. By developing innovative ways to connect colleagues with our vision, strategy and values, we have made further steps towards Sage achieving its ambition of being a technology leader. Over 13,000 colleagues collaborating as one Sage, with a shared sense of purpose, clear goals and a focus on delivering innovation and an exceptional customer experience for our customers and partners is a powerful force.

</div>

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

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

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

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.

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.

Our Values

High performance culture

Transparent alignment is crucial for high performance. Sage already has one performance review process that allows for the evaluation of 'what' is achieved and 'how' it is achieved aligned to Sage strategy and values.

Sage has developed this further with the introduction of a new process: Vision Strategy Goals and Measures (VSGM). This process starts from the CEO VSGM integral to the business planning process, and through a series of facilitated meetings runs through the business to ensure vertical and horizontal collaboration and alignment to the results required. VSGM is used in operational forums to regularly review progress against plans. Outcomes from this process will be taken into the performance review process, and achievement linked to reward.

In addition to the 'Platinum Elite' incentive that recognises high performance (top sales performers and those that support them), Sage will introduce a new share plan in 2017 giving all colleagues the opportunity to share in collective success. These incentive programmes are in addition to annual bonus schemes, the sales compensation plans and the longer-term performance plans Sage has in place to recognise and reward performance.

Developing leaders

Sage has hired new leaders and promoted others internally to leadership positions. In the context of alignment, it is fundamental that leadership understands expectations and has the confidence and skills to execute the strategy. In addition to the training already available through Sage Academy (online learning resource), Sage introduced the transformational leadership model *Align, Model, Coach and Reinforce* (AMCR), giving a focus to the critical leadership skills required during transformation. Development investment this year included coaching and performance management skills for the top 100 colleagues and a bespoke Executive Development Programme for the top 40 in senior leadership positions, equipping them for the next phase of transformation.

In 2017 the investment continues with the launch of the 'Leading at Sage' programme for the next 2,000 leaders, ensuring they too have the leadership skills for sustainable transformation. The programme will provide a 'licence to lead' at Sage.

Building capability

Attracting millennial talent is important for Sage not only as a technology company but to represent and understand the needs of millennial entrepreneurs – a growing customer group for Sage. With this in mind, Sage now measures its 'Talent Brand' and has over 765K followers on social media more likely to engage with Sage as future talent.

Sage has built consistent induction processes to on-board new hires to a standard which includes knowledge of the Sage story, customers, products and required governance training including the Code of Conduct.

Apprenticeship schemes operate across the business including Germany, the UK & Ireland and they are a key source of building internal talent. The UK & Ireland has sponsored 100 apprentices over the past two years and was recognised for its achievements in October 2016 by winning a prestigious National Apprenticeship Award.

In 2017 further investment will be made in training for sales, sales support and professional services across the Company to fuel progress in the strategic pillars customers for life and winning in the market.

Induction microsite accessed over

10,000 times

90% of Sage colleagues are active on LinkedIn

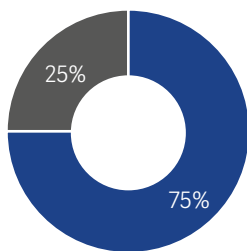Winner of the Employability & Diversity Award at the CIPD Awards 2016

Year-end employee count split by region

	Europe	North America	International	Group and central operations	Total
2015	7,355	2,505	3,652	190	13,702
2016	**7,017**	**2,580**	**3,891**	**273**	**13,761**

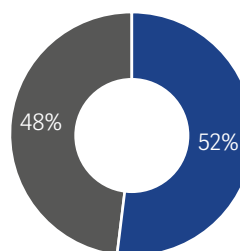### Board diversity
- Male
- Female

25%
75%

Top leadership diversity
- Male
- Female

21%
79%
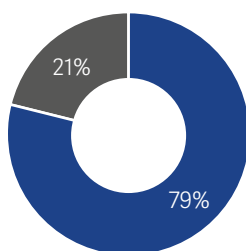
Total workforce diversity
- Male
- Female

48%
52%

* Top leadership includes the Sage senior management team (top 100 leaders) plus any individual who is a company director of a Group Subsidiary.

Bethany joined Sage in September 2015 as an apprentice supporting the People function.
The last 12 months have been an exciting journey for her both personally and professionally. Bethany left full time education unsure about what she wanted to do next. She feels incredibly fortunate to have been offered a head start in her career with a worldwide technology company, and in June Bethany was one of three apprentices who got to spend the day shadowing Stephen Kelly. Bethany is now considering developing a career in Sage's People function and completing a formal qualification in Human Resource Management. In October 2016 Bethany was nominated as a finalist for a 'WIN' Award which recognises the achievements of business women in the North East of England.

Bethany Robertson

People Services Apprentice, Newcastle-upon-Tyne

"Stephen genuinely cares about our opinions and to spend the day with him provided a fantastic insight into how Sage operates."

Diversity and inclusion

Sage believes that diverse teams and equal opportunity drive high performance and innovation and that a culture of diversity and inclusion is vital for a sustainable business. Sage has ensured policies and procedures support these principles. Training for existing and new colleagues is arranged and Action Groups have been created to lead local priorities. Increasing women in technology and leadership roles is a particular focus with a target of 35% female representation in the Senior Management Team by FY18.

In June 2016, Sage received the Employability and Diversity Award from the Chartered Institute of Personnel and Development to recognise significant progress.

Initiatives through the year included the celebration of International Women's Day when thousands of colleagues participated through technology connecting members of the Executive Committee with a female entrepreneur and customer sharing her story. In April Sage hosted the 50/50 Technology Challenge with Baroness Martha Lane Fox CBE when female entrepreneurs pitched ideas for investment and later that month, on behalf of the UK Government, Sage hosted and participated in a forum for businesses to identify initiatives to support working parents. Many Sage colleagues participated in both events.

Colleague engagement

Communicating a compelling vision of the future mobilises colleagues during transformation. This is practised by Sage leadership who hosted an inspirational 'Kick Off' at the beginning of the financial year in all markets, making leadership VSGM visible and outlining the priorities and plans for the year ahead. Progress is shared at regular campus 'All Hands' sessions; these are complemented by the two way 'Sage Live' broadcasts, hosted by the CEO, every two weeks keeping colleagues abreast of the latest developments for customers and partners including product innovations and to celebrate success. They include an open Q&A session to the CEO and other guests all enabled through technology.

Sage Foundation launched in January 2016 with a Charter to transform the lives of those disadvantaged in our communities by serving them with commitments of time, funds, expertise and technology, to create sustainable social, economic and entrepreneurial opportunity. Sage colleagues can take up to five days to volunteer for causes they feel passionately about and they have embraced this wholeheartedly with a growing momentum of volunteering through the year. This Corporate Philanthropy provides a sense of purpose for colleagues that goes beyond work itself; giving back to society and building the experiences that develop leadership, empathy and collaboration. Future focus will see Sage Foundation working to support women, youth and military veterans and also engaging customers and partners in its activities. Connecting colleagues, customers and communities like this nurtures a strong and cherished culture.

"I joined Sage in February 2016 excited about the opportunity to create something amazing and different to support the next generation of entrepreneurs. My idea to create Pegg (see case study on page 22) received the backing of the Executive Committee almost immediately and was launched within a few weeks. Sage have ambitions to disrupt the market with their passion for innovation. I know I have made the right decision joining the organisation and I'm excited about what's next."

Kriti Sharma
Director Product Management

Doing business the right way: championing entrepreneurs

Small & Medium Businesses make up 99% of all businesses, and create two thirds of all jobs. They drive prosperity and keep our economy alive and vibrant. And to do that, they make sacrifices: we know that many business builders around the world work more than 70 hours per week; half usually work weekends and 70% of entrepreneurs have invested their life savings or re-mortgaged their homes to fund their businesses.

These are the sacrifices they make to fuel the engine room of the global economy.

And we believe this contribution deserves recognition. We think the barriers that hold small businesses back should be addressed so that we can unlock their economic potential.

As a company that started small and grew beyond what seemed possible, we feel responsible for giving these business builders a voice.

Giving Small & Medium Businesses a seat at the table
Throughout a year of significant change in the global economy and political outlook, Sage has championed the voice of the world's Small & Medium Businesses, and given them a seat at the table in conversations where their views are regularly neglected. Here are the campaigns where we helped them to shout louder and get their views heard.

EU Referendum
In the lead up to the EU Referendum, we held two panel events with a view to giving small businesses the opportunity to ask business leaders and policymakers the questions that mattered to them, and actually get some answers. The panels were made up of the likes of Anna Soubry, Minister of State for small business, Industry and Enterprise and Emma Jones, small business expert and head of Enterprise Nation, and chaired by top media hosts Steph McGovern from BBC Breakfast and Sky News' Ian King. In front of a live audience of entrepreneurs, panellists discussed the practical impact the vote's outcome could have on small businesses. In a referendum campaign which lacked focus and clarity and focused too much on political

personalities rather than actual facts, we provided a platform for Small & Medium Businesses to better understand how 'in' or 'out' could impact their business, allowing them to make a truly informed choice.

Following the Brexit vote, Sage continued this campaign with a powerful PR and social media content push to balance the rhetoric around Britain's future. News coverage post-June 23rd in general was negative, scaremongering and unhelpful and many politicians did not exhibit the calm, strong, confident leadership required to allay small businesses' fears – in CEO Stephen Kelly's words in a LinkedIn blog, they'd 'left the pitch'. Sage stepped in to ask for calm and clarity, and tried to provide clear examples of potential policy changes that might affect entrepreneurs.

This campaign was well received, with coverage in top tier media such as the Financial Times, Business Insider and Forbes. We ran a series of blogs on the topic from our CEO Stephen Kelly, which received over 15,000 views and 2,500 likes. This response demonstrates the appetite and appreciation of a positive voice among scaremongering and negative statements about the economy that were starting to become a self-fulfilling prophecy.

Davos
Our CEO, Stephen Kelly, boycotted Davos this year in a bid to raise awareness of the fact that it is an event only open to big business leaders, and does not represent the needs of small businesses despite their importance to the global economy – not to mention its startling lack of diversity. In a provocative interview with Business Insider,

Kelly called out the World Economic Forum's flagship event about being only for 'old men from big businesses'.

The issues holding our customers back are similar around the world – red tape, outdated taxes, finding the right talent and skills, and access to funding. Our #AltDavos campaign was all about procuring ideas from small businesses around the world on what their agenda for a small business Davos event would include to start cracking some of the perennial issues they face. We did this by running research with customers and asking them to submit their ideas on Twitter.

The international nature of the campaign saw blogs from our leaders all over the world read by over 5,000 people, and the #AltDavos hashtag received 4 million estimated impressions from 941 Twitter mentions from 424 unique users. There was also appetite from press all over the world, with media from Nigeria to Hungary using Stephen's comments.

Public affairs in Spain
A crucial part of our role in championing Small & Medium Businesses is to work closely with governments, using our voice to ensure business builders are recognised at the most senior levels, and the issues they face are front of mind when it comes to amending or creating new policies.

Our Sage Spain team has continued to build a great connection with the Spanish Government this year. The team has cultivated relationships with several departments that impact small businesses, including the Ministry of Industry, Ministry of Treasury and Ministry of Social Security.

Thanks to these relationships, members of the Sage team have been invited to participate in several

Sage Summit

Sage Summit 2016 was the world's largest conference for entrepreneurs. We gathered 15,000 business builders in Chicago for four days of networking, education, inspiration and awesome, disruptive technology. Sage Summit featured a packed agenda, with some of the world's most famous business leaders and stars of entertainment – from Sir Richard Branson to Gwyneth Paltrow to The Killers.

The four-day event hosted at the McCormick Centre in Chicago – with more square footage than 16 American football pitches – saw 600 product sessions and workshops that focused on the future of tech, giving thoughts on what's next to enable businesses to drive success, work more efficiently and create a better customer experience. There was also a mentoring neighborhood where attendees could go for 1:1 business mentoring.

The response and feedback from attendees was phenomenal – not only was this Sage's largest Summit to date, but also the largest event ever held for entrepreneurs.

"Loved participating in Chicago's #SageSummit this morning, always so inspiring to be in a room full of brilliant entrepreneurs."

Gwyneth Paltrow

"That was stunning – thanks @Sage_Summit@ SKellyCEO we were #inspired #educated #mentored #connected#entertained! Looking forward to 2017!"

Partner, Pinnacle

governmental working groups. For example, Sage Spain's legal team consulted with the Ministry of Social Security on the new social security system contributions, putting Sage in a great position to develop systems that would be beneficial for our Small & Medium Business customers. The Ministry of Treasury also invited Sage Spain to consult on its Information Systems for the implementation of the 'Plan to Combat Fraud in Spain'. Sage's successful proposal to introduce the mandatory use of 'Standard Audit File for Tax' (SAF-T) in software systems really helps Small & Medium Businesses, because they can now use tools to improve the quality of their data for analysis of accounting and tax information, saving them time. It also means they can exchange information easily with auditors and advisors.

This is a great example of how Sage is walking the talk, and pushing those in power to create the best possible environment for entrepreneurs to grow and thrive.

Helping small businesses overcome the bureaucratic monster in Germany
Sage will always call on governments to improve the environment for small businesses, but in the meantime we also want to help by giving advice on how they can better manage self-inflicted cumbersome processes.

Sage Germany has a long tradition of helping small businesses simplify bureaucratic burdens, and making entrepreneurs' lives easier thanks to our software and services. To go a step further, Sage established the 'Bürokratie monster' red tape campaign to highlight how bureaucracy can be managed, particularly by younger entrepreneurs who are just starting up and aren't necessarily aware of how they can create lean processes.

To raise awareness of the campaign, Sage Germany created a dedicated online hub for entrepreneurs to visit, including an interactive game, a blog, videos and a detailed report outlining the burdens of red tape, which was unveiled at a press conference in Frankfurt. The duration of the campaign was 18 months in total, and during this time it achieved incredibly high

engagement with over 15,000 game players, an average dwell time of 17 minutes on the online hub, an uplift of 143% more social traffic on Sage Germany's channels as well as over 700 pieces of press coverage.

Supporting start-up programmes
We don't just talk about supporting start-ups and entrepreneurs; we've invested in programmes all over the globe that support budding entrepreneurs, for example:

We partnered with The Start-up Van (London) to run a pop-up studio, giving businesses the opportunity to attend Sage Summit and raise their profile at the event.

We sponsor the Union Des Auto Entrepreneurs in France, helping bring content, networking, a code of ethics and perhaps most importantly a platform for French entrepreneurs.
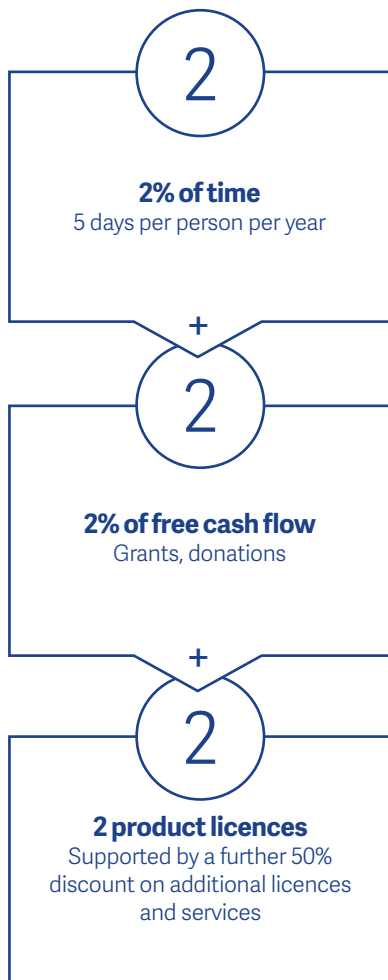
We gave Portuguese entrepreneurs the opportunity to pitch their business idea and win funding as part of Start-up Lisboa.

Doing business the right way: delivering opportunities for local communities

The team at Sage is passionate about doing business the right way and supporting local communities in the regions in which the business operates. Not only does the Company believe that this enables colleagues to build new skills and capabilities that can be transferred back to their day job, but more importantly they know that it really matters that colleagues give back to the local communities where they live and work.

Our '2+2+2' model

2

2% of time
5 days per person per year

+

2

2% of free cash flow
Grants, donations

+

2

2 product licences
Supported by a further 50% discount on additional licences and services

Sage Foundation

In 2016, Sage reaffirmed and expanded its commitment to support local communities through the launch of Sage Foundation. Through Sage Foundation the business aims to transform lives by investing time, money, expertise and technology to create sustainable social, economic and entrepreneurial opportunity in local communities; helping people reach their fullest potential.

Since its launch, Sage Foundation has gone from strength to strength, and is now live in all of Sage's 23 countries across the globe.

Over the course of FY16, there have been many successes, including: 3,500 colleagues giving back thousands of hours to support local community projects in July and August alone, from assisting at a local foodbank in London, to investing their time to mentor and train young entrepreneurs in Madrid, to over 1,500 hours spent giving back in Brazil in one week alone. This worldwide campaign mobilised one Sage and is a statement of intent for where Sage Foundation will go in FY17.

The Invictus Games

In 2016, we launched our partnership with the Invictus Games for the first time as we embarked on our own journey to work with many special heroes around the world. In celebration of our inaugural year, we assembled a worldwide team of over 50 superstar colleagues who led the way by volunteering with Sage Foundation and helped to deliver the Games – held in Orlando, USA in 2016.

Volunteers just like Senior Software Developer, Brendan McCarthy from Dublin: "I was shocked, grateful and humbled to be chosen as Sage Foundation's European volunteer at the Invictus Games. Through sport, I have accomplished so much and it has made me a happier and more confident individual. It was my turn to help our wounded warriors to rise up and achieve new goals through the power of sport."

One Sage

In 2016, we recognised foundation days as a strategic KPI

Sage foundation days volunteered in 2016

13,000

Colleagues who took part in July and August 2016

3,500

Hours spent giving back in Brazil in 1 week alone

1,500

Doing business the right way...

"I had the pleasure of volunteering for these games and it was very inspiring to see people with disabilities accomplish things that I've seen able bodied people give up on. Try swimming 100 metres with only one limb, or with your eyes covered. It was amazing."

Laura Muñoz Bieber

...supporting our heroes

"It was a pleasure to get the opportunity to work with Sage employees from around the world. It was an inspirational and humbling experience. But the true stars were the athletes and their families."

Brendan McCarthy, Senior Software Developer

Sage and the Penreach Asifundze Literacy project

The Penreach Asifundze Literacy project is an outreach programme with a mission to create an environment where all South Africans can achieve educational excellence. In 2016, they were awarded a Sage Foundation grant of £2,500 to help improve community involvement in the project, and increase availability and use of reading materials outside school. The grant was used to purchase new materials for reading camps, which has re-energised the learners and will help sustain the camps into the future. It also gave the core team funds to run a day-long training and de-briefing session for the volunteers, who all provided invaluable information on how the project is impacting their communities.

In addition to providing financial support to the organisation, 60 Sage colleagues spent three hours a week volunteering with the project, and a total of 2,540 people have benefited so far from the Sage Foundation funding and volunteering.

Tomillo Foundation

Tomillo Foundation has worked for 30 years to improve living conditions of those people in a situation of special social vulnerability, mainly through training and employment, networking with social agents of the community, public administrations and social organisations.

The Sage Foundation grant was given to a specific project, "Employment for the most vulnerable", which is aimed at increasing employability for socially disadvantaged young people, especially in the most economically and socially deprived districts of Madrid.

The grant has enabled the team to help 35 young people improve their employability and give them better self-awareness and knowledge of opportunities open to them. The development of these skills has a knock-on effect on the rest of these young peoples' lives; by increasing their chances of finding a job, the unemployment rates of the area decrease, family life improves and there is a better image of the youngsters within their neighbourhoods.

Environment

Doing business the right way: Proactively managing our impact

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

Greenhouse gas emissions

This section includes our mandatory reporting of greenhouse gas emissions pursuant to the Companies Act 2006 (Strategic Report and Directors' Report Regulations 2013 (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 2015 to 30 September 2016. This greenhouse gas reporting year has been established to align with our financial reporting year.

Organisational boundary and responsibility

We report our emissions data using an operational control approach to define our organisational boundary which meets the definitional requirements of the Regulations in respect of those emissions for which we are responsible. 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) is not within our operational control and, therefore, is not considered to be our responsibility, however we aim to raise awareness of the impact of business travel through our travel booking policy.

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 2016 conversion factors for the UK combined with the IEA international conversion factors for CO_2 emission factors from electricity generation 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 http://www.sage.com/~/media/group/files/sage-carbon-methodology_2016_final.pdf.

Global greenhouse gas emissions data

For period 1 October 2015 to 30 September 2016

Emissions from		Tonnes of CO_2 equivalent (CO_2e)	
	FY16	FY15	FY14
Combustion of fuel and operation of facilities	**9,880**	10,887	9,238
Electricity, heat, steam and cooling purchased for own use	**13,877**	15,078	15,796
Company's chosen intensity measurement:			
– Emissions reported above normalised to tonnes of CO_2e per total GBP £1,000,000 revenue	**15.14**	18.09	19.16

Carbon emissions

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 will be working with our suppliers in these locations to capture this information in the 2016/17 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 2016 targets

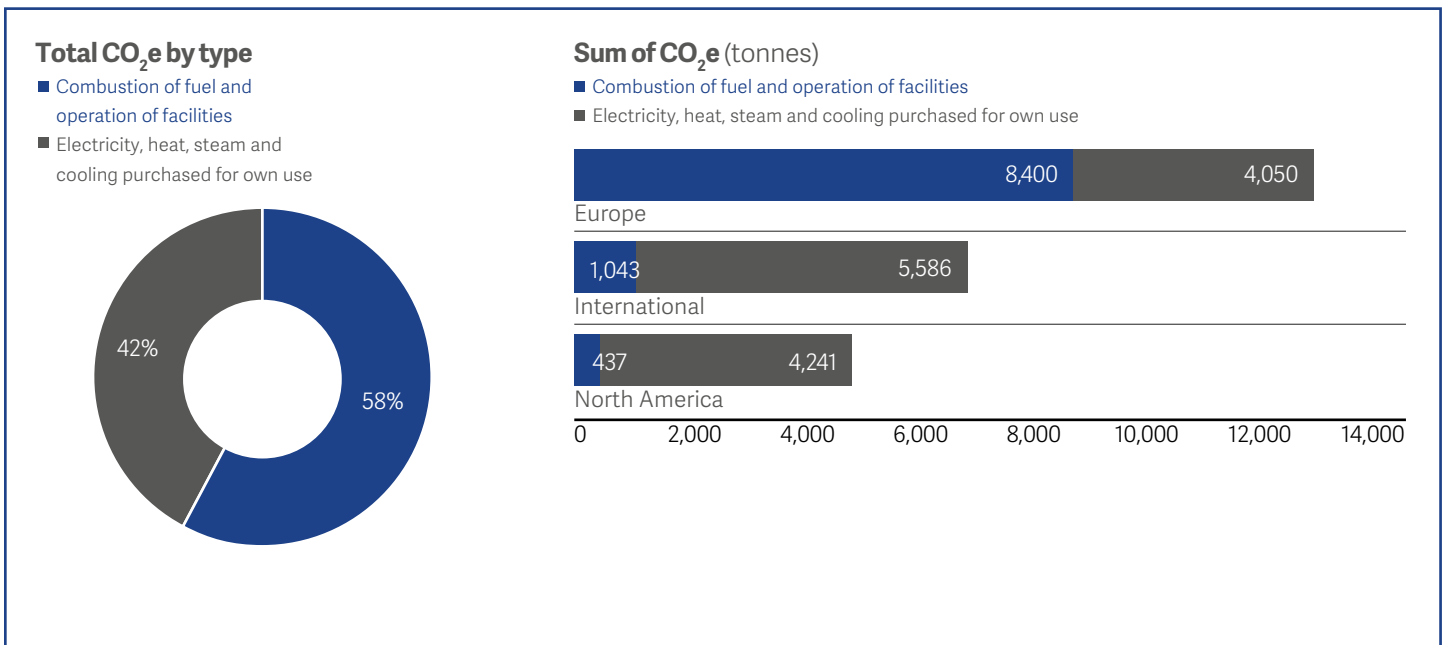The 2013 data forms the baseline data for subsequent periods.

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 2016. 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. Market-based residual factors have not been used for this reporting phase as it is not currently possible to calculate a market based purchased electricity emissions value; however we intend to calculate and report within our 2017 CDP submission, where market residual factors are available.

Reducing carbon and waste

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

– Increased use of bioethanol for business travel fuel

– Investing in new technology with lower energy consumption including laptops and workstations

– 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

– Self generation including solar panels and hydroelectric plant.

Total CO$_2$e by type

- Combustion of fuel and operation of facilities
- Electricity, heat, steam and cooling purchased for own use

42%

58%

Sum of CO$_2$e (tonnes)

- Combustion of fuel and operation of facilities
- Electricity, heat, steam and cooling purchased for own use

	Combustion	Electricity
Europe	8,400	4,050
International	1,043	5,586
North America	437	4,241

0   2,000   4,000   6,000   8,000   10,000   12,000   14,000

Directors' approval of strategic report

Our 2016 Strategic report, from page 1 to page 63, has been reviewed and approved by the Board of Directors on 29 November 2016.

Steve Hare
Chief Financial Officer

Glossary

Measure /Description	Why we use it
Underlying	

Prior period underlying measures are retranslated at the current year exchange rates to neutralise the effect of currency fluctuations.

Underlying operating profit excludes:

Recurring items:
– Amortisation of acquired intangible assets
– Acquisition-related items
– Fair value adjustments on non-debt-related financial instruments
– Foreign currency movements on intercompany balances

Non-recurring items that management judge are one-off or non-operational

Underlying profit before tax excludes:
– All the items above
– Imputed interest
– Fair value adjustments on debt-related financial instruments.

Underlying profit after tax and earnings per share excludes:
– All the items above net of tax.

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

By including part-period contributions from acquisitions, disposals and products held for sale in the current and/or prior periods, the impact of M&A decisions on earnings per share growth can be evaluated.

Organic

In addition to the adjustments made for underlying measures, organic measures exclude the contribution from acquisitions, disposals and products held for sale of standalone businesses, in the current and prior period.

Acquisitions and disposals which occurred close to the start of the opening comparative period where the contribution impact would be immaterial are not adjusted.

Why we use it: 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.

Why we use it: 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).

Why we use it: This measure is used to report comparative figures for external reporting purposes where it would not be appropriate to retranslate. For instance, on the face of primary financial statements.

Processing revenue

Processing revenue is revenue earned from customers for the processing of payments or where Sage colleagues process our customers' payroll.

Recurring revenue

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

Recurring revenue includes both software subscription revenue and maintenance and service revenue.

Software subscription revenue

Subscription revenue is revenue earned from customers for the provision of a good or service, where the risk and rewards are transferred to the customer over the term of a contract. In the event that the customer stops paying, they lose the legal right to use the software and the Company has the ability to restrict the use of the product or service. (Also known as 'Pay to play').

Software and software related services ("SSRS")

SSRS revenue is for goods or services where the entire benefit is passed to the customer at the point of delivery. It comprises revenue for software or upgrades sold on a perpetual license basis and software related services, including hardware sales, professional services and training.

A&RC
Audit and Risk Committee

AAMEA
Africa Australia Middle East Asia

AGM
Annual General Meeting

API
Application Program Interface

ASB
Annualised Subscriber Base

C4L
Customer For Life

CAGR
Compound Annual Growth Rate

CBC
Customer Business Centre

CDP
Carbon Disclosure Project

CFO
Chief Financial Officer

CGU
Cash Generating Unit

CMD
Capital Markets Day

CR
Corporate Responsibility

CRM
Customer Relationship Management

DEFRA
Department for Environment, Food & Rural Affairs

DTR
Disclosure Rules and Transparency Rules

EBITDA
Earnings Before Interest Taxes Depreciation and Amortisation

EBT
Employee Benefit Trust

EPS
Earnings Per Share

ERP
Enterprise Resource Planning

ESOS
Executive Share Operating Scheme

EU
European Union

FCF
Free Cash Flow

FY15
Financial year ending 30 September 2015

FY16
Financial year ending 30 September 2016

G&A
General and Administrative

GAC
Global Accounting Core

GHG
Green House Gas

HR
Human Resources

HCM
Human Capital Management

IFRS
International Financial Reporting Standards

ISV
Independent Software Vendor

KPI
Key Performance Indicator

LSE
London Stock Exchange

LTIP
Long Term Incentive Plan

NPS
Net Promoter Score

PBT
Profit Before Tax

PSP
Performance Share Plan

R&D
Research and Development

S&M
Sales and Marketing

SaaS
Software as a Service

SSRS
Software & Software Related Services

TSR
Total Shareholder Return

VSGM
Vision, Strategy, Goals, Measures

WRVS
Women's Royal Voluntary Service

Shareholder information

Financial calendar

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

Shareholder information online

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

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

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

Advisers

Corporate brokers and financial advisers
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Solicitors
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Independent auditors
Ernst & Young, 1 More London Place, London, SE1 2AF

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

Information for investors

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

Investor enquiries

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

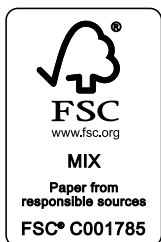Tel: +44 (0)191 294 3457

The Sage Group plc

Registered office:
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Registered in England
Company number 2231246

Stay up to date
www.sage.com

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

sage

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