CORPORATE GOVERNANCE…
A STRATEGIC ENABLER

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

Donald Brydon
Chairman

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

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

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

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

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

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

The Board also sets the tone for the Company. The way in which it conducts itself, its attitude to ethical matters, its definition of success, and the assessment of appropriate risk, all define the atmosphere within which the executive team works. The Board has ultimate responsibility for ensuring an appropriate culture in the Company to act as a backdrop to the way in which the Company behaves towards all stakeholders.

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

One of the consequences of both increasing the watchdog role of the Board and finding this balance between individuality and team behaviour is driving more Boards to have fewer and fewer Executive Directors.

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

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

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

Bringing knowledge and experience to the table

Donald Brydon (73)

Chairman

N

Appointed to the Board 6 July 2012

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

Past experience

Donald had a 20-year career with Barclays Group, during which time he was Chairman and Chief Executive of BZW Investment Management, followed by 15 years with the AXA Group, including the posts of Chairman and Chief Executive of AXA Investment Managers and Chairman of AXA Framlington.
He has formerly chaired the London Metal Exchange, Amersham plc, Taylor Nelson Sofres plc, the ifs School of Finance, Smiths Group plc, Royal Mail plc and EveryChild. Donald has also served as Senior Independent Director of Allied Domecq plc and Scottish Power plc.

Other current appointments:

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

Neil Berkett (63)

Independent Non-executive Director

A R

Appointed to the Board 5 July 2013

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

Past experience

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

Other current appointments:

- Guardian Media Group – Chairman
- NSPCC – Chairman elect

Blair Crump (57)

Executive Director

Appointed to the Board 1 January 2018

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

Past experience

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

Other current appointments:

None

Drummond Hall (69)

Senior Independent Non-executive Director

A N R

Appointed to the Board 1 January 2014

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

Past experience

Drummond was previously Chief Executive of Dairy Crest Group plc from 2002 to 2006, having joined the company in 1991. Prior to this the majority of his career was spent with Procter and Gamble, Mars and Pepsi Co. Drummond was a Non-executive Director of Mitchells & Butlers plc from July 2004 to January 2010 and Chairman from June 2008 to November 2009. Drummond was appointed Senior Independent Non-executive Director on 28 February 2017.

Other current appointments:

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

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

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

Board committees

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

Steve Hare (57)

CEO and CFO
Executive Director

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

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

Past experience

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

Other current appointments:

None

Jonathan Howell (56)

Independent
Non-executive Director

A R

Appointed to the Board 15 May 2013

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

Past experience

Jonathan recently left the role of Group Finance Director of Close Brothers Group plc, after 10 years, to pursue the next stage of his career, having joined in February 2008. He previously held the same position at the London Stock Exchange Group plc from 1999. Jonathan has also been a Non-executive Director of EMAP plc and Chairman of FTSE International. The early part of his career was at Price Waterhouse where he qualified as a chartered accountant.

Other current appointments:

None

Soni Jiandani (52)

Independent
Non-executive Director

N

Appointed to the Board 28 February 2017

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

Past experience

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

Other current appointments:

None

Cath Keers (53)

Independent
Non-executive Director

R

Appointed to the Board 1 July 2017

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

Past experience

Cath started her retail career with Thorn EMI and, after marketing and business development roles at Sky TV, Avon and Next, joined the BT Group in 1996, holding a number of commercial roles, including Marketing Director O2, Chairman of Tesco Mobile and Customer Director O2, where she was in charge of refocusing the organisation's customer strategy. Cath has held non-executive roles in a number of FTSE-250 companies, including most recently Royal Mail Group plc.

Other current appointments:

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

Meet the Executive Team

Sanjay Almeida

Vicki Bradin

Blair Crump

Amanda Cusdin

Sanjay Almeida (45)

Chief Product Delivery Officer

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

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

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

Vicki Bradin (40)

General Counsel and Company Secretary

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

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

Blair Crump (57)

President

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

Amanda Cusdin (41)

Chief People Officer

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

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

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

Steve Hare (57)

Chief Executive Officer

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

Steve Hare

Ron McMurtrie

Rob Reid

Klaus-Michael Vogelberg

Ron McMurtrie (53)

Chief Marketing Officer

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

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

Before joining Sage, Ron was global Chief Marketing Officer at Recall, an information management company, leading worldwide marketing strategy and operations. Previously, Ron has over 20 years' experience in similar roles for brands including VCE – the joint venture between Cisco, EMC and VMware – First Data, Verizon and MCI. Ron is a multi-dimensional leader with budgetary and personnel responsibility spanning direct sales, marketing, enterprise consulting and professional services in private and public-sector markets. Ron was appointed permanent Chief Marketing Officer in July 2018.

Rob Reid (68)

Managing Director, Sage Intacct

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

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

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

Klaus-Michael Vogelberg (53)

Chief Technology Officer

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

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

Keith Robinson

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

The role of the Board at Sage is to provide strategic leadership and effective oversight of the Group's activities.

In order to achieve this, the Board receives regular reports from the Executive Directors and other senior leaders, and each meeting's business aligns to an annual agenda which provides time to discuss broader themes and initiatives. In particular, this year the Board has focused on:

- The Group's long-term strategy, and reviewing progress against strategic objectives;
- Considering Sage's business culture, and embedding our Values and Behaviours;
- Our principal risks, risk appetite, and the manner in which the changing external environment may affect Sage's strategy;
- Our product portfolio, and our strategy for delivering new and innovative products together with continuous improvements in product quality;
- Inorganic growth and other future growth strategies; and
- Succession planning, including the recruitment of a new Chief Executive Officer, and talent development.

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

Board composition and independence

The Board composition, including changes during the year, is set out on pages 76 to 77 These pages also include details of the Directors' skills and experience. The Directors have a range of experience and can bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct. This experience and judgement are considered vital to our success. It is the balance of skills, experience, independence and knowledge of our Directors which ensures the duties and responsibilities of the Board and its committees are discharged effectively.

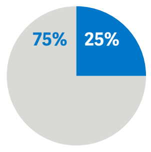
The Board monitors the independence of its Non-executive Directors, particularly any who have given long service. Having reviewed the current Board, the Non-executive Directors are all considered to be independent. Donald Brydon was considered independent at the date of his appointment.

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

Diversity

The Board has due regard for the benefits of diversity in its membership and in senior executive positions. We strive to maintain the right diversity balance, including gender, age, professional background, cognitive and personal strengths, whilst ensuring that appointments reflect the most appropriate candidates. The Chairman seeks to ensure that the composition of the Board includes individuals with deep knowledge and experience, bringing a wide range of perspectives to the business. You can read more about how the Nomination Committee has implemented the diversity policy, and results during the reporting period, on page 102.

The Board, as at the date of this Annual Report & Accounts, comprises 25% women (2017: 25%).



Female
Male

Conflicts of interest

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

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

Board and Committee meetings and attendance

Director	Board	Sub- & Disclosure Committees	Audit & Risk Committee	Nomination Committee	Remuneration Committee
Donald Brydon	10/10	7/7	–	5/5	–
Steve Hare	10/10	7/7	–	–	–
Drummond Hall	9/10	–	4/5	5/5	8/8
Jonathan Howell	10/10	6/7	5/5	–	8/8
Neil Berkett	10/10	–	5/5	–	6/8
Soni Jiandani	10/10	–	–	4/5	–
Cath Keers	9/10	–	–	–	8/8
Blair Crump[1]	8/8	–	–	–	–
Stephen Kelly[2]	7/9	1/3	–	–	–

1 Blair Crump was appointed on 1 January 2018.

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

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

Induction and professional development

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

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

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

All Directors have access to the advice and services of the Company Secretary who ensures that Directors take independent professional advice when it is judged necessary in order to discharge their responsibilities effectively.

Our governance framework

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

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

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

Audit and Risk Committee

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

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

Nomination Committee

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

Read Donald Brydon's Nomination Committee report on page 101

Remuneration Committee

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

Read Drummond Hall's Remuneration Committee report on page 103

Chief Executive Officer

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

Executive Committee

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

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

Delegates authority
Reports back on progress

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

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

Risk management and internal controls

The Board retains overall responsibility for setting Sage's risk appetite and for risk management and internal control systems.

In accordance with section C.2.3 of the Code, the Board is responsible for reviewing their effectiveness. The relevant confirmation statement is contained within the Strategic Report on page 73.

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

Board evaluation 2017/18

The UK Corporate Governance Code stipulates that boards should conduct a formal and rigorous review of their performance annually, and an externally facilitated review at least every three years. For FY18, the Board repeated an internal evaluation process for itself and each of its Committees, which was introduced in FY17. The evaluation utilised the same online evaluation tool, and to aid the assessment of progress against the previous year, the questions were kept the same where possible. Free text comment boxes allowed respondents to expand on their thoughts as they saw fit. All the Directors, the Company Secretary and a selection of regular meeting participants were invited to respond to the questionnaires.

The evaluation included the following topics:

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

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

Board roles

Donald Brydon, Chairman

Responsible for leading the Board, monitoring its effectiveness and governance

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

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

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

Steve Hare, Chief Executive Officer

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

My responsibilities as Chief Executive Officer include:

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

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

Drummond Hall, Senior Independent Director

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

My role as Senior Independent Director is:

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

Vicki Bradin, Company Secretary

Ensures good information flows to the Board and its committees and between senior management and Non-executive Directors

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

1 The roles of the Chairman and the Chief Executive Officer are quite distinct from one another and are clearly defined in written terms of reference for each role. These terms of reference are available on our website www.sage.com/company/about-sage/leadership/board-of-directors.

How the Board operates

The Board has formally adopted a schedule of matters reserved to it for decision. This schedule was last updated following the appointment of Steve Hare as Chief Executive Officer in November 2018 and is available via our website.

In order for the Board and Committees to operate at their best, it is essential that they receive, in a timely fashion, papers which are clear, focused and relevant. During FY18, we have focused on maintaining a consistently high paper quality to enrich the Board's discussions and complement its engagement activities. Papers are circulated electronically via a secure portal, giving Directors ample time to consider and digest their contents. Directors can also use the portal to make annotations to papers, and store and share relevant content for reference at Board meetings.

Regular attendance at Board meetings, engagement sessions and less formal social activities with key executives ensures that the Board has the opportunity to discuss the risks and opportunities within our business with leaders from across the Group. It also helps foster a culture of ownership and accountability within the Executive leadership team and ensures that the Board is able to build strong relationships over time with those individuals.

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

Relations with shareholders

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

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

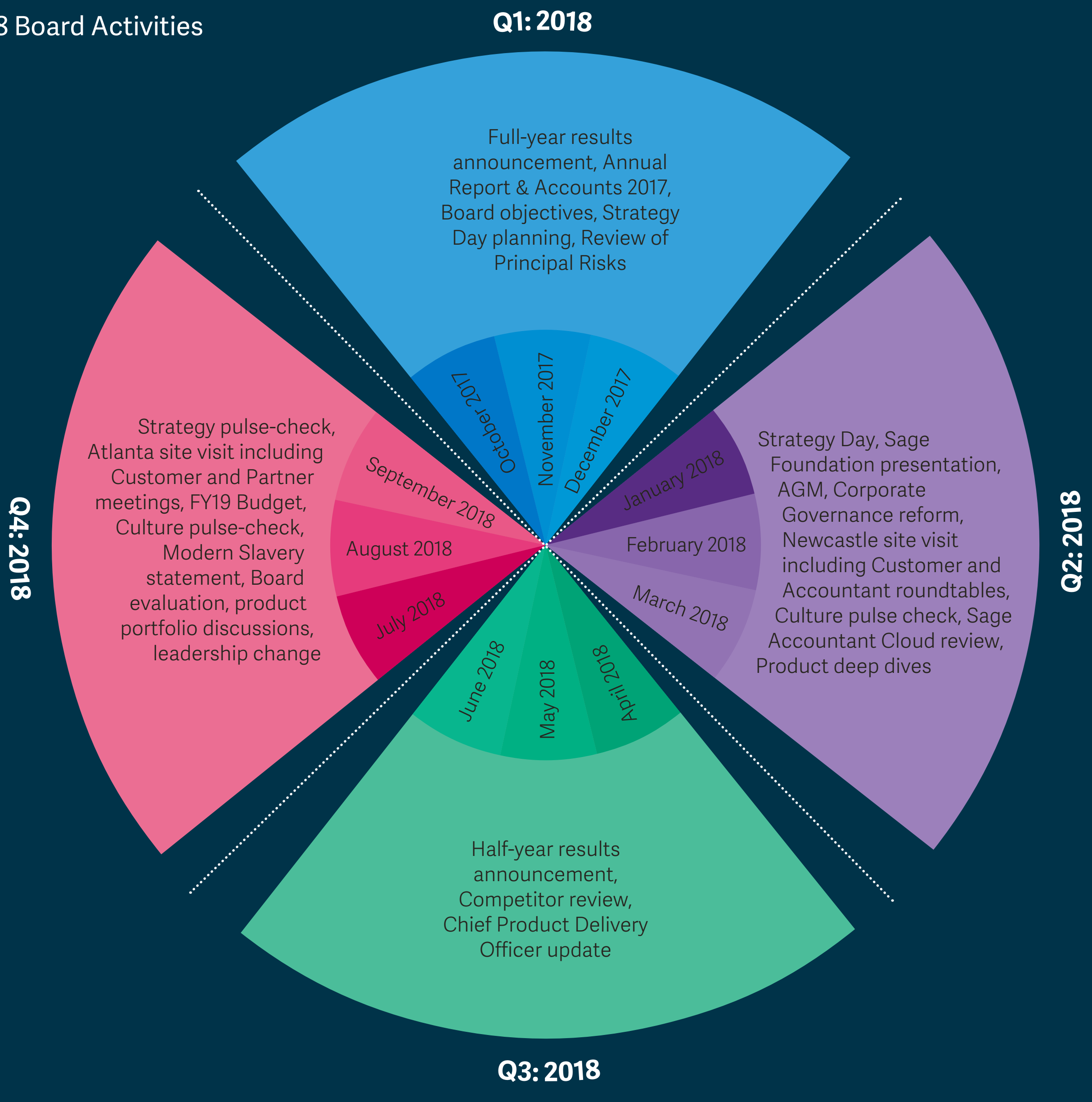
You can read more about stakeholder engagement including shareholders on page 88.

The Board's activities

The Board's activities throughout the year are underpinned by our external reporting calendar and our internal business planning processes.

A rolling annual agenda ensures that all important topics receive sufficient attention. Standing items provide an anchor to the strategy and provide the Board with a consistent view of progress during the year, whilst sessions on priority topics allow deeper insight.

2018 Board Activities



How the Board spent the year

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

SaaS Culture

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

Revolutionise Business

One Sage

Customer for Life

Cyber Risk

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

One Sage

Capacity for Growth

Technology Innovation

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

Revolutionise Business

One Sage

New Customer Acquisition

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

Winning in the Market

Customer Lens

- Customer and Partner roundtables throughout year
- Attended Sage Sessions

Winning in the Market

Customer for Life

Sage Business Cloud

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

Winning in the Market

Revolutionise Business

Market Leadership

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

Winning in the Market

Capacity for Growth

Stakeholder engagement

Who are our main stakeholders?

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

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

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

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

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

Why is stakeholder engagement important?

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

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

Long-term, sustainable value creation

What did we do during FY18?

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

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

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

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

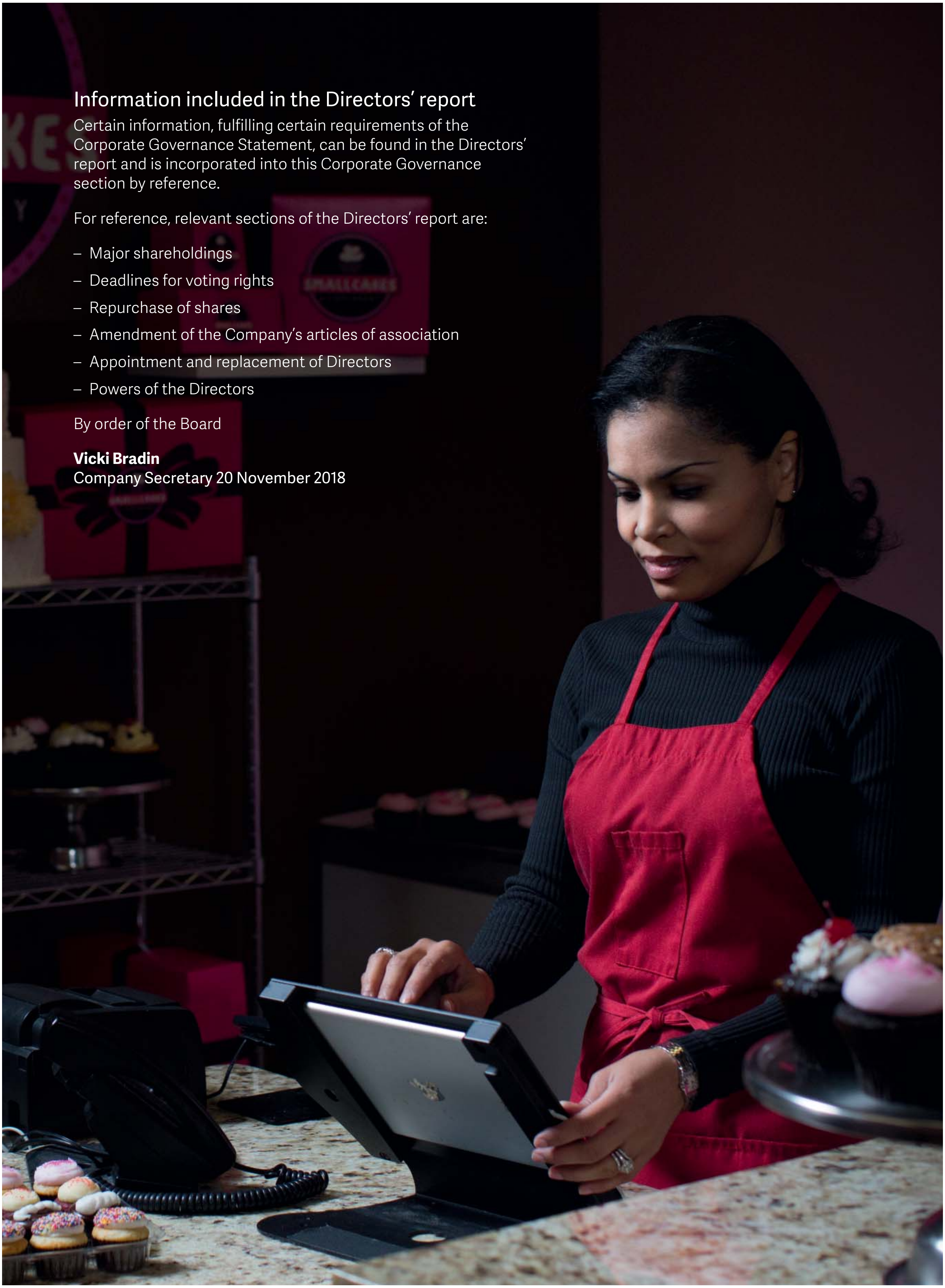
Investor meetings – finding out what's most important to our investors and updating them on the decisions we've taken and our direction of travel

What's next?

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

Growing the Board Associate role

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



Information included in the Directors' report

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

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

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

By order of the Board

Vicki Bradin
Company Secretary 20 November 2018

INTERVIEW WITH
BOARD ASSOCIATE, AMY LAWSON

DEMYSTIFYING THE BOARD

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

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

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

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

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

Has anything surprised you about being Board Associate?

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

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

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

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

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

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

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

Report of the Audit and Risk Committee

Jonathan Howell
Chairman of the Audit and Risk Committee

Audit and Risk Committee Membership

Jonathan Howell (Chairman)
Attended 5 of 5 meetings

Neil Berkett
Attended 5 of 5 meetings

Drummond Hall
Attended 4 of 5 meetings

Dear shareholder,

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

Key activities during the year have included assessing the ongoing effectiveness of internal controls, including the decision to bring forward an external assessment of internal audit, monitoring the business's response to the requirements of GDPR and reviewing compliance with anti bribery and corruption and sanctions legislation. In addition, the Committee has monitored progress on the implementation of IFRS 15 and other new accounting standards as well as the appropriateness of the Group's going concern, viability assessment, financial reporting and accounting judgements.

The Committee operates in accordance with the principles of the Financial Reporting Council's ("FRC") UK Corporate Governance Code (2016) ("the Code") and the associated recommendations set out in the FRC's Guidance on Audit Committees, as revised in 2016. The Committee is considering the extent to which it already applies the requirements of the UK Corporate Governance Code (July 2018) as they affect audit committees, terms of reference and operating procedures. The Committee will report on this in the 2019 Annual Report and Accounts.

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

Role of the Committee

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

Composition

The Code requires that at least one member of the Committee has recent and relevant financial experience. The Disclosure Guidance and Transparency Rules (DTRs) require that at least one member has competence in accounting and or auditing. The Board is satisfied that the Chairman meets these requirements, being a qualified chartered accountant and who, until very recently, was the Group Finance Director at Close Brothers Group plc. In addition, the Board considers that the Committee has the necessary competence and broad experience relevant to the sector in which Sage operates as required by the Code. Neil Berkett and Drummond Hall are both former Chief Executive Officers with extensive experience of leading businesses that, like Sage, are strongly focused on their customers. This means that they have a good understanding of the challenges presented by the Group's customer-focused strategy which enables them to make robust contributions to the Committee's activities. Further details of the background, knowledge and experience of the Chairman and each of the Committee members can be found on pages 76 to 77 of this report.

Activities during the year

The Committee had four scheduled meetings over the course of the year in line with its terms of reference. A fifth Committee meeting was convened in February 2018 to provide the Committee with additional time to explore the technical aspects of IFRS 15, consider the impact for the Business and the Group's implementation project. Attendance at the Audit and Risk Committee during the year to 30 September 2018 is shown in the table on the following page. Drummond Hall was unable to attend one meeting, however, he reviewed the relevant information and papers and provided comments to the Chairman in advance of the meeting. The Chairman of the Board was present at three of the four scheduled meetings. Steve Hare in his capacity as Chief Financial Officer (and, more recently, Chief Executive Officer as well), the Vice President ("VP") Risk and Assurance, the Executive Vice President ("EVP") Finance Control and Operations and the General Counsel were present at all five meetings. The Chairman of the Committee reported to the Board on key matters arising after each of these meetings. At each meeting, the Committee met with the external auditor, and at certain meetings the VP Risk and Assurance, without management being present.

At each meeting, the Committee receives and considers:

- scheduled finance updates on financial reporting, including significant reporting and accounting matters;
- scheduled risk updates, including quarterly risk dashboards outlining both principal and any escalated local risks. The Committee also receives summary reports and supplementary briefings from Sage Risk and management on selected principal risks and other 'in-focus' reviews;
- summary reports of escalated incidents and instances of whistleblowing, together with status of investigations and, where appropriate, management actions to remediate issues identified;
- progress against the plan and results of internal audit activities, including Sage Assurance and management reports on internal control, including financial, compliance and operational matters, and the implementation of management actions to remediate issues identified and make improvements to internal controls; and
- updates on delivery of the external audit plan and reports from the external auditor on the Group's financial reporting and observations made on the internal financial control environment in the course of their work.

During the year the Committee also received updates on the legal and regulatory frameworks relevant to its areas of responsibility, including the GDPR, the UK Bribery Act 2010 and sanctions legislation. Specific items addressed by the Committee at each of its regular scheduled meetings since the 2017 Annual Report and Accounts was published were as follows.

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

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

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

Financial Reporting, including significant reporting and accounting matters

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

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

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

Significant reporting and accounting matters

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

Revenue Recognition

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

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

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

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

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

Goodwill impairment testing

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

This year the Committee has, again, considered the appropriateness of the CGUs tested for impairment. Given the continued evolution of the Group's management structure and how the associated goodwill is monitored, certain CGUs have now been combined into groups of CGUs for the purposes of the annual impairment test. Germany, Austria, Switzerland and Poland have been grouped as Central Europe; Spain and Portugal have been grouped as Iberia: and South Africa and the Middle East have been grouped as Africa and the Middle East. The Committee reviewed and considered the detailed analysis of the key inputs to forecast future cash flows including discount rates and growth rates, used in calculating recoverable amounts on a value in use basis. The Committee considered the appropriateness of the assumptions used and reviewed the impact of a sensitivity analysis applying downside scenarios. The Committee also considered if there were any reasonably possible changes in assumptions that would result in a material impairment and therefore require further disclosure in the financial statements. Due to the recent timing of the Intacct acquisition, the headroom for the Sage Intacct CGU is lower than the other CGUs. In line with the requirements of IAS 36, sensitivity disclosures are included in note 6.1 to the financial statements for the Intacct CGU. The Committee was satisfied that no sensitivity disclosures were required other than for the Sage Intacct CGU.

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

Allocation of Sage Intacct goodwill

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

New IFRS standards

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

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

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

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

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

Taxation

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

Fair, balanced and understandable

Each year, the Committee advises the Board on whether the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess Sage's position and performance, business model and strategy. In reaching its conclusion, the Committee considered the results of management's assessment of going concern, reviewed the Annual Report and Accounts document as a whole, and assessed the results of processes undertaken by management to provide assurance that the Group's financial statements were fairly presented. These processes included an analysis of how the key events in the year had been described and presented in the Annual Report and Accounts, how alternative performance measures (APMs) had been defined and presented, and the outcome of representations received from country management teams on the application of a range of financial controls. The Committee also considered the perspective of the external auditor.

Viability statement and Going Concern

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

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

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

Risk Management and Internal Controls

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

During the year, the Committee:

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

In-Focus Reviews

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

Incident Management, Fraud and Whistleblowing

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

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

Internal Audit

Internal audit is delivered by the Sage Assurance function.

The Internal Audit Charter outlines the objectives, authority, scope and responsibilities of Sage Assurance. The Charter, performance against it, and the effectiveness of Sage Assurance, is reviewed by the Committee on an annual basis. The review of the Charter was undertaken at the Committee's February meeting. The Committee also considers and evaluates the level of Sage Assurance resource and its quality, experience and expertise, supplemented as appropriate by third party support and subject matter expertise, to ensure it is appropriate to provide the required level of assurance over the principal risks, processes and controls throughout the Group.

The Committee reviewed and approved the nature and scope of the work of Sage Assurance, and the Sage Assurance plan was approved by the Committee at the beginning of the financial year, along with any subsequent quarterly updates.

Progress against the plan and the results of Sage Assurance's activities, including the quality and timeliness of management responses, is monitored at each meeting, with the more significant issues identified within Sage Assurance reports considered in detail by the Committee.

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

External auditor EY

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

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

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

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

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

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

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

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

Consistent with the previous year, the Committee received feedback from the businesses evaluating the performance of each assigned audit team. Management's report included a summary of the findings of a survey of key Sage colleagues on the quality of the auditor's delivery, communication and interaction with the various finance teams across the Group. Management concluded that the working relationship between finance functions and auditors across the Group was effective and the audit had been carried out in an independent, professional, organised and constructive manner.

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

Having considered all of the above, the Committee has recommended to the Board that a resolution to reappoint EY be proposed at the 2019 AGM and the Board has accepted and endorsed this recommendation.

Non-audit services

The Committee is responsible for the development, implementation and monitoring of policies and procedures on the use of the external auditor for non-audit services, in accordance with professional and regulatory requirements. At Sage this is governed by the Auditor Independence Policy (the "Policy"). The Policy has been in place throughout the year. It specifies the role of the Committee in reviewing and approving non-audit services in order to ensure the ongoing independence of the external auditor. A summary of non-audit fees paid to the external auditor is provided to the Committee on a quarterly basis.

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

The Committee considered the application of the Policy with regard to non-audit services and confirms it was properly and consistently applied during the year. The Policy also requires that the ratio of audit fees to non-audit fees must be within Sage's pre-determined ratio, and non-audit fees for the year must not exceed 70% of the average of the external audit fees billed over the previous three years.

In 2018, the ratio of non-audit fees to audit fee was 4%, principally reflecting the fee paid for the half year interim review. A breakdown of total audit and non-audit fees charged by the external auditor for the year under review is shown in note 3 to the financial statements.

Evaluation of the performance of the Committee

The evaluation of the Audit and Risk Committee for 2017/18 was completed as part of the annual Board evaluation process. An explanation of how this process was conducted, the conclusions arising from it and the action items identified is set out on page 83. The Committee has considered this in the context of the matters that are applicable to the Committee.

Jonathan Howell
Chairman of the Audit and Risk Committee

20 November 2018

Report of the Nomination Committee

Donald Brydon
Chairman of the Nomination Committee

Nomination Committee Membership

Donald Brydon (Chairman)
Attended 5 of 5 meetings

Drummond Hall
Attended 5 of 5 meetings

Soni Jiandani
Attended 4 of 5 meetings

Committee purpose and responsibilities

The purpose of the Nomination Committee is to review the composition, skills and experience of the Board and to plan for its progressive refreshing, with regard to balance and structure. The Committee also considers issues of succession. The Chairman's other significant commitments are detailed on page 76.

Committee meetings

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

Board changes

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

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

Management succession and talent pipeline

The Committee has continued to work to put appropriate succession plans in place in order to ensure the right mix of skills and experience of Board members now and in the future. In addition, the Board recognises the need for talent to be nurtured within executive and management levels and across the Group as a whole. The appointment of Blair Crump to the Board together with two permanent Executive Committee appointments from within the internal pipeline (Ron McMurtrie and Amanda Cusdin) demonstrate the improved depth and breadth of skills and experience in our talent pool. This will continue to be an area of focus during FY19 and beyond.

Diversity & Inclusion

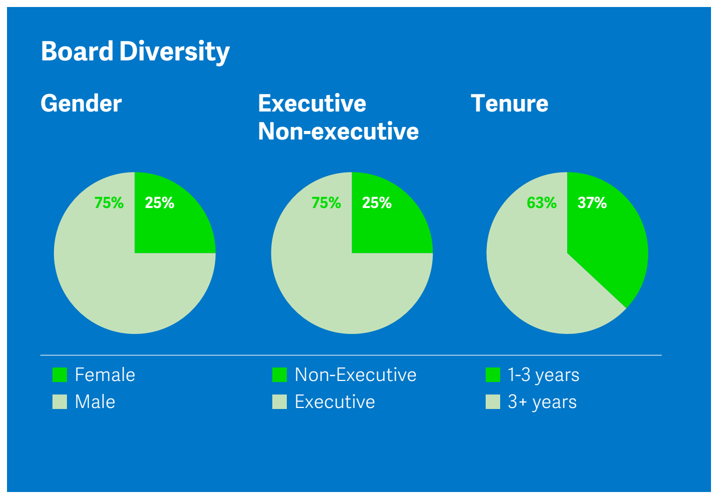
During FY18, Sage has won several awards for its diversity and inclusion programme. A diverse workforce brings a broader range of perspectives, and drives innovation which will support us in better understanding our customers and in creating amazing products and providing services which customers need.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

Specifically, the Policy states that we are committed to:

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

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

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



Donald Brydon
Chairman of the Nomination Committee

20 November 2018

Remuneration Committee

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

Drummond Hall
Chairman of the Remuneration Committee

Remuneration Committee Membership

Drummond Hall (Chairman)
Attended 8 of 8 meetings

Neil Berkett
Attended 6 of 8 meetings

Jonathan Howell
Attended 8 of 8 meetings

Cath Keers
Attended 8 of 8 meetings

Dear fellow shareholder,

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

This report complies with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013, the provisions of the UK Corporate Governance Code (April 2016) and the Listing Rules.

The report is in two sections:

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

Objectives and responsibilities

The Remuneration Committee's main objective is to determine the framework, broad policy and levels of remuneration for the Group's Chief Executive Officer, the Group's Chief Financial Officer, the Group's President, the Chairman of the Company and other executives as deemed appropriate.

This framework includes, but is not limited to, establishing stretching performance-related elements of reward and is intended to promote the long-term success of the Company. We achieve this through:

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

FY19 remuneration priorities

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

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

Supporting subscription-focused execution

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

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

Rebalancing variable pay to match strategic timeframes

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

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

Ensuring tight financial discipline for acquisitions

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

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

Directors' Remuneration Policy

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

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

Our remuneration principles

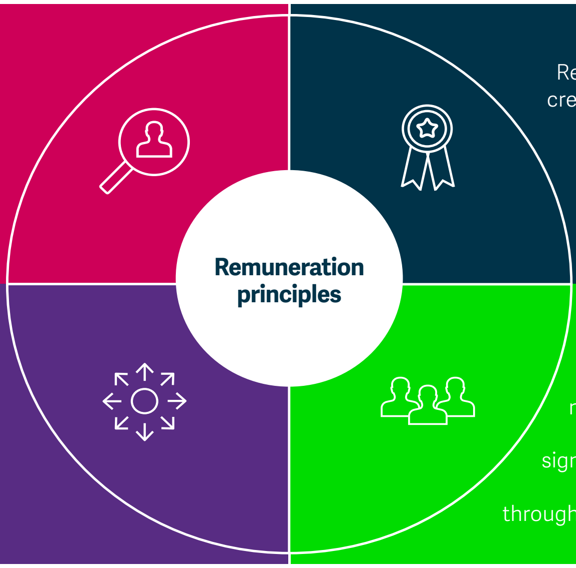
Our remuneration principles remain unchanged in our proposed Policy and are designed to drive the behaviours and results required to support our short and longer-term business strategy as outlined in the Strategic Report.

Attract and retain

We offer competitive rates of pay and benefits to attract and retain the best people in a competitive international market.

Motivate and reward

Remuneration at Sage is designed to create a strong performance-oriented environment for the taking of appropriate risks and rewards achievement of our Company strategy and business objectives.



Alignment with the wider Group

Pay and employment conditions elsewhere in the Group are considered when determining executive base salary and bonus reviews.

Alignment with shareholders

The interests of our senior management team are aligned with those of shareholders by having a significant proportion of remuneration performance-based and delivered through shares, together with a significant shareholding requirement.

DIRECTORS' REMUNERATION REPORT CONTINUED

REMUNERATION AT A GLANCE

Delivering our remuneration principles in FY19

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

Element of Policy	Purpose	Proposed Implementation in FY19
Base salary	Enables Sage to attract and retain Executive Directors of the calibre required to deliver the Group's strategy Salary increases are effective 1 January 2019	Steve Hare £770,000 (on appointment as CEO; around 5% less than predecessor) Blair Crump $700,000 (0% increase)
Pension	Provides a competitive post-retirement benefit, in a way that manages the overall cost to the Company	Steve Hare 15% of base salary (reduced from 25% of base salary) Blair Crump up to 3.5% of base salary
Benefits	Provide a competitive and cost-effective benefits package to executives to assist them in carrying out their duties effectively	Standard benefits package plus costs of travel, accommodation and subsistence for the Directors and their partners on Sage-related business if required. Sage covers the cost of Steve Hare's travel and accommodation for days on which he attends to Sage matters in the London office. Sage tax equalises that portion of Blair Crump's remuneration that is subject to UK tax for days on which he attends to Sage matters in the UK
Annual bonus	Rewards and incentivises the achievement of annual financial and strategic targets A minimum of one-third deferral into shares for three years is compulsory, with the remainder delivered in cash	Maximum 175% of base salary (pending shareholder approval of the 2019 Policy) 80% subject to ARR growth (with underlying operating profit margin underpin) and 20% subject to strategic goals
Performance Share Plan (PSP)	Supports achievement of our strategy by targeting performance under our key financial performance indicators. Vesting is after three years, and awards are subject on vesting to a holding period for two years before being released	Face value of 200% of base salary (pending shareholder approval of the 2019 Policy) 70% subject to ARR growth (with ROCE underpin) and 30% subject to relative Total Shareholder Return performance (pending shareholder approval of the 2019 Policy)
All-employee share plans	Provides an opportunity for Directors to voluntarily invest in the Company	Eligible to participate up to the tax-efficient limit of £500 per month or US dollar equivalent
Chairman and Non-executive Director fees	Provide an appropriate reward to attract and retain high-calibre individuals	See page 125 of this report for a list of Non-executive Director fees
Shareholding guideline	The shareholding guideline for Directors is 250% of base salary (subject to shareholder approval of the 2019 Policy) and achievement of this is expected within a maximum of five years from the time the Director became subject to the guideline	Shareholding at 30 September 2018 Steve Hare 309% of base salary (336% including deferred shares net of tax)[1] Blair Crump 17% of base salary (23% including deferred shares net of tax)

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

FY18 single figure for total remuneration summary:

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

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

Key remuneration outcomes for FY18

2018 bonus: *no bonus payable*

The 2018 bonus was based on organic revenue growth and the satisfaction of underpins relating to underlying operating margin and recurring revenue growth (80% of bonus) and personal strategic measures (20% of bonus). As discussed in the Chairman of the Board's Statement, there has been inconsistent operational execution during the past year and financial bonus targets were not met. Consequently, no bonus was payable in respect of the financial performance measures. Steve Hare and Blair Crump were awarded 15% of salary and 6.25% of salary respectively under the personal strategic element of the bonus but both voluntarily waived these awards in light of Group financial and share price performance during the year. Stephen Kelly was awarded no bonus. More details on the bonus outcome are set out on pages 117 and 118.

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

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

Board changes in FY18

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

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

Revised Corporate Governance Code

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

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

Drummond Hall
Chairman of the Remuneration Committee

Remuneration Committee meetings held in FY18

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

The Remuneration Committee is required, in accordance with its terms of reference, to meet at least four times per year. During this financial year, the Remuneration Committee met eight times (twice in each of November and August), where it discussed the following key matters:

November

FY17 year-end review

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

February

Review of trends in executive remuneration

- Reviewed remuneration market trends and corporate governance developments

2019 Remuneration Policy review

- Discussed scope of 2019 Remuneration Policy review

April

Consideration of the views of our shareholders

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

2019 Remuneration Policy review

- Reviewed initial proposals for the 2019 Remuneration Policy

FY18 progress review

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

July

FY19 planning

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

Appointing executive talent

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

2019 Remuneration Policy review

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

August

Change in CEO

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

September

FY19 planning

- Approved the discretionary share plan allocation policy for 2019

2019 Remuneration Policy review

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

Appointing executive talent

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

REMUNERATION POLICY

Purpose of this section:

– Provides detail of the key elements of our remuneration policy

The current policy report was approved by shareholders at the 2016 AGM and can be found on our website (www.sage.com). As outlined in the Statement of the Remuneration Committee Chairman, the Remuneration Committee is proposing a number of changes to the current policy primarily to ensure consistency with our future strategic and operational implementation plans. Shareholder approval will be sought at the 2019 AGM for the new remuneration policy set out below (the "2019 policy"). Subject to shareholder approval, the new policy will take effect from the date of the AGM.

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

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

Remuneration policy table

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

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

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
Benefits **Provide a competitive and cost-effective benefits package to executives to assist them to carry out their duties effectively.**	The Group provides a range of benefits which may include a car benefit (or cash equivalent), private medical insurance, permanent health insurance, life assurance and financial advice. Additional benefits may also be provided in certain circumstances which may include relocation expenses, housing allowance and school fees. Other benefits may be offered if considered appropriate and reasonable by the Remuneration Committee.	Set at a level which the Remuneration Committee considers: – Appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market; – Provides a sufficient level of benefit based on the role and individual circumstances, such as relocation. As the costs of providing benefits will depend on the Director's individual circumstances, the Remuneration Committee has not set a monetary maximum.	None.
Annual bonus **Rewards and incentivises the achievement of annual financial and strategic targets.** **An element of compulsory deferral provides a link to the creation of sustainable long-term value creation.**	Measures and targets are set annually and payout levels are determined by the Remuneration Committee after the year-end based on performance against those targets. The Remuneration Committee may, in exceptional circumstances, amend the bonus payout should this not, in the view of the Remuneration Committee, reflect overall business performance or individual contribution. A minimum of one-third of any annual bonus earned by Executive Directors is delivered in deferred share awards with the remainder delivered in cash. The deferral period will usually be a minimum of three years.	175% of salary	– At least 70% of the bonus will be determined by measure(s) of Group financial performance; – No more than 30% of the bonus will be based on pre-determined financial, strategic or operational measures appropriate to the individual Director. The measures that will apply for the financial year 2019 are described in the Directors' Annual Remuneration Report.

Remuneration policy table continued

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
Performance share plan (PSP) **Motivates and rewards the achievement of long-term business goals.** **Supports the creation of shareholder value through the delivery of strong market performance aligned with the long-term business strategy.** **Supports achievement of our strategy by targeting performance under our key financial performance indicators.**	Awards vest dependent upon the achievement of performance conditions measured over a period of at least three years. Following the end of the performance period, the performance conditions will be assessed and the percentage of awards that will vest will be determined. The Remuneration Committee may decide that the shares in respect of which an award vests are delivered to participants at that point or that awards will then be subject to an additional holding period before participants are entitled to receive their shares. A holding period will normally last for two years, unless the Remuneration Committee determines otherwise. The Remuneration Committee has discretion to decide whether and to what extent the performance conditions have been met, and if an event occurs that causes the Remuneration Committee to consider that an amended or substituted performance condition would be more appropriate and not materially less difficult to satisfy, the Remuneration Committee may amend or substitute any performance condition.	Awards vest on the following basis: – Target performance: 20% of the maximum shares awarded; – Stretch performance: 80% of the maximum shares awarded; – Exceptional performance: 100% of the shares awarded with straight-line vesting between each level of performance; – Current annual award levels (in respect of a financial year of the Company) are 200% of salary for the Executive Directors. Overall individual limit of 300% of base salary under the rules of the plan. The Remuneration Committee retains the discretion to make awards up to the individual limit under the PSP and, as stated in previous remuneration reports, would expect to consult with significant investors if awards were to be made routinely above current levels.	Vesting will be subject to performance conditions as determined by the Remuneration Committee on an annual basis. The performance conditions will initially be annualised recurring revenue growth (with a ROCE underpin) and relative TSR although the Remuneration Committee will retain discretion to include additional or alternative performance measures which are aligned to the corporate strategy. At its discretion, the Remuneration Committee may elect to add additional underpin performance conditions. Details of the targets that will apply for awards granted in 2019 are set out in the Directors' Annual Remuneration Report.
All-employee share plans **Provide an opportunity for Directors to voluntarily invest in the Company.**	UK-based Executive Directors are entitled to participate in a UK tax approved all-employee plan, The Sage Group Savings-Related Share Option Plan, under which they make monthly savings over a period of three or five years linked to the grant of an option over Sage shares with an option price which can be at a discount of up to 20% of the market value of shares on grant. Options may be adjusted to reflect the impact of any variation of share capital. Overseas-based Executive Directors are entitled to participate in any similar all-employee scheme operated by Sage in their jurisdiction.	UK participation limits are those set by the UK tax authorities from time to time. Currently this is £500 per month (or US Dollar equivalent). Limits for participants in overseas schemes are determined in line with any local legislation.	None.

Alignment with strategy/purpose	Operation	Maximum opportunity	Performance measures
Chairman and Non-executive Director fees **Provide an appropriate reward to attract and retain high-calibre individuals.** **Non-executive Directors do not participate in any incentive scheme.**	Fees are reviewed periodically. The fee structure is as follows: – The Chairman is paid a single, consolidated fee; – The Non-executive Directors are paid a basic fee, plus additional fees for chairmanship (and, where appropriate, membership) of Board Committees and to the Senior Independent Director; – Fees are currently paid in cash but the Company may choose to provide some of the fees in shares. The Chairman has the use of a car and driver. Non-executive Directors may be eligible for benefits such as company car, use of secretarial support, healthcare or other benefits that may be appropriate including where travel to the Company's registered office is recognised as a taxable benefit in which case a Non-executive may receive the grossed-up costs of travel as a benefit.	Set at a level which: – Reflects the commitment and contribution that is expected from the Chairman and Non-executive Directors; – Is appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market, particularly companies of a similar size and international scope to Sage, in particular those within the FTSE 100 (excluding the top 30). Overall fees paid to Directors will remain within the limit stated in our articles of association, currently £1m. Actual fee levels are disclosed in the Directors' Annual Remuneration Report for the relevant financial year.	None.
Shareholding guideline **Aligns the interests of Executive Directors and shareholders and encourages a focus on long-term performance.**	The shareholding guideline is expected to be built up over five years from the Director's becoming subject to the guideline. The Remuneration Committee will review progress towards the guideline on an annual basis, and has the discretion to adjust the guideline in what it feels are appropriate circumstances.	The guideline for Executive Directors is a minimum shareholding worth 250% of salary.	None.

Notes:
- Annual bonus and PSP performance measures and targets are selected each year so as to align with key financial and operational objectives.
- Awards granted under the deferred bonus plan and the PSP may:
  (a) be made in the form of conditional awards or nil-cost options and may be settled in cash;
  (b) incorporate the right to receive an amount (in cash or shares) equal to the dividends which would have been paid or payable on the shares that vest in the period up to vesting (or, where PSP awards are made subject to a holding period, the end of the holding period). This amount may be calculated assuming the dividends were reinvested in the Company's shares on a cumulative basis; and
  (c) be adjusted in the event of any variation of the Company's share capital, demerger, delisting, special dividend, rights issue or other event which may, in the opinion of the Remuneration Committee, affect the current or future value of the Company's shares.

Provisions to withhold (malus) or recover (clawback) sums paid under the annual bonus and PSP in the event of material negative circumstances, such as a material misstatement in the Company's audited results, serious reputational damage or significant financial loss to the Company (as a result of the participant's conduct), an error in assessing the performance metrics relating to the award or the participant's gross misconduct are incorporated into both the PSP and deferred bonus plan. These provisions may apply up to three years from the release date of a PSP award or three years from the date a cash bonus is paid or a deferred share award is granted. Details of the proposed implementation of those provisions in the forthcoming year are set out in the Directors' Annual Remuneration Report.

All Directors submit themselves for re-election annually.

The Remuneration Committee intends to honour any commitments entered into with current or former Directors on their original terms, including outstanding incentive awards, which have been disclosed in previous remuneration reports and, where relevant, are consistent with a previous policy approved by shareholders. Any such payments to former Directors will be set out in the Remuneration Report as and when they occur.

The Remuneration Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed: (i) before the date the Company's first remuneration policy approved by shareholders in accordance with section 439A of the Companies Act came into effect; (ii) before the policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved remuneration policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Remuneration Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes "payments" includes the Remuneration Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

The Remuneration Committee may make minor amendments to the policy (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

Illustration of our remuneration policy for 2019

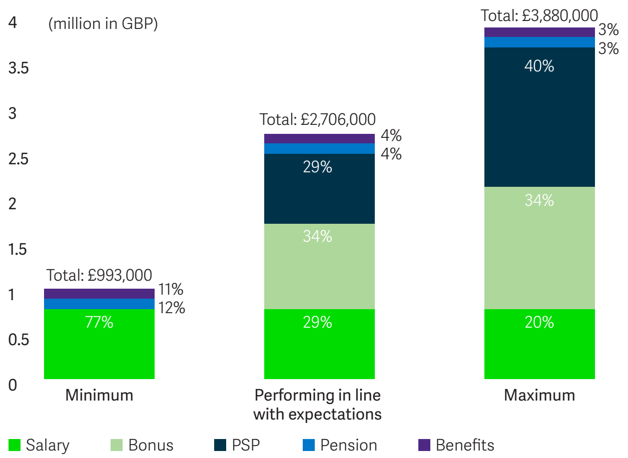
The charts below set out an illustration of the remuneration policy and include base salary, pension, benefits and incentives. The charts provide an illustration of the proportion of total remuneration made up of each component of pay and the total potential value available to the Directors under the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

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

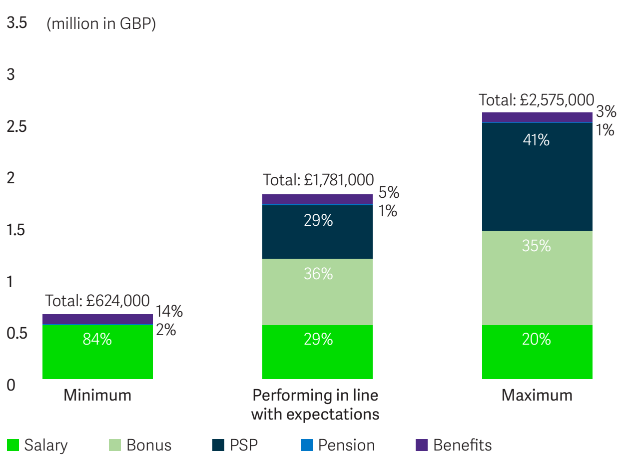
For illustrating the potential value from incentives, three scenarios have been illustrated for each Executive Director:

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

Chief Executive Officer



President of Sage



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

Development of our remuneration policy

Consistency with remuneration for the wider Group

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

Consideration of pay and conditions for the wider Group

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

Communication with our shareholders

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

Recruitment remuneration arrangements

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

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

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

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

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

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

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

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

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

Change of control

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

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

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

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

Executive Director service contracts

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

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

Terms and conditions for Non-executive Directors

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

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

Payments to departing Directors

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

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

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

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

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

Deferred bonus plan

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

PSP

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

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

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

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

DIRECTORS' ANNUAL REMUNERATION REPORT

Purpose of this section:

- Provides remuneration disclosures for Executive and Non-executive Directors
- Details financial measures for bonus and PSP
- Illustrates Company performance and how this compares to executive pay
- Outlines implementation of remuneration policy for Executive and Non-executive Directors for 2019

Single figure for total remuneration (audited information)

The following table sets out the single figure for total remuneration for Executive Directors for the financial years ended 30 September 2017 and 2018.

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

Notes:

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

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

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

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

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

4 Benefits provided to the Executive Directors included: car benefits or cash equivalent (UK-based executives only), private medical insurance, permanent health insurance, life assurance, financial advice and, where deemed to be a taxable benefit, the grossed-up costs of travel, accommodation and subsistence for the Directors and their partners on Sage-related business if required.

A portion of Steve Hare's benefits related to the grossed-up cost of his travel to Sage's London office which, since 1 April 2015, has been deemed a taxable benefit as a result of the enhanced amount of time he has been required to spend in London attending to Sage matters. £83,000 of Stephen Kelly's benefits value related to the grossed-up cost of travel, accommodation and subsistence for his hosting Platinum Elite, a major internal event for high-performing colleagues, which is deemed by HMRC to be a taxable benefit. A portion of Blair Crump's benefits related to the payment of UK tax on his US income, which is payable under UK tax law for the days on which he is attending to Sage matters in the UK. Blair's permanent workplace is in the US. He receives assistance in the preparation of his tax returns. Donald Brydon receives a company car benefit.

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

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

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

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

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

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

Annual bonus 2018

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

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

Note:

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

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

Executive Directors' personal strategic objectives

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

Steve Hare, Interim COO & CFO

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

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

Blair Crump, President of Sage

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

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

Stephen Kelly, CEO

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

Disclosure of 2017 bonus targets

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

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

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

PSP awards

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

- 50% recurring revenue growth with underpins for EPS growth and organic revenue growth
- 50% relative TSR performance against the FTSE 100 (excluding financial services and extracting companies)

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

Measure	Between target and stretch	Between stretch and exceptional
Recurring revenue growth (Compound Annual Growth Rate ("CAGR")	Between 8.3% and 10.3% (with EPS growth CAGR of 8% p.a. and organic revenue growth of 6.3% p.a.)	Between 10.3% and 12.3% (or above) (with EPS growth CAGR of 8% p.a. and organic revenue growth of 6.3% p.a.)
Relative TSR	Between median and upper quartile	Between upper quartile and upper decile (or above)

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

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

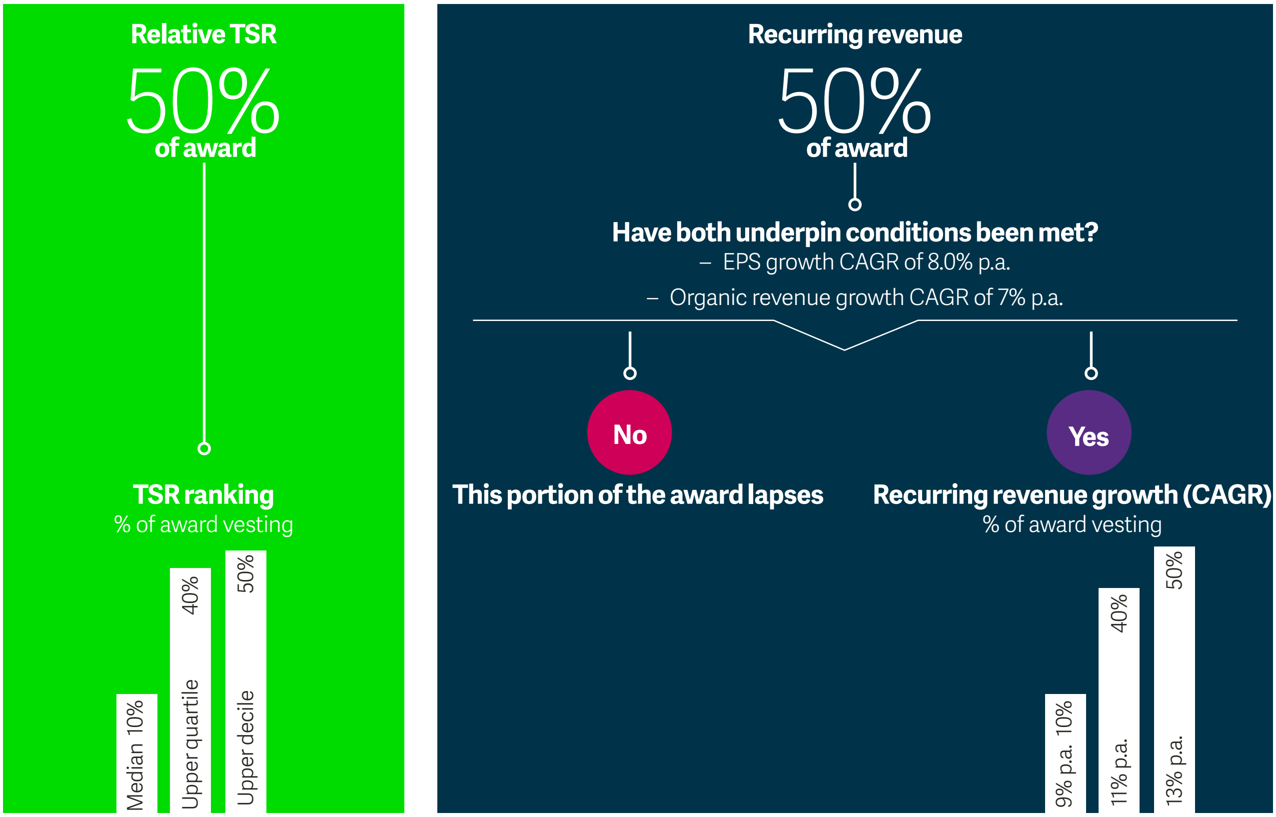
The definition of organic revenue was updated for FY18, part-way through the performance cycle as outlined on page 95 of the 2017 Annual Report. Consequently, the recurring revenue growth target and the organic revenue growth underpin were adjusted to reflect the updated definition of organic revenue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

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

No other adjustments to underlying EPS have been made. The Remuneration Committee believes that this approach ensures that management time transactions using sound judgement and not with a view to maximising their incentive outcomes. It will continue to review the impact on incentives of future acquisitions and disposals on a case-by-case basis.

PSP awards granted in FY18 (audited information)

Awards were granted under the PSP on 7 December 2017 at a market value of £7.605 to selected senior employees, including the Executive Directors, in the form of conditional share awards. In alignment with our business strategy for FY18, performance conditions for awards granted in FY18 are:



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

- Recurring revenue growth as a medium-term performance condition provides close alignment with our medium-term strategic priorities to grow our subscription-based services and acquire new customers. The recurring revenue and organic revenue targets were set based upon the updated definition of organic revenue for FY18, as outlined on page 34 of the 2017 Annual Report.

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

- 50% of the awards being determined by relative TSR performance;
- Requiring the achievement of two broader underpin conditions (based on EPS and organic revenue growth) before the recurring revenue growth element of the PSP awards can vest. The targets for these underpin conditions (8.0% p.a. EPS and 7.0% p.a. organic revenue growth) are consistent with delivery of a successful transitional phase. More specifically, they ensure that the transition to a subscription model is achieved whilst maintaining overall growth in revenues and earnings (i.e. subscription growth will need to more than offset the decline in licence growth).

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

	Type of award	Maximum number of shares	Face value (£)[1]	Face value (% of salary)	Threshold vesting (% of award)	End of performance period
Stephen Kelly	Performance shares	266,272	£2,025,000	250%	20%	30 September 2020
Steve Hare	Performance shares	171,597	£1,305,000	250%	20%	30 September 2020
Blair Crump	Performance shares	171,814	£1,306,653	250%	20%	30 September 2020

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

Change in remuneration of Chief Executive Officer compared to Group employees

The table below shows the percentage change in total remuneration of the Chief Executive Officer with a comparator group of all UK employees over the same time period. Sage has employees based all around the world, some of whom work in countries with comparatively higher inflation than the UK; therefore, a comparison to Sage's UK-based Group employees is more appropriate than to all employees.

	CEO	All UK employees
Salary[1]	(0.4%)	5.9%
Taxable benefits[2]	140.4%	25.0%
Annual incentive[3]	(100%)	(51.5%)

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

Historical executive pay and Company performance

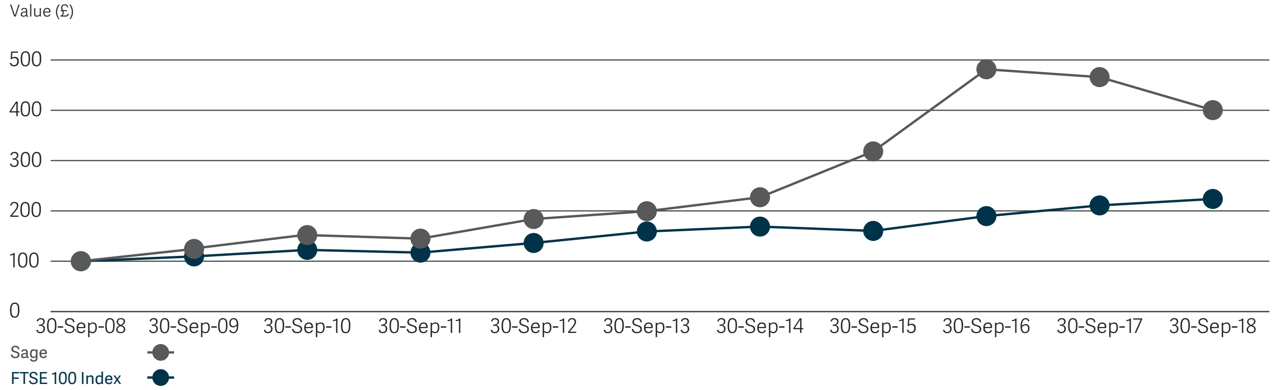
The table below summarises the Chief Executive Officer single figure for total remuneration, annual bonus payout and PSP vesting as a percentage of maximum opportunity for the current year and previous nine years.

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

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

Historical Group performance against FTSE 100

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



Note:

– This graph shows the value, by 30 September 2018, of £100 invested in The Sage Group plc on 30 September 2008 compared with the value of £100 invested in the FTSE 100 index. The other points plotted are the values at intervening financial year ends.

Payments to past Directors (audited information)

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

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

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

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

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

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

Relative importance of spend on pay

The charts below show the all-employee pay cost (as stated in the notes to the accounts), profit before tax and returns to shareholders by way of dividends and share buybacks for 2017 and 2018.

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

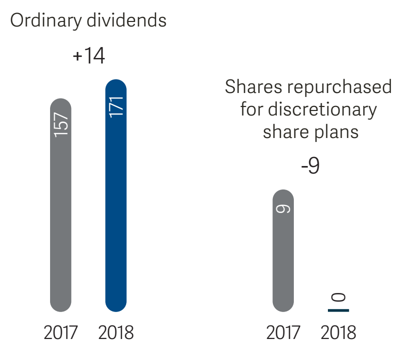
– Underlying PBT – Underlying profit before income tax taken from the consolidated income statement on page 144. Underlying PBT has been chosen as a measure of our operational profitability;

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

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

Underlying PBT (£m)

Returns to shareholders (£m)



Total employee pay (£m)

Statement of implementation of remuneration policy in the following financial year

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

Base salary

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

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

Notes:

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

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

Pension and benefits

UK-based Executive Directors will receive a reduced pension provision worth 15% of salary as a contribution to a defined contribution plan and/or as a cash allowance and our US-based Executive Director will receive a pension provision in line with our US benefits policy, currently up to 3.5% of salary. They will also receive a standard package of other benefits and where deemed necessary the costs of travel, accommodation and subsistence for the Directors and their partners on Sage-related business, consistent with that in FY18. In addition, the Company will continue to cover the cost of Steve Hare's travel and accommodation for days on which he attends to Sage matters in the Company's London offices. Sage will also continue to tax equalise that portion of Blair Crump's remuneration that is subject to UK tax for days on which he attends to Sage matters in the UK.

Annual bonus

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

- The maximum annual bonus potential is 175% of salary;
- One-third of any bonus earned will be deferred into shares for three years under The Sage Group Deferred Bonus Plan;
- Annual bonuses awarded in respect of performance in 2019 will be subject to potential withholding (malus) or recovery (clawback) if specified "trigger events" occur within three years of the payment/award of the annual bonus. "Trigger events" will include a material misstatement of the audited results, error in calculation of the bonus payout, serious reputational damage or significant financial loss as a result of an individual's conduct or gross misconduct which could have warranted an individual's summary dismissal.

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

As a percentage of maximum bonus opportunity:

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

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

The selection of measures and targets takes into account the Company's strategic priorities, its internal budgeting and consensus. The annualised recurring revenue growth measure is based on the definition of annualised recurring revenue set out on page 210. Targets are not disclosed because they are considered by the Board to be commercially sensitive. Many of our competitors are unlisted companies and not required to disclose their targets; our disclosure could provide our competitors with a considerable advantage. It is intended for retrospective disclosure to be made in next year's Remuneration Report.

Performance Share Plan (PSP)

The Chief Executive Officer and President of Sage will be amongst the participants in the PSP award to be granted in March 2019. Awards will be of shares worth 200% of salary at the date of grant.

Vesting of these awards will be subject to satisfaction of the following performance conditions measured over the three financial years to 30 September 2021. A holding period to the PSPs granted for the financial year FY19 will apply for two years from the vesting date. No further performance conditions attach to the awards during the holding period.

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

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

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

Relative TSR performance condition (30% of award)

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

TSR performance comprises share price growth and dividends paid.

Sage's TSR performance will be measured relative to the TSR of the constituents of the FTSE 100, excluding financial services and extracting companies. PSP awards granted in 2019 will be subject to potential withholding (malus) or recovery (clawback) if specified trigger events occur prior to the third anniversary of the release date of an award. "Trigger events" in respect of PSP awards will comprise a material misstatement of the audited results, error in calculation of the extent of PSP vesting, serious reputational damage or significant financial loss as a result of an individual's conduct or gross misconduct which could have warranted an individual's summary dismissal or a material failure of risk management.

Non-executive Director remuneration

The table below shows the fee structure for Non-executive Directors for 2019. Non-executive fees are determined by the full Board except for the fee for the Chairman of the Board which is determined by the Remuneration Committee. Non-Executive fees will next be reviewed by the Remuneration Committee in 2019.

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

Notes:

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

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

Directors' shareholdings and share interests (audited information)

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

Interests in shares

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

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

Notes:

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

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

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

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

– There have been no changes in the Directors' holdings in the share capital of the Company, as set out in the table above, between 30 September 2018 and the date of this report.

– Details of the Executive Directors' interests in outstanding share awards under the PSP, Deferred Bonus and all-employee share option plans are set out below.

All-employee share options (audited information)

UK-based Executive Directors were entitled to participate in The Sage Group Savings-Related Share Option Plan (SRSOP), which is now closed for new invitations. In addition, all Executive Directors are eligible to join the all-employee share plan, The Sage Save and Share Plan, on the same terms as all employees based in their respective local jurisdiction. See note 15.2 on page 192 for more detail of this plan. In the year under review, Stephen Kelly and Steve Hare did not participate in this scheme as their existing contributions to the SRSOP are at the HMRC-approved contribution limit. Blair Crump was a participant in the 2017 Save & Share Plan. The outstanding all-employee share options granted to each Director of the Company are as follows:

Director	Exercise price per share	Shares under option at 1 October 2017 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	**Shares under option at 30 September 2018 number**	Date exercisable
S Hare	317p	9,463	–	–	–	**9,463**	1 August 2019– 31 January 2020
B Crump	610p	1,964	–	–	–	**1,964**	1 August 2019-1 September 2019
S Kelly	456p	6,578	–	–	–	**6,578**	1 August 2020 –31 January 2021
Total		**18,005**	**–**	**–**	**–**	**18,005**	

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

Performance Share Plan (audited information)

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

Director	Grant date	Under award 1 October 2017 number	Awarded during the year number	Vested during the year number	Lapsed during the year number	**Under award 30 September 2018 number**	Vesting date
S Hare	7 December 2017	–	171,597	–	–	**171,597**	7 December 2020
	14 December 2016	208,300	–	–	–	**208,300**	14 December 2019
	2 March 2016	211,356	–	–	–	**211,356**	2 March 2019
	12 January 2015	267,127	–	(176,570)	(90,557)	**–**	12 January 2018
		686,783	**171,597**	**(176,570)**	**(90,557)**	**591,253**	
B Crump	7 December 2017	–	171,814	–	–	**171,814**	7 December 2020
	14 December 2016	196,379	–	–	–	**196,379**	14 December 2019
	22 September 2016	98,993	–	–	–	**98,993**	2 March 2019
		295,372	**171,814**	**–**	**–**	**467,186**	
S Kelly	7 December 2017	–	266,272	–	–	**266,272**	7 December 2020
	14 December 2016	323,224	–	–	–	**323,224**	14 December 2019
	2 March 2016	327,909	–	–	–	**327,909**	2 March 2019
	12 January 2015	426,842	–	(282,142)	(144,700)	**–**	12 January 2018
	12 January 2015	213,421	–	–	–	**213,421**	12 January 2021
		1,291,396	**266,272**	**(282,142)**	**(144,700)**	**1,130,826**	
Total		**2,273,551**	**609,683**	**(458,712)**	**(235,257)**	**2,189,265**	

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

Deferred shares (audited information)

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

Director	Grant date	Under award at 1 October 2017 number	Awarded during the year number	Vested during the year number	Lapsed during the year number	**Under award at 30 September 2018 number**	Vesting date
S Hare	7 December 2017	–	5,491	–	–	**5,491**	7 December 2019
	14 December 2016	23,528	–	–	–	**23,528**	14 December 2018
	9 December 2015	13,673	–	–	–	**13,673**	9 December 2018
	12 January 2015	11,047	–	(11,047)	–	**–**	12 January 2018
B Crump	7 December 2017	–	8,488	–	–	**8,488**	7 December 2019
S Kelly	7 December 2017	–	8,520	–	–	**8,520**	7 December 2019
	14 December 2016	36,503	–	–	–	**36,503**	14 December 2018
Total		**84,751**	**22,499**	**(11,047)**	**–**	**96,203**	

Notes:
- Awards are not subject to further performance conditions once granted. The market price of a share on 6 December 2017, the date prior to the date of the awards made in the year ended 30 September 2018, was £7.605.
- No variations were made in the terms of the awards in the year.

There are limits on the number of newly issued and treasury shares that can be used to satisfy awards under the Group's employee share schemes in any 10-year period. The limits and the Group's current position against those limits as at 15 November 2018 (the last practicable date prior to publication of this document) are set out below

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

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

External appointments

Executive Directors are permitted, where appropriate and with Board approval, to take Non-executive Directorships with other organisations in order to broaden their knowledge and experience in other markets and countries. Fees received by the Directors in their capacity as Directors of these companies are retained, reflecting the personal responsibility they undertake in these roles. The Board recognises the significant demands that are made on Executive and Non-executive Directors and has therefore adopted a policy that no Executive Director should hold more than two directorships of other listed companies. The Board encourages Executive Directors to limit other directorships to one listed company. Except in exceptional circumstances, where approved in advance by the Chairman of the Remuneration Committee, if an Executive Director holds Non-executive positions at more than one listed company then only the fees from one such company will be retained by the Director. Neither of the Executive Directors currently holds an appointment of this nature.

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

Unexpired term of contract table

Director	Date of contract	Unexpired term of contract on 30 September 2018, or on date of contract if later	Notice period under contract
Executive Directors			
S Hare	3 January 2014	12 months	12 months from the Company and/or individual
B Crump	1 January 2018	12 months	12 months from the Company and/or individual
Non-executive Directors			
N Berkett	1 July 2016	9 months	6 months from the Company or 1 month from individual
D Brydon	6 July 2017	1 year 9 months	6 months from the Company and/or individual
J Howell	15 May 2016	8 months	6 months from the Company or 1 month from individual
D Hall	1 January 2017	1 year 3 months	1 month from the Company or 1 month from individual
S Jiandani	28 February 2017	1 year 5 months	1 month from the Company or 1 month from individual
C Keers	1 July 2017	1 year 9 months	1 month from the Company or 1 month from individual

Consideration by the Directors of matters relating to Directors' remuneration

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

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

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

External advisers

The Remuneration Committee continues to receive advice from Deloitte LLP, an independent firm of remuneration consultants appointed by the Remuneration Committee after consultation with the Board. During the year, Deloitte's executive compensation advisory practice advised the Remuneration Committee on developments in market practice, corporate governance, institutional investor views, the development of the Company's incentive arrangements and the review of the remuneration policy. Total fees for advice provided to the Remuneration Committee during the year were £108,650.

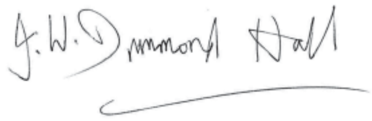
The Remuneration Committee is satisfied that the advice it has received has been objective and independent.

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

Statement of shareholding voting

The table below sets out the results of the vote on the remuneration policy at the 2016 AGM and report at the 2018 AGM:

	Votes for		Votes against		Votes cast	Votes withheld
	Number	%	Number	%		
Remuneration policy	767,613,442	97.43	20,268,897	2.57	787,882,339	2,910,738
Remuneration report	832,945,959	98.12	15,946,831	1.88	848,892,790	996,239



Drummond Hall
Chairman of the Remuneration Committee

20 November 2018

DIRECTORS' REPORT

The Directors present their report together with the audited consolidated financial statements for the year ended 30 September 2018. The Annual Report and Accounts contains statements that are not based on current or historical fact and are forward-looking in nature. Please refer to the "Disclaimer" on page 132.

Strategic Report

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

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

Corporate governance statement

The Disclosure Guidance and Transparency Rules ("DTR") require certain information to be included in a corporate governance statement in the Directors' report. This information can be found in the Corporate governance report on pages 80 to 102, which is incorporated into this Directors' report by reference and, in the case of the information referred to in DTR 7.2.6, in this Directors' report.

Disclosure of information under Listing Rule 9.8.4

Information on allotments of shares for cash pursuant to the Group employee share schemes can be found on page 189 within the notes to the Group financial statements.

Results and dividends

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

Going concern

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

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

– The financial position of Sage, its cash flows, financial risk management policies and available debt facilities, which are described in the financial statements, and Sage's business activities, together with the factors likely to impact its future growth and operating performance, which are set out in the Strategic Report on pages 54 to 59.

Viability statement

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

Research and development

During the year, we incurred a cost of £192m (2017: £179m) in respect of research and development. Please see page 160 for further details.

Political donations

No political donations were made in the year.

Directors and their interests

A list of Directors, their interests in the ordinary share capital of the Company, their interests in its long-term performance share plan and details of their options over the ordinary share capital of the Company are given in the Directors' Remuneration Report on page 125. No Director had a material interest in any significant contract, other than a service contract or contract for services, with the Company or any of its operating companies at any time during the year.

The names of all persons who, at any time during the year, were Directors of the Company can be found on pages 76 to 77.

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

Employment policy

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

The Group has continued its policy of employee involvement by making information available and consulting, where appropriate, with employees on matters of concern to them. Colleagues regularly receive updates on the financial and economic factors affecting the Group. Many colleagues are stakeholders in the Company through participation in share option schemes and a long-term performance share plan. Further details of colleague engagement are given on pages 40 to 43.

Major shareholdings

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

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

1 % as at date of notification. The DTRs require notification when the % voting rights held by a person reaches, exceeds or falls below an applicable threshold specified in the DTRs.
2 In the period from 30 September 2018 to the date of this report we received further notifications from Aviva Investors indicating that the holdings of Aviva Investors stood at 4.09% of capital.
3 Information provided to the Company under the DTRs is publicly available via the regulatory information service and on the Company website.

Share capital

The Company's share capital is as set out on page 209. The Company has a single class of share capital which is divided into ordinary shares of $1\frac{4}{77}$p each.

Rights and obligations attaching to shares

Voting

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

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

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

Deadlines for voting rights

Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the Annual General Meeting to be held on 27 February 2019 will be set out in the Notice of Annual General Meeting.

Dividends and distributions

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

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

Liquidation

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

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

Transfer of shares

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

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

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

Repurchase of shares

The Company obtained shareholder authority at the last Annual General Meeting on 28 February 2018 to buy back up to 108,310,042 ordinary shares. The minimum price which must be paid for each ordinary share is its nominal value and the maximum price set out in the resolution is the higher of an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately before the purchase is made and an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for ordinary shares on the trading venue where the purchase is carried out (in each case exclusive of expenses). Share repurchases are used from time to time as a method to control the Group's leverage and decisions are made against strict price, volume and returns criteria that are agreed by the Board and regularly reviewed.

In the year under review, the Company made no share repurchases.

In the year under review no treasury shares were cancelled. Total share awards of 707,190 were made out of shares held by the Employee Benefit Trust. 16,907 of these shares were transferred from treasury to the trustee of the Employee Benefit Trust at nil cost, and the remainder were purchased in the market by the trustee of the Employee Benefit Trust.

Amendment of the Company's articles of association

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

Appointment and replacement of Directors

Directors shall be not less than two and no more than 15 in number. Directors may be appointed by the Company by ordinary resolution or by the Board. A Director appointed by the Board holds office only until the next Annual General Meeting and is then eligible for election by the shareholders. The Board may from time to time appoint one or more Directors to hold employment or executive office for such period (subject to the Companies Act 2006) and on such terms as they may determine and may revoke or terminate any such appointment.

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

Powers of the Directors

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

Shares held in the Employee Benefit Trust

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

Significant agreements

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

- Under a note purchase agreement dated 20 May 2013 relating to US$150 million senior notes, Series E, due 20 May 2020, US$150 million senior notes, Series F, due 20 May 2023 and US$50 million senior notes, Series G, due 20 May 2025 between Sage Treasury Company Limited and the note holders and guaranteed by the Company, on a change of control of the Company, the Company will not take any action that consummates or finalises a change of control unless at least 15 business days prior to such action it shall have given to each holder of notes written notice containing and constituting an offer to prepay all notes on a date specified in such offer which shall be a business day occurring subsequent to the effective date of the change of control which is not less than 30 days or more than 60 days after the date of the notice of prepayments. Where a holder of notes accepts the offer to prepay, the prepayment shall be 100% of the principal amount of the notes together with accrued and unpaid interest thereon and shall be made on the proposed prepayment date. No prepayment under a change of control shall include any premium of any kind;
- Under a dual tranche US$719 million and £135 million five-year multi-currency revolving credit facility agreement dated 7 February 2018 between, amongst others, Sage Treasury Company Limited and Lloyds Bank plc (as facility agent) and guaranteed by the Company, on a change of control, if any individual lender so requires and after having consulted with Sage Treasury Company Limited in good faith for not less than 30 days following the change of control, the facility agent shall, by not less than 10 business days' notice to Sage Treasury Company Limited, cancel the commitment of that lender and declare the participation of that lender in all outstanding loans, together with accrued interest and all other amounts accrued under the finance documents, immediately due and payable, whereupon the commitment of that lender will be cancelled and all such outstanding amounts will become immediately due and payable;
- Under a note purchase agreement dated 26 January 2015 relating to €55 million senior notes, Series H, due 26 January 2022, €30 million senior notes, Series I, due 26 January 2023 and US$200 million senior notes, Series J, due 26 January 2025 between Sage Treasury Company Limited and the note holders and guaranteed by the Company, on a change of control of the Company, the Company will not take any action that consummates or finalises a change of control unless at least 15 business days prior to such action it shall have given to each holder of notes written notice containing and constituting an offer to prepay all notes on the date specified in such offer which shall be a business day occurring subsequent to the effective date of the change of control which is not less than 30 days or more than 60 days after the date of notice of prepayments;

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

  Under the terms of all three agreements above, a "change of control" occurs if any person or group of persons acting in concert gains control of the Company;
- The platform reseller agreement dated 31 January 2015 relating to the Company's strategic arrangements with Salesforce.com EMEA Limited contains a change of control right enabling Salesforce to terminate the agreement in the event there is a change of control in favour of a direct competitor of Salesforce.com EMEA Limited. The agreement contains post termination requirements upon Salesforce to support a transition for up to a specified period; and
- In respect of the platform reseller agreement with Salesforce.com EMEA Limited, "change of control" occurs where a corporate transaction results in the owners of the subject entity owning less than 50% of the voting interests in that entity as a result of the corporate transaction.

Financial risk management

The Group's exposure to and management of capital, liquidity, credit, interest rate and foreign currency risk are shown in note 14 to the financial statements. Our approach to risk management generally and our principal risks can be found on pages 60 to 73 of the Strategic Report.

Disclaimer

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

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

Statement of Directors' responsibilities

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

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

In preparing these financial statements the Directors are required to:

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

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

Directors' statement

The Directors as at the date of this report, whose names and functions are listed in the Board of Directors on pages 76 to 77, confirm that:

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

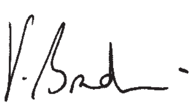
Each Director as at the date of this report further confirms that:

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

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

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

By Order of the Board



Vicki Bradin
Company Secretary

20 November 2018

The Sage Group plc.
Company number 02231246