The Sage Group plc

Annual Report and Accounts 2006

Bringing business management software and services together for 5.2 million customers worldwide

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Operating and Financial Highlights and Chairman’s Introduction

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Operating and Financial Highlights

Overview

Sage is one of the leading suppliers of business management software to 5.2 million small and medium-sized enterprises ("SMEs") worldwide. Our goal is to help our customers manage their business processes more effectively through software applications and service support.

Our products include traditional "back office" applications for accounting, payroll and human resources functions as well as "front office" applications including Customer Relationship Management ("CRM") and payment processing services. We also provide software and service applications customised to the requirements of particular industries, including:

- Health care
- Food distribution
- Transport
- Manufacturing
- Real estate/construction
- Accountancy practices
- Not-for-profit organisations (charities, hospitals, schools)
- Retail

Our business philosophy is founded on our belief that SMEs want local solutions for local markets. This focus on local market requirements has helped our customer base grow steadily year on year. Connecting with our customers on a local level and servicing their local needs is the cornerstone of our success.

Operating Highlights

- Total licence growth of 12%*, total growth in services of 28%*
- 7%* organic growth for the full year (reflecting 8%* organic growth for the second half of the year)
- Growth across all regions and strong performance in established product lines such as *Line 50* (UK), *Line 100* (France), *MAS 500*, *Peachtree*, *Simply Accounting* (all North America) and *Pastel* (South Africa)
- CRM products delivered global organic growth of 8%*
- Customer base expanded to 5.2m businesses (2005: 4.7m)
- Significant acquisition activity, broadening both geographic reach and product range

Financial Highlights

+25%
Total dividend 3.59p

+23%*
EBITA £249.3m

+20%
Adjusted EPS^ 12.54p

27%
EBITA margin maintained

+14%
Pre-tax profit £221.2m

+22%*
Revenue £935.6m

107%
Operating cash flow/EBITA

REVENUE (£m)

2006	935.6
2005	759.6
2004	687.6
2003	560.3
2002	551.7

PROFIT BEFORE TAX (£m)

2006	221.2
2005	193.6
2004	181.1
2003	151.0
2002	129.2

ADJUSTED EPS^ (pence)

2006	12.54
2005	10.49
2004	9.90
2003	8.16
2002	6.99

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^EPS figures stated prior to amortisation of intangible assets.

Figures included in the graphs above for the years 2002 – 2004 reported under UK GAAP.

Chairman's Introduction

"I am pleased to report a strong performance, with revenue increasing 22%* and adjusted earnings per share^ increasing 20%. These results demonstrate that our businesses have responded well to the competitive challenges they face."

We maintained our strong market positions by providing locally-developed solutions, by working closely with our high quality business partners and by supporting customers with locally-based services. This enabled us to increase our customer base to 5.2 million businesses (2005: 4.7 million).

Our 2006 results reflect strong progress towards the long-term strategy and business objectives described in more detail on pages 11 and 12 of our Operating and Financial Review. We will continue to pursue our strategy in 2007 and beyond.

MARKET TRENDS

As our customers grow, they demand more sophisticated applications for managing their businesses, tailored to the requirements of their specific industry. Over the year, we introduced new industry-specific applications in health care, food distribution, transport, manufacturing and real estate/construction, further extending the product range we can offer our customers. These applications broaden the range of industry-specific solutions we offer globally to our customers in these business segments.

There is also increased demand for "packaged" combinations of software upgrades and support services contracts. These combined services contracts represented 53% of total support revenues and showed an organic growth rate of 12%*. We expect that these combined software/support contracts will constitute an increasing portion of services revenue going forward and will strengthen the recurring revenues derived from traditional software revenues. Overall, these specialist solutions and enhanced services are higher margin business lines and enjoy strong customer loyalty.

PEOPLE

We now employ over 13,000 people (2005: 10,000), the increase resulting principally from acquisitions. Our new employees have integrated well into our corporate structure and are already making a contribution to our local businesses. In all our businesses, our people have demonstrated commitment to meeting the needs of our customers and their achievements have been reflected in numerous industry awards for product quality and customer service.

Our decentralised approach to managing our global network enables our people to be responsive to our customers' needs and to continue to develop products and services that match country-specific customer requirements.

The contribution of individuals at Sage is always highly valued and respected and this year we have continued to benefit from new ideas on business processes and products, thanks to the innovative approach of our people. I would like to thank everyone in Sage for their professionalism, dedication and contribution to the year's performance.

BOARD

I joined the Board on 3 March 2006 having previously held the role of Deputy Chief Executive of Vodafone Group plc. I became Chairman on 1 August 2006.

On 1 August 2006 Michael Jackson retired from the Board. Michael joined the Board in 1984 and was Chairman from 1997. During this period Michael helped guide the Group through its initial growth to become UK market leader, its flotation as a listed company and its international expansion through a series of successful acquisitions. The Board would like to thank Michael for his substantial contribution to Sage's growth over the past 22 years.

During the year, Lindsay Bury retired from the Board. Lindsay joined the Board in 1996 and chaired its Remuneration Committee from that date. He also acted as Senior Independent Director. Lindsay made a significant contribution to the Board during this time. On behalf of the Sage team, I would like to thank Lindsay for his valuable contribution.

In September 2006, Ruth Markland joined the Board as a non-executive director. Ruth, a non-executive director of Standard Chartered plc, has wide experience of international business from her role between 1996 and 2003 as Managing Partner, Asia for the international law firm Freshfields Bruckhaus Deringer.

OUTLOOK

This has been an exciting year for Sage with a number of significant acquisitions broadening both the products and services we offer to SMEs. We are one of the largest suppliers of business management software solutions to the SME market worldwide and our presence in high growth, high margin markets continues to expand. We have reported strong organic growth in our business, demonstrating the strength and potential of our existing customer base.

We will continue to serve the changing needs of our dynamic SME customer base using our expertise and insight into a wide range of industries. We remain confident about our prospects for continued growth through focusing on value-added services, tailored solutions and premium versions of current products.

Sir Julian Horn-Smith
Chairman
18 January 2007

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Operating and Financial Review

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This review has been prepared in accordance with the Directors' Report Business Review Requirements in section 234ZZB of the Companies Act 1985. It also incorporates much of the guidance set out in the Accounting Standards Board's Reporting Statement on the Operating and Financial Review ("OFR").

The OFR's intent is to provide information to shareholders. It should not be relied on by any other party or for any other purpose.

Where this review contains forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this report. These statements should be treated with caution due to the inherent uncertainties underlying any such forward-looking information.

The OFR discusses the following areas:

Operating and Financial Review

Overview of our Business

KEY FACTS

40,000 certified consultants promoting Sage products

5.2m customers

23,000 business partners

1.5m customers advised through support contracts

30,000 customer calls per day

13,000 employees

BUSINESS PHILOSOPHY AND MANAGEMENT STRUCTURE

Sage is one of the leading suppliers of business management software to 5.2 million small and medium-sized enterprises ("SMEs") worldwide. Our goal is to help our customers manage their business processes more effectively through software applications and support services.

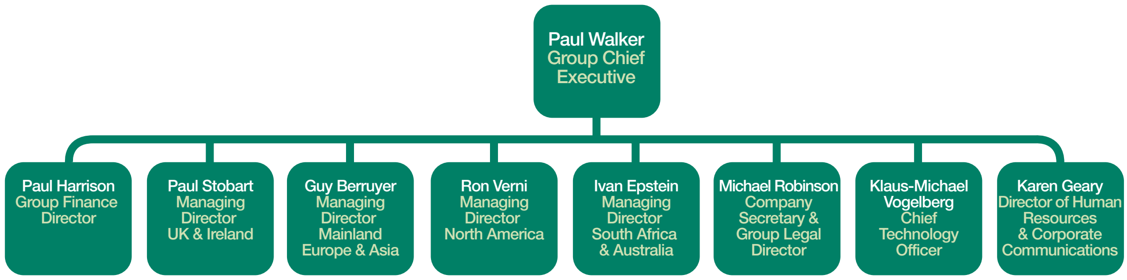
Our business philosophy is founded on our belief that SMEs want locally designed solutions that meet the requirements of their particular markets. Our local focus allows us to develop compelling products tailored to specific market requirements, but with the backing of a global brand. This focus on local markets differentiates us from our competition and has contributed to the steady growth in our customer base year on year.

To allow us to leverage the power of our local expertise, we operate a deliberately devolved organisational strategy, based on four regional businesses: United Kingdom & Ireland, Mainland Europe & Asia, North America and South Africa & Australia. The regional businesses report to the Group but have substantial independence in determining business strategy and product development for their particular regions. They are therefore represented on our Executive Committee which also comprises senior members of our central team. The Executive Committee structure which supports this organisational strategy is shown opposite.

PRODUCT AND SERVICE STRATEGY

Our decentralised organisational model, local product strategy and industry specialisms give us a unique insight into our customers' businesses. Through innovation, we translate this into an offering that fits the specialised needs of SME customers. This is one of our competitive advantages and it has allowed us to become market leader in many of our operating regions. It is also the cornerstone of our product strategy and is discussed further on page 12.

MANAGEMENT STRUCTURE



Our products include traditional "back office" applications for accounting, payroll and human resources functions as well as "front office" applications including customer relationship management and payment processing services.

We also provide software and service applications customised to the requirements of specific industries.

Sage industry-specific applications	Region
Health care	North America
Food distribution	Mainland Europe
Transport	Mainland Europe
Manufacturing	All regions
Real estate	Mainland Europe North America
Construction	North America
Accountancy practices	All regions
Not-for-profit organisations (charities, hospitals, schools)	Mainland Europe North America
Retail	United Kingdom Mainland Europe North America

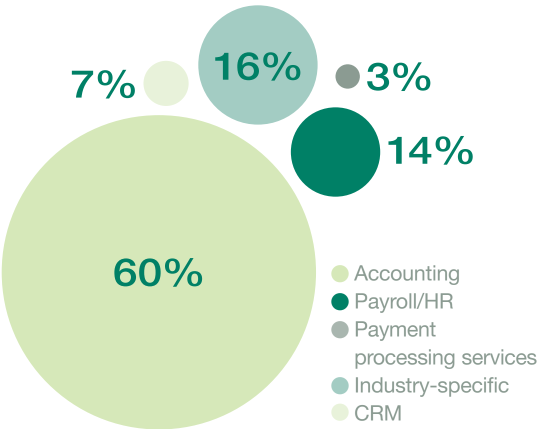
Our products and services integrate and complement each other so we are able to support very small businesses through to complex multi-divisional organisations in the mid-market. They are deployed in traditional PC/server based format and increasingly, over the internet. Typically we serve businesses with up to 500 employees, although our industry-specific applications often serve larger businesses.

Increasingly, we incorporate common technology platforms across different product lines to benefit from global synergies. In October 2006, we announced a global agreement to work with MySQL AB, using a common database platform in our entry-level products. From our customers' perspective this is a significant development as it reduces the overall cost of ownership. In the mid-market, choice of operating systems and databases is important to many of our customers. We therefore remain committed to working with a range of operating systems and databases.

"Packaged" combinations of software upgrades and support services contracts are a growing part of our business as customers continue to streamline management of their business processes. We expect that these combined software/support contracts will constitute an increasing portion of services revenues going forward and will strengthen the recurring revenues derived from traditional software revenues. Overall, these specialist solutions and enhanced services are higher margin business lines and enjoy strong customer loyalty.

Operating and Financial Review continued

2006 REVENUE CONTRIBUTION BY PRODUCT LINE



OUR BRANDS

The Sage brand is admired and trusted in key SME markets around the world. In addition, we have acquired some of the most respected products and business brands which we continue to leverage. Through a combination of greater brand trust, superior product and service offering and strong customer relationships, we continue to build our market position.

The software and support services we offer include some of the following applications:

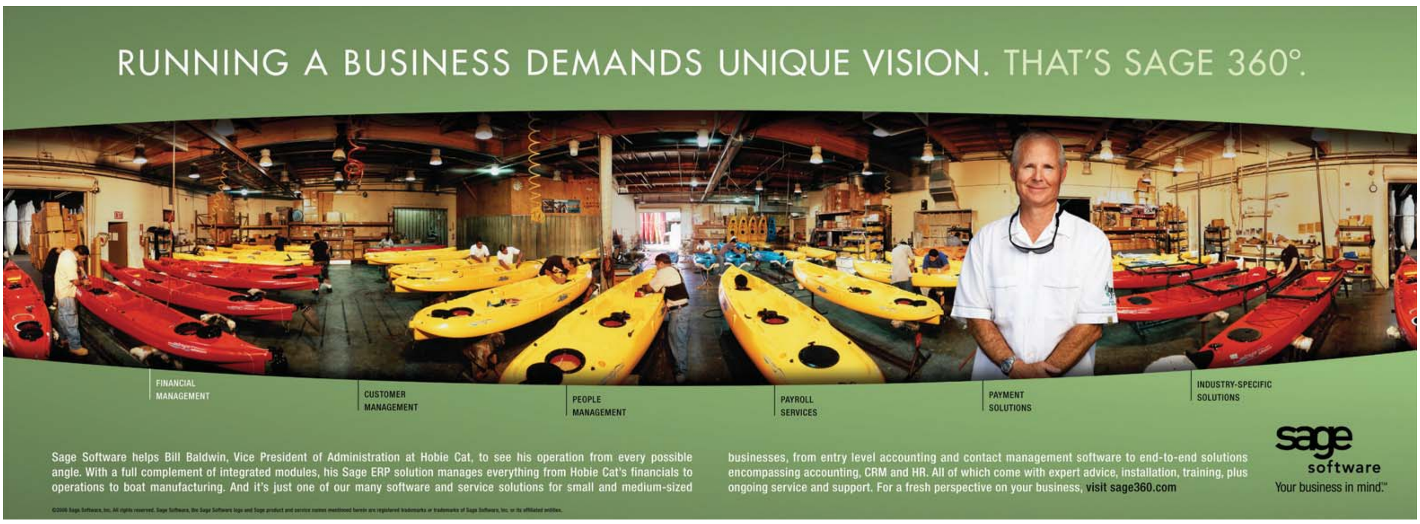
Accounting and financials

We recognise that accounting software is core to our offering and are continuing to invest in this area, both in developing new and existing products in our existing markets and in exploring the potential of completely new markets. Our products are unique to each country and designed to satisfy the legal and fiscal requirements of our customers in that country.

HR and payroll

As with our accounting products, we have a broad range of payroll products designed with the particular requirements of a specific country in mind. Within a given country there are payroll solutions to suit the needs of most sizes of business, from those with only a handful of employees to those that have thousands of employees. We are continuing to develop these payroll products. Recently, our North American business introduced a service that allows a customer to outsource their payroll processing to Sage, further reducing their administrative and legislative burden.

Sage offers a complete solution for SMEs giving them insight and control over all aspects of their business - this is illustrated in our 2007 marketing campaign in North America.



CRM

CRM products are the only area where we believe it is appropriate to approach the SME market with global products, since businesses around the world face similar challenges in managing their customer relationships. We recently re-organised our CRM business along global lines to reflect this. Sage has three CRM products, each designed to satisfy a different set of customer requirements and, as the market for CRM develops, we expect to offer our CRM solutions in more countries.

Industry-specific solutions

SMEs are increasingly demanding software that is tailored to the requirements of the particular industry in which they operate. In response to this, we are investing in developing a range of tailored business solutions, from add-ons to our core accounting packages with specific industry features to complete suites of products. These solutions are designed to allow SMEs to optimise their existing business processes rather than adapting them to conform to standard software.

Payment processing services

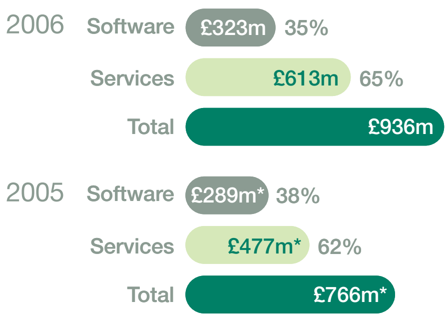
Our newest service facilitates payment processing for SME customers with retail-, telephone- or internet-based payment requirements. Customer research shows that the ability to accept payment remotely is increasingly important for SME businesses in a wide range of industries, particularly when this service is tightly integrated with back-office accounting and management information applications. We now offer payment processing applications in the United States and the United Kingdom and will be developing this service offering further.

DISTRIBUTION STRENGTH

The diversity of our distribution channels is one of our key business strengths. Each business works closely with an influential “referral” group, usually accountants and business advisers, who act as advocates for our products in the market. Worldwide, we have over 40,000 advisers recommending Sage products to their clients. We are also developing new referral networks, such as the partnership we initiated with Barclays Bank in the UK, who sell Sage business management products to their small business customers.

In addition, we have over 23,000 business partners and certified consultants promoting our products to the market. Most of these business partners are long-term Sage partners with in-depth specialist knowledge of Sage products. They keep us in touch with market dynamics and help us develop products tailored to local needs, particularly in the mid-market sector where customers often have unique requirements.

REVENUE BREAKDOWN: SOFTWARE/SERVICES



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Operating and Financial Review continued

Long-term Strategy and Business Objectives

BUSINESS PHILOSOPHY

Our business philosophy is based on five principles that guide our commercial strategy:

Simplicity: We believe in finding simple, high quality, innovative solutions to help our customers manage their business processes. We aim to make it easier for our customers to do business with us and easier for them to use our products.

Agility: We are flexible in our approach to the changing needs of our customers and the markets in which we operate. Our decentralised approach means we are able to challenge ourselves constantly over how we can do business in a more agile way.

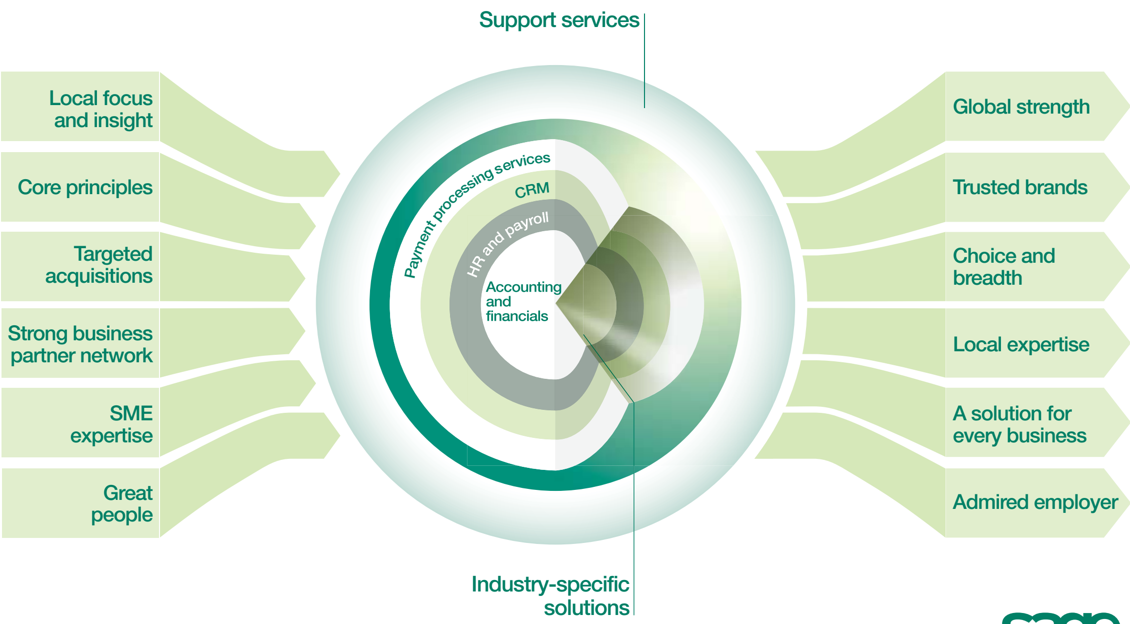
Innovation: We are committed to exceeding customers' evolving needs. We aim to be first to market with creative solutions to our customers' challenges and take an equally innovative approach across all other aspects of our business model.

Integrity: Relationships with customers, suppliers, shareholders and employees are the foundations of our business. They must be built on credibility and mutual respect. We expect our people to act with integrity in their dealings with all of our stakeholders and to challenge business practice or behaviours that might threaten our corporate reputation.

Trust: We are consistent in delivering our promises to our customers, employees, business partners and shareholders.

We aim to differentiate ourselves from our competition by building closer relationships with our customers and improving the ease of using our products and services. We believe that we offer outstanding customer service and our approach is designed to engender customer loyalty. Support service is an essential component of our product offering and is critical to developing an enduring relationship with our customers. It allows our customers to benefit fully from their software solutions as well as giving us direct insight into market and product developments.

MAKING IT EASIER FOR OUR CUSTOMERS TO MANAGE THEIR BUSINESS PROCESSES



We want our customers to recommend our products to others, demonstrating our understanding of the needs of our target customer base. A key indicator of our success in building strong customer relationships is the level of renewal rates on our maintenance and support contracts. Satisfied customers actively choose to stay with Sage products and our renewal rates are at a historic high.

PRODUCT AND SERVICE DEVELOPMENT

Our business philosophy is underpinned by our commitment to creating value for our customers, our business partners and our shareholders. We continue to innovate and develop our products to offer our customers the range and depth to meet their needs. We reinvest on average 30% of our software revenues into research and development. Through continued innovation in our products and services, we strive to meet our customers' needs more effectively than our competitors, driving our future growth. Continued strength in our core businesses is an essential measure of our success in meeting the challenge of product innovation, which is shown by our consistently strong rate of organic revenue growth, excluding contribution from recent acquisitions.

ACQUISITION STRATEGY

We also seek to innovate and grow through a carefully managed and disciplined acquisition strategy, supporting our existing businesses. We acquire companies in order to bring new products or knowledge to our portfolio, which has strengthened Sage and has brought greater depth and expertise. We are committed to expanding the Group through acquisition into new regions throughout the world and providing complementary products in our existing markets.

We seek acquisitions which enhance our range of products and services and which support our strategy of meeting the broader needs of SMEs. We focus on opportunities to expand our business into new geographic areas, to broaden our core product and service offerings through related products and to develop our industry-specific applications. In the past year, we completed seven significant acquisitions that met these criteria, complementing and extending our businesses around the world. Our successful acquisition strategy has contributed to the continuing growth of our business.

We manage our acquisition programme through rigorous analysis of the strategic opportunity, cultural fit with our corporate vision and strong financial discipline. Valuations are initially derived from discounted cash flow modelling, based on conservative assumptions for growth prospects, terminal value and discount rates. There then follows a quantitative and qualitative evaluation of the target's value, depending on what we believe the target could contribute to our core business.

Acquisition opportunities are identified both centrally and by our regional businesses with supervision and approval from the central team. Successfully completed acquisitions are generally integrated into the organisational structure of our regional businesses.

CREATION OF VALUE

We are firmly committed to delivering enhanced value to our shareholders through growth in both earnings and dividends. Our successful record in creating shareholder value is based on our focus on organic growth, our core skills in understanding the needs of SMEs and our proven acquisition strategy. Creating shareholder value continues to be a strategic priority. We measure our success in creating value for our shareholders through the growth in our adjusted earnings per share ("EPS"), which we have delivered consistently over the past five years.

FINANCIAL STRENGTH

Maintaining the financial health and stability of our business operations is our primary strategic goal, allowing us to reinvest in our core businesses and pursue appropriate acquisition opportunities. We measure our financial performance through the EBITA margin and cash generation from operations. EBITA margin monitors our costs and expenses against revenues and has been maintained at a high level for the past several years.

Our business model continues to be strongly cash generative which provides necessary funds for reinvestment and development of our business operations. In the last five years, cash generation from operations has consistently exceeded profit as a result of our high level of recurring revenues and naturally low working capital requirements.

Operating and Financial Review continued

Key Performance Indicators

Our progress on our strategic objectives is monitored by the Board of Directors by reference to the key performance indicators ("KPIs") applied on a Group-wide basis. Our regional businesses also set individual KPIs tailored to their local business operations.

The Board has debated which KPIs provide the most accurate view of our business, taking into account Sage's decentralised organisational structure. The KPIs selected are regularly reviewed to ensure that they provide a true picture of our business performance. KPIs relating to the environment are kept under review, but are not considered relevant as our businesses have limited environmental impact. In any event, risks arising from environmental issues are kept under review as part of our internal control environment as referred to on page 16 under the heading "Risks and Uncertainties". Our performance against our KPIs is discussed in more detail in the section on "Long-term Strategy and Business Objectives" on pages 11 and 12.

Performance in 2006 is set out in the table below, together with the prior year's performance data. No changes have been made to the source of the data or calculation methods used in the year. In both years the results are calculated on an IFRS basis.

	2006	2005
Adjusted earnings per share growth	**20%**	13%
Organic revenue growth	**7%**	6%
EBITA margin	**27%**	27%
Cash generation from operations	**107%**	119%
Renewal rates on maintenance and support contracts	**80%**	78%

ADJUSTED EARNINGS PER SHARE GROWTH

Adjusted earnings per share represents income for the financial year, prior to the amortisation of intangible assets, divided by the weighted average number of ordinary shares in issue during the year. This is our fifth consecutive year of double-digit EPS growth.

ORGANIC REVENUE GROWTH

Organic revenues are derived from our core business operations, excluding the contribution from acquisitions made in the current and prior year, along with non-core products. Current year revenue is compared to the prior financial year translated on consistent exchange rates to eliminate distortions due to fluctuations in exchange rates. Organic revenue growth strengthened compared to the prior year, increasing 1% to 7% for the full year.

EBITA MARGIN

EBITA is defined as earnings before interest, tax and amortisation. This measure excludes the effects of amortisation of acquired intangible assets and the net amortisation or capitalisation of software development expenditure. The EBITA margin represents EBITA divided by revenue for the year. EBITA margins remained constant relative to the prior year.

CASH GENERATION FROM OPERATIONS

Operating cash flows divided by EBITA provide a measure of the ability of the Group to yield cash from its on-going business to reinvest and fund liabilities. The Group aims to maintain positive cash generation from operations.

RENEWAL RATES ON MAINTENANCE AND SUPPORT CONTRACTS

Customer retention is an important measure of competitiveness in the market. Renewal rates are calculated as the number of maintenance and support contracts which were renewed in the period divided by the number of contracts which were potentially renewable in the period. Renewal rates on the Group's maintenance and support contracts reached a historic high level of 80% this year.

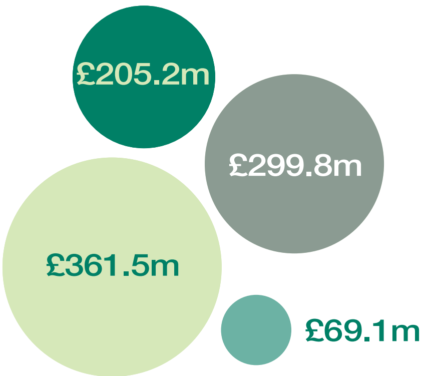
Results for 2006 Financial Year

OVERVIEW

We are pleased once again to report strong growth during 2006, with our existing businesses performing well. Our acquisition programme has this year moved us into new product lines and new geographic areas.

Our customer base and business partners continue to provide the cornerstone of our strong market positions and underpin our organic growth. Over the year, we added 553,000 new businesses (283,000 resulting from acquisitions made this year), increasing our customer base to 5.2 million (2005: 4.7 million). Our strategy of developing local products and services for local markets has helped make us one of the largest global vendors of business management software solutions to SMEs.

2006 REGIONAL REVENUE CONTRIBUTION



- UK & Ireland
- Mainland Europe
- North America
- Rest of World

UK & IRELAND

UK & Ireland revenues totalled £205.2m (2005: £192.6m) with strong organic growth of 7%. *Line 50*, our core UK product, had another strong year, with revenue growing 13%. We also introduced several new products and continued our successful strategy of combining software and services contracts. Payroll, CRM and industry-specific products also performed well.

This year Sage UK began a review of its product lines to improve integration of different applications into a broad suite of business management software solutions. Extensive customer research showed that customers increasingly want business management software solutions rather than individual products. We are initiating a new phase in our product development to meet that need by strengthening integration of different product lines and building on common database technology for entry-level products, where possible.

The EBITA margin was maintained at 37% (2005: 37%).

In November 2006, after the close of the financial year, we announced the acquisition of Protx Group Ltd (“Protx”), a provider of payment processing services. This was our second acquisition in the rapidly growing payment processing services sector. Protx complements our acquisition of Verus Financial Management, Inc. (“Verus”) in February 2006, which provides a similar, less specialised range of payment processing services in the US. The acquisition of Protx in the UK represented a further step in developing our offering in this exciting market.

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Operating and Financial Review continued

MAINLAND EUROPE

Total revenues in Mainland Europe were £299.8m (2005: £203.8m*) with organic growth of 5%*. Spain recorded another year of strong organic growth of 10%*, with excellent progress in developing the support offering for entry-level products. A strong performance in the Mid-Market Division contributed to France's organic growth rate of 4%*. Switzerland showed good organic growth, with strength in both entry-level and mid-market licences. Challenging market conditions in Germany kept combined organic growth in Germany/Switzerland to 2%*. Poland's Symfonia, acquired in 2005, showed good growth in entry-level licences, with overall revenues rising 15%* on a like-for-like basis.

The EBITA margin was maintained at 22% (2005: 22%*).

Several acquisitions were completed in Mainland Europe over the year, including Adonix S.A. ("Adonix"), Bäurer GmbH ("Bäurer") and Elit Group ("Elit"), which significantly expanded our industry-specific solutions into new industries. These high growth, high margin businesses offer great potential in developing our mid-market, industry-specific products in Europe. Adonix complements our existing *Line 1000* product in France and brings new offerings for the real estate and manufacturing sectors. Bäurer strengthens our mid-market position in Germany, bringing a suite of advanced business management solutions including industry-specific software for manufacturing. Elit, also in France, offers industry-specific applications tailored to the food distribution and transport sectors.

NORTH AMERICA

Total revenues in North America were £361.5m (2005: £311.6m*) with organic growth of 6%*, reflecting a recovery of organic growth in the second half to 7%*. Accounting products, including *Peachtree*, *Simply Accounting* and *MAS 500*, all posted significant growth, as did CRM products.

The Small Business Division grew organically by 10%*, with strong performances from all products, particularly *ACT!*, *Simply Accounting* and *Peachtree*. The Mid-Market Division recovered from the slowdown in the first half of the year and recorded an annual organic growth rate of 4%*, boosted by good performances in *MAS 500* and *ACCPAC* products.

The EBITA margin improved 1% to 25% (2005: 24%*) including a profit on disposal of £2.7m relating to a small business unit sold in January 2006.

We made three significant acquisitions in North America over the year: Verus, Emdeon Practice Services, Inc. ("Emdeon") and Master Builder/Contractor Anywhere.

Verus was our first acquisition in the rapidly growing area of payment processing services, a strategically important market for our business. Verus brought a new customer base of 100,000 businesses concentrated in the SME segment, where we have great potential to integrate our back office solutions with payment processing. Verus has performed ahead of our expectations at acquisition and has grown by 24%* on a like-for-like basis since acquisition.

Emdeon, now renamed Sage Healthcare Division, establishes for Sage a significant presence in the doctors' practices market in the US. Doctors' practices in the US are classic SMEs, often resource-constrained, yet with significant administrative and back office challenges. This industry is currently facing substantial legislative change, which in the past has been a catalyst for increased demand for our products and services. We completed the Emdeon acquisition on 14 September 2006 and are confident about the opportunities for this business with its established customer base of 20,000 doctors' practices.

Master Builder and Contractor Anywhere were acquired in May 2006 and together further enhanced our existing presence in the US construction industry. These acquisitions expanded our offering to smaller businesses in the construction industry complementing our existing mid-market product *Timberline Office*.

REST OF WORLD ("ROW": SOUTH AFRICA, AUSTRALIA, ASIA, INDIA, UAE)

Total revenues in ROW were £69.1m (2005: £58.4m*) with organic growth of 17%*. Our South African business enjoyed an excellent year with strong performances in accounting and payroll products. Australia also reported good growth in its core products for professional accountants and payroll markets.

The EBITA margin increased to 27% (2005: 24%*).

We completed two smaller acquisitions during the year in China, a strategically important geography. In May 2006, Sage Software (Shanghai) Co Ltd was founded through the acquisitions of SWA Ltd. and Huatuo Software Ltd., both established IT companies in the mid-market enterprise resource planning ("ERP") segment. In July 2006, we completed the acquisition of UBS Corporation Berhad ("UBS"), the leading vendor of business management software solutions for SMEs in Malaysia.

These acquisitions were important steps in our strategy gradually to build up a significant presence in the Asian markets whilst developing local market expertise.

GLOBAL CRM REVIEW

Our CRM product lines encompass a comprehensive range from entry-level packages like *ACT!* through to *Sage CRM* and hosted *SageCRM.com*, which offer a greater degree of customer functionality. *SalesLogix* is a highly customisable CRM solution offering our reseller partners significant opportunities to add value through tailoring our solution to suit customers' specific requirements. Global CRM revenue grew 8%* organically.

Future Outlook

This has been an exciting year for Sage with a number of significant acquisitions broadening both the products and services we offer to SMEs. We are one of the largest suppliers of business management software solutions to the SME market worldwide and our presence in high growth, high margin markets continues to expand. We have reported strong organic growth in our business, demonstrating the strength and potential of our existing customer base.

We will continue to serve the changing needs of our dynamic SME customer base using our expertise and insight into a wide range of industries. We remain confident about our prospects for continued growth through focusing on value-added services, tailored solutions and premium versions of current products.

Risks and Uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's long-term performance and cause actual results to differ materially from expected and historical results. We seek to identify material risks and put into place contingency plans to mitigate the Group's potential exposure. The Group's risk management policies and procedures are also discussed in the Corporate Governance Statement on pages 33 to 38.

COMPETITOR RISK

The market for business management software solutions is highly competitive. This competition may intensify, particularly in the small and medium-sized business market, because increasing sophistication in this market segment may attract more companies to enter the market. Many companies with which we compete, or which may enter into competition with us, have substantial financial, marketing and technical resources.

*Foreign currency results for the year ended 30 September 2005 have been retranslated based on the average exchange rates for the year ended 30 September 2006 of $1.80/£1 and €1.46/£1 to facilitate the comparison of results. Results for 2005 have been restated in accordance with IFRS.

^EPS figures stated prior to amortisation of intangible assets.

Operating and Financial Review continued

To mitigate this risk, we work to build strong customer relationships and expand and develop our product offering, both organically and through acquisitions.

COMMERCIAL RELATIONSHIPS

Some of our products utilise software licensed to us by independent, third-party software developers. We also depend on third parties to enhance their current products, to develop new products on a timely and cost-effective basis and to respond to rapid technological change. Any absence or failure of key third-party products could have a material effect on our business.

To mitigate this risk, we keep under review all key commercial relationships and developments in technology in our marketplace. We also work with a diversity of partners to mitigate the risk inherent in working with a single partner.

OPERATIONS

The Group's facilities could be disrupted by events beyond the Group's control such as fire, workforce actions or other issues. The Group prepares recovery plans for most foreseeable situations so that our business operations would continue should these situations occur.

FOREIGN EXCHANGE AND TREASURY

Although a substantial proportion of the Group's revenue and profit is earned outside the UK, subsidiaries generally only trade in their own currency. The Group is therefore not subject to any significant foreign exchange transactional exposure. The Group's principal exposure to foreign currency, therefore, lies in the translation of overseas profits into sterling. This exposure is hedged to the extent that these profits are offset by interest charges in the same currency arising from the financing of the investment cost of overseas acquisitions by borrowings in the same currency. In light of this limited exposure to foreign exchange risk, the Group does not hold any sophisticated financial instruments such as derivatives.

The Group has some exposure to interest rate volatility and seeks to fix interest rates on a proportion of its debt when market conditions make this desirable. At 30 September 2006, all outstanding debt was held at variable interest rates.

Resources

The Group has the following key resources which assist in its pursuit of its key objectives:

- Well-established and respected brands;
- Strong distribution channels and established working relationships with business partners;
- Quality products and services with strong market positions;
- Extensive knowledge of our local markets;
- Strong financial resources and cash generation;
- Employees who have extensive knowledge of the key markets and therefore can assist in the development of new products;
- Strong corporate reputation for quality products;
- Highly qualified, stable employee base.

Corporate Social Responsibility ("CSR")

INTRODUCTION

It is the role and responsibility of the Board to take into account all aspects of social, environmental and ethical issues in its discussions and decision-making. The Board receives reports at each Board meeting from Group executives on relevant developments in these areas. In order to verify that as a group of companies we are working to these standards, we require each of our operating companies to report on key indicators on a quarterly basis.

The Board considers that material risks from social, environmental and ethical issues are limited. However, it takes a proactive approach to risk management of these issues. The Risk Committee, consisting of executive management, identifies and considers any risks to the business of the Group from social, ethical and environmental issues and reports on any such risks to the Audit Committee of the Board. Should any risks be identified, the Risk Committee monitors the steps being taken by operating companies to reduce such risks. The induction programme for new Board directors explains the procedures for identification, assessment and management of risk, including those arising from social, environmental and ethical issues. Through both the quarterly reporting cycle and the reviews undertaken by the Risk Committee, the Board has in place an effective system to manage risks in this area.

As part of our on-going commitment to improving and maintaining good practices across the Group, the Board continues to ensure that an executive has specific responsibility for this area. Karen Geary, Director of Human Resources and Corporate Communications, continues to have responsibility for matters relating to CSR.

Our operating companies ("OpCos") are encouraged and supported in undertaking positive corporate social responsibility activities within a common policy framework provided by the Group regarding employment, marketplace, community and environmental matters. In order to develop our framework further and drive an involving and engaged approach to CSR, we have appointed a team comprising members of all OpCos. The team will take the existing framework and develop it as appropriate with each OpCo in line with Sage's guiding principles.

Our OpCos have adopted the principles of:

- Treating employees fairly and equitably;
- Operating ethically and with integrity;
- Respecting basic human rights;
- Seeking to limit our impact on the environment;
- Being a caring member of our communities.

We currently do not set specific CSR targets for our OpCos, but it is a matter that the Board continues to monitor. At present the Board does not consider it appropriate to link the management of social, environmental and ethical issues to remuneration incentives, given the difficulties in objectively measuring risk management and performance in this area.

EMPLOYMENT

We strive to ensure our people are proud to work for our Group. We encourage and foster a culture of innovation, entrepreneurship and team spirit within a supportive environment. Sage now employs over 13,000 people and we continue to recruit and retain only the best talent. It is our goal to bring out the best in our people and it is our policy to pursue practices that are sensitive to their needs.

Operating and Financial Review continued

Our priorities are:

- Ensuring equality of opportunity, fostering diversity and providing a safe workplace;
- Encouraging our people to reach their full potential through training, career development and promotion from within the Group, where possible;
- Communicating openly and transparently with our people and taking into account their feedback;
- Recognising and rewarding our people for their contribution and encouraging share ownership at all levels.

We have an equal opportunities policy that applies across the Group prohibiting discrimination on grounds of race, gender, religion, sexual orientation or disability. We operate in a number of geographic regions, adhering to all relevant laws that apply and support internationally accepted standards on human rights. Our policy includes, where practical, the continued employment of those who may become disabled during their employment. Our policies ensure that all decisions about the appointment, treatment and promotion of employees are based entirely on merit.

Key activities in 2006:

Across the Group as a whole we have enhanced our people policies and activities, introducing some of the following initiatives:

- Group-wide policy statement relating to bribery and corruption that applies to all employees and is published on our global intranet site;
- Group-wide policy relating to Health and Safety published on our global intranet site;
- Methodology introduced for measuring key people drivers for success;
- Establishment of a talent database to drive structured succession planning;
- Group-wide communication of our corporate principles of Simplicity, Agility, Innovation, Integrity and Trust;
- Enhancement of our internal communications framework in order to help our people connect more closely with our collective vision and purpose.

Our OpCos have introduced local initiatives in their regions, including:

- Employee involvement programmes in our larger regions;
- Employee award programmes to recognise extra effort and high performance in many OpCos;
- New performance management frameworks in the UK and North America;
- Intranets to improve employee communication and involvement in the UK and Mainland Europe;
- Social events in all regions to promote and embed our corporate principles;
- Health awareness programmes in the UK, Mainland Europe and South Africa;
- English language lessons in Mainland Europe;
- Employee involvement in CSR activities in the UK and Mainland Europe.

OUR MARKETPLACE

It is our aim to be a trusted advisor to our customers, a respected and admired company in our industry and a leader in encouraging the growth and development of SMEs through the effective use of information technology. We actively promote the use of the internet in business, particularly in the area of government submissions. Our awareness of the importance of prompt payment to small businesses is demonstrated by our commitment to pay customers and suppliers on fair terms.

All of our OpCos focus on customer satisfaction by:

- Monitoring customer advocacy and recommendation;
- Undertaking loyalty surveys;
- Responding to customer support phone calls, handling on average 30,000 calls per day in total;
- Holding customer awareness events and discussion groups to enable customers and Sage employees to meet face to face;
- Surveying SMEs to understand their business issues;
- Releasing publications discussing current business issues.

The success of our customer satisfaction policies is evidenced by the numerous industry awards won by our OpCos:

- The UK won two awards for 'Best Community Spirit' at the industry's annual World Contact Centre Awards and 'European Contact Centre of the Year' at the European Contact Centre Awards;
- North America won the K2 Enterprise 2006 Quality Award for Technical Support;
- Sage CRM Solutions (North America) was named 'Product of the Year 2006';
- North America won the 2006 'Rebrand Award' in the Rebrand 100 Global Awards;
- North America won 'Call Centre Award for The Americas' sponsored by ContactCenterWorld.com;
- Ireland won 'Customer Service Team of the Year' at the Customer Service Awards for Ireland.

COMMUNITY

It is our policy to be an integral part of the communities in which we are based. We are committed to developing relationships with those communities, where appropriate, through voluntary activities and donations. Close relationships have been fostered with many communities through local initiatives and numerous donations have been made to local, national and international charities and community foundations.

In total this year we donated £200,100 to various charities.

Sage Day 2006 once again acted as a focus for our community activity. The theme was 'Connecting with Our Community' and every local office was encouraged to partner with another Sage office in a different country and organise activities to learn about each other while raising funds for a local cause selected by employees.

The Group also became a member of The Prince's Trust, making a donation to a fund for young people from disadvantaged backgrounds who wish to start up in business.

Each of our OpCos work within the community in ways that are meaningful to them and their people. Employees are encouraged to become more closely involved in the local community through a wide range of sponsorship, donations and partnerships with schools, hospitals, orphanages and charities. Many OpCos are actively involved in their business communities with partnerships and award programmes to encourage idea generation, business start-ups and excellence in business practice.

ENVIRONMENT

It is our policy to ensure that our operations have as little environmental impact as is consistent with our business needs. We work to promote environmental care, to increase our understanding of environmental issues and to spread environmental best practice throughout our businesses. As a software publisher and services provider, our business activities have minimal environmental impact; however, we encourage all our OpCos to pursue environmental best practice. We make maximum use of internet and telephone-based tools to manage international meetings in order to minimise air travel where possible and many of our OpCos have introduced policies and incentives to reduce car use.

This year we have strengthened our environmental activity with continued focus on waste reduction, energy minimisation and reduced packaging as we continue to work to minimise any negative impact on the environment. We will continue to work on this area in the coming years.

Major initiatives from our OpCos include:

- Recycling facilities in all office locations;
- Recycled water used for landscaping in many office locations across North America and Mainland Europe;
- Campaigns to minimise production of manuals, printed materials and packaging associated with product sales across all regions;
- Increasing use of the internet for distribution of printed materials;
- Campaigns to minimise power use in the UK and Mainland Europe;
- Measurement of the carbon footprint in the UK;
- The Group's annual report is now only mailed in hard copy if requested by the shareholder (rather than the shorter Summary Financial Statements) and users are encouraged to view our full report via the website.

Operating and Financial Review continued

Financial Review

OVERVIEW

In the year ended 30 September 2006, revenue increased by 23% to £935.6m (2005: £759.6m). Earnings before interest, tax and amortisation, which exclude the effects of amortisation of acquired intangible assets and the net amortisation or capitalisation of software development expenditure ("EBITA") rose by 23% to £249.3m (2005: £202.1m) reflecting an EBITA margin of 27% (2005: 27%). Profit before taxation increased by 14% to £221.2m (2005: £193.6m) and adjusted earnings per share^ grew by 20% to 12.54p (2005: 10.49p). These results include a gain of £2.7m on the disposal of a small North American business unit in January 2006. The impact of the year on year movement in exchange rates was to increase prior year revenue by £6.8m and EBITA by £1.2m, mainly due to the weakening of sterling against the US dollar. Accordingly, on a constant currency basis, revenue increased by 22%* and EBITA increased by 23%*.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The Group is, for the first time, reporting full year results under IFRS. The results for 2005 have been restated under IFRS. Reconciliation of the 2005 results is available on Sage's website, www.sage.com. To measure financial performance, the Board uses EBITA.

REVENUE ANALYSIS

Organic revenue growth was 7%*. Organic revenue growth improved from 5%* in the first half of the year to 8%* in the second half of the year. We calculate organic growth by removing the contributions of current and prior year acquisitions and of non-core products. Non-core products, which accounted for 3% of Group revenues, are those products where the focus is not on growth but rather on encouraging customers to move, over time, to core solutions.

Total software licence revenues were £322.8m (2005: £289.0m*), with organic growth of 5%*. Total services revenues increased to £612.8m (2005: £477.4m*), benefiting from strong organic growth of 8%* for the year. Following the acquisition of Verus, services revenues now include three categories of revenues, maintenance and support (75% of services revenue), payment processing services (5% of services revenue) and other (business forms, professional services and hardware), (20% of services revenue). Maintenance and support revenues grew by 9%* organically. Payment processing services is a new category comprising Verus, and, in 2007, Protx, following our acquisition of this company in November 2006. The category of Other Services grew by 2%* organically, but remains an important ancillary service to our main support offering.

GEOGRAPHICAL CONTRIBUTIONS

The UK & Ireland contributed 22% (2005: 25%) of Group revenue. It remains the highest margin business in the Group. On an organic basis, revenue grew 7% with growth biased to a strong performance at the entry-level market segment. The UK's EBITA margin was maintained at 37% (2005: 37%).

Revenues in Mainland Europe grew on a constant currency basis by 47%* and were 32% (2005: 26%*) of Group revenue. EBITA margins were maintained at 22% (2005: 22%*). Organic revenue growth was 5%*.

Overall North America revenues on a constant currency basis grew by 16%* and were 39% (2005: 41%*) of Group revenue. Overall North American EBITA margins increased to 25% (2005: 24%*). Organic revenue growth was 6%*, moving from 4%* in the first half of the year to 7%* in the second half.

Revenues in South Africa, Australia and Asia contributed 7% (2005: 8%*) to Group revenue and grew organically by 17%*. The EBITA margin in the region increased to 27% (2005: 24%*).

Revenue and EBITA are discussed in more detail on a Group and regional basis in "Results for 2006 Financial Year" above.

Operating profit (EBITA after amortisation of intangible assets and net amortisation or capitalisation of software development expenditure) for the year ended 30 September 2006 was £235.8m (2005: £199.3m), which represents an operating margin of 25% (2005: 26%). The reduction in operating margin over the prior year is due to increased intangible amortisation charges of £13.6m (2005: £3.3m) arising on acquisitions made in the current and prior year.

INTEREST

The net interest cover for the Group for the year ended 30 September 2006 was 16.2 times. This was reduced from 35 times in the prior year, due to higher average net debt levels resulting from new debt drawn down in the year (see further details in "Capital structure" below).

PROFIT BEFORE TAXATION

Group profit before taxation for the year was £221.2m, £27.6m ahead of 2005 profit before taxation.

TAXATION

Taxation was £68.6m for the year ended 30 September 2006, £7.4m above last year reflecting the higher profit achieved. The effective tax rate for the Group reduced slightly to 31% (2005: 32%).

EARNING PER SHARE

Basic earnings (after amortisation) per share for the year ended 30 September 2006 was 11.81p, compared with 10.31p in 2005. Diluted earnings per share were 11.73p, compared with 10.26p for 2005.

DIVIDEND AND DIVIDEND POLICY

In line with the Group's policy, announced in December 2004, of reducing dividend cover over time, to 3.5 times (pre amortisation of intangible assets), the proposed final dividend for the year ended 30 September 2006 is being raised to 2.51 pence per share (2005: 1.95 pence per share), giving dividend growth for the full year of 25% to 3.59 pence per share (2005: 2.88 pence per share). The final dividend will be payable on 9 March 2007 to shareholders on the register at close of business on 9 February 2007.

*Foreign currency results for the year ended 30 September 2005 have been retranslated based on the average exchange rates for the year ended 30 September 2006 of $1.80/£1 and €1.46/£1 to facilitate the comparison of results. Results for 2005 have been restated in accordance with IFRS.

^EPS figures stated prior to amortisation of intangible assets.

Operating and Financial Review continued

RESEARCH AND DEVELOPMENT AND CAPITAL EXPENDITURE

The Group spent £95.7m in the year ended 30 September 2006 on research and development (2005: £81.6m). Of this amount £0.9m was capitalised as relating to development of new software and £0.8m was amortised to the income statement relating to prior years' expenditure which had been capitalised.

Capital expenditure in the year ended 30 September 2006 (including the purchase of 3rd party software systems for internal use) was £27.0m (2005: £20.7m). The majority of this expenditure relates to IS infrastructure, both in new and replacement systems.

CAPITAL STRUCTURE

Our balance sheet at 30 September 2006 can be summarised as set out in the table below:

Net assets increased by 10% to £977.6m (2005: £888.9m) and net assets per share by 10% to 76 pence (2005: 69 pence). The main movements in the balance sheet items were in goodwill and intangible fixed assets (relating mainly to investment in acquisitions of £617.5m) and the associated change in net debt (see further "Net debt" and "Cash flow" below).

NET DEBT

The Group has net debt of £593.6m at 30 September 2006 (2005: £114.8m). During the year additional debt of £1,131.1m was drawn down. The Group continues to be able to borrow at competitive rates and therefore currently deems this to be the most effective means of raising finance. Acquisitions of £617.5m have therefore been funded by debt financing.

In November 2006, after the close of the financial year, the Group drew down an additional £19.0m of debt in connection with the acquisition of Protx Group Ltd ("Protx") in the UK (see "Post balance sheet events" below).

CASH FLOW

The Group remains highly cash generative with operating cash flow of £267.1m representing 107% of EBITA. After interest, tax and dividends, this gave free cash flow of £153.7m. The cash net cost of acquisitions completed in the period was £617.5m and net cash receipts of disposals were £7.8m. After net capital expenditure of £20.9m, payments in respect of intangible assets and net development capitalisation of £3.3m and other movements of £1.4m, net debt stood at £593.6m at 30 September 2006 (30 September 2005: £114.8m).

Capital structure	Assets £m	Liabilities £m	Net assets £m
Property, plant and equipment	133.8	-	133.8
Goodwill and intangible assets	1,747.5	-	1,747.5
Current assets and liabilities	220.4	(544.7)	(324.3)
Post-retirement obligations	-	(2.1)	(2.1)
Deferred tax	26.3	(10.0)	16.3
Total before net debt	**2,128.0**	**(556.8)**	**1,571.2**
Net debt	82.9	(676.5)	(593.6)
Total as at 30 September 2006	**2,210.9**	**(1,233.3)**	**977.6**
Total as at 30 September 2005	1,510.6	(621.7)	888.9

TREASURY

Facilities, cash management and gearing

The Group's acquisition programme is funded through multi-currency revolving credit facilities totalling £850m. £200m of these facilities expire on 15 January 2011 and £650m expire on 4 August 2011. At 30 September 2006, £662.7m had been drawn under these facilities, leaving £187.3m undrawn. Group cash balances are invested for appropriate periods with institutions and in instruments with high credit ratings.

Hedging strategy

Whilst a substantial proportion of the Group's revenue and profit is earned outside the UK, subsidiaries generally only trade in their own currency. The Group is therefore not subject to any significant foreign exchange transactional exposure. The Group's principal exposure to foreign currency, therefore, lies in the translation of overseas profits into sterling. This exposure is hedged to the extent that these profits are offset by interest charges in the same currency, arising from the financing of the investment cost of overseas acquisitions by borrowings in the same currency.

The Group treasury management policy provides that the Group will seek to fix interest rates on a proportion of its debt when market conditions make this desirable. At 30 September 2006 net debt was held at variable interest rates. In light of the nature and level of the exposures identified above, the Group does not hold any sophisticated financial instruments such as derivatives.

POST BALANCE SHEET EVENTS

On 13 November 2006 the Group announced that it had acquired Protx, for an enterprise value of £20.0m.

GOING CONCERN

Based on normal business planning and control procedures, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the accounts.

Governance

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Directors and Advisers


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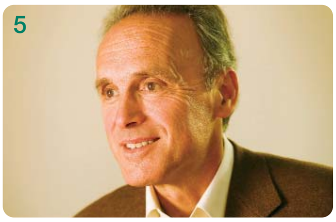
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1 Sir Julian Horn-Smith, 58
Chairman, Non-executive Director
Sir Julian joined Vodafone in 1984 and held a number of senior appointments before being appointed to its Board in 1996 and becoming Deputy CEO in 2005. Previously he held positions in Rediffusion and Mars GB. He is also a non-executive director of Lloyds TSB. He joined the Board of Sage in March 2006, becoming Chairman on 1 August 2006.

2 Paul Walker, 49
Chief Executive
Paul joined Sage as company accountant in 1984 having previously trained as a chartered accountant with Arthur Young. He was appointed Finance Director in 1987 and became Chief Executive in 1994. In May 2002, Paul was appointed to the Board of Diageo plc as a non-executive director.

3 Paul Harrison, 42
Finance Director
A chartered accountant, Paul moved from Price Waterhouse, where he was a senior manager responsible for the provision of audit and advisory services to larger private and public companies, to become Group Financial Controller of Sage in 1997. He joined the Board as Group Finance Director in April 2000.

4 Paul Stobart, 49
Managing Director, UK and Ireland
After qualifying as a chartered accountant with Price Waterhouse, Paul spent five years in corporate finance with Hill Samuel before joining Interbrand, an international marketing services consultancy, in 1988. He joined Sage in 1996 as Business Development Director becoming Managing Director of UK and Ireland in June 2003. In July 2003, Paul was appointed to the Board of Capital & Regional plc as a non-executive director.

5 Guy Berruyer, 55
Managing Director, Mainland Europe and Asia
Guy was a director of Bull and Claris before joining Intuit as Country Manager and then European Director. He joined Sage in 1997 and was appointed to the Board in January 2000. As well as Mainland Europe, Guy is also responsible for our operations in Asia.

6 Ron Verni, 58
Managing Director, North America
Ron was a Vice President of Marketing with Automatic Data Processing and President and CEO of NEBS Software, Inc. before joining Peachtree Software, Inc. as President and CEO in July 1994. In October 2000, Ron was appointed CEO of the combined Sage North American operations and was appointed to the Group Board in July 2002.

7 David Clayton, 49
Independent Non-executive Director
After a career in senior executive roles at a number of international technology companies, David joined BZW in 1995 where, after its merger with CSFB in 1997, he was Managing Director and Head of European Technology Research until 2004. He joined the Board in June 2004 and was appointed Senior Independent Director on 12 September 2006.

8 Tony Hobson, 59
Independent Non-executive Director
Tony is the Chairman of Northern Foods plc and a non-executive director of HBOS plc (where he chairs the Audit Committee) and Glas Cymru. He is the Senior Independent Director of AIM-listed, Cenkos Securities plc. He was previously Group Finance Director of Legal and General Group plc for 14 years, retiring in 2001. He is a member of the Board of Trustees of the Darden Graduate School of Business, University of Virginia. He joined the Board in June 2004.

9 Tamara Ingram, 46
Independent Non-executive Director
Tamara, who joined the Board in December 2004, is responsible for WPP plc's Procter & Gamble business worldwide. She is also CEO of advertising group Grey UK, chairman of Visit London and chair of the Development Board for the Royal Court Theatre. Prior to Grey, Tamara was President of the Henley Centre and marketing insights company Added Value. Previously, Tamara worked at Saatchi and Saatchi for 15 years, rising to the role of Executive Chairman.

10 Tim Ingram, 59
Independent Non-executive Director
Tim is Chief Executive of Caledonia Investments plc. He was formerly Managing Director of Business to Business Banking at Abbey National plc. He is a non-executive director of Savills plc and was appointed to the Group Board in March 2002.

11 Ruth Markland, 53
Independent Non-executive Director
Ruth is a non-executive director of Standard Chartered plc and Chairman of the Board of Trustees of WRVS. She was formerly Managing Partner, Asia for the international law firm, Freshfields Bruckhaus Deringer and was appointed to the Group Board on 13 September 2006.

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Directors' Report

For the year ended 30 September 2006

The directors present their report and the audited financial statements for the year ended 30 September 2006.

PRINCIPAL ACTIVITIES

The Group's principal activities during the year continued to be the development, distribution and support of business management software and related products and services for medium-sized and smaller businesses.

BUSINESS REVIEW

The Group achieved a profit on ordinary activities before taxation of £221.2m on revenue of £935.6m.

The information that fulfils the requirements of the Business Review including Key Performance Indicators can be found in the Operating and Financial Review on pages 7 to 24 which is incorporated in this report by reference.

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

RESULTS AND DIVIDENDS

The trading results for the year, dividends paid and proposed and the amount transferred to reserves are set out on page 53. The Board proposes a final dividend of 2.51 pence per share (2005: 1.953 pence per share) taking the proposed full year dividend to 3.59 pence per share (2005: 2.875 pence per share).

RESEARCH AND DEVELOPMENT

During the year, the Group invested £94.8m in research and development (2005: £80.5m). This has resulted in a number of new products and features as referred to in the Operating and Financial Review on pages 7 to 24.

CHARITABLE CONTRIBUTIONS AND POLITICAL DONATIONS

During the year, within the UK, charitable contributions totalling £103,000 were made, which included £50,000 to The Tyne and Wear Community Foundation, £15,000 to The Community Foundation for Greater Manchester, £15,000 to The Berkshire Community Foundation, £15,000 to the NSPCC, £4,500 for children's charity Christmas presents and a total of £3,500 smaller contributions to numerous charities. The rest of the Group made charitable contributions totalling £97,100. 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 and details of their options over the ordinary share capital of the Company are given in the Remuneration Report on pages 39 to 50. 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 subsidiaries at any time during the year.

As at the date of this report, indemnities are in place under which the Company has agreed to indemnify the directors, 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 registered office of the Company.

EMPLOYMENT POLICY

The Group continues to give full and fair consideration to applications for employment made by disabled persons, having regard to their respective aptitudes and abilities. The policy includes, where practicable, the continued employment of those who may become disabled during their employment and the provision of training and career development and promotion, where appropriate. The Group has continued its policy of employee involvement by making information available to employees on matters of concern to them. Many employees are stakeholders in the business through participation in share option schemes. Further details of employment policies are given on pages 18 and 19.

CREDITOR PAYMENT POLICY

Given the international nature of its operations, the Group does not operate a standard code in respect of payments to suppliers. Subsidiary operating companies are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted, including the terms of payment. It is the Group's policy that payments to suppliers are made promptly in accordance with these terms. Creditor days for the Group have been calculated at 40 days (2005: 37 days).

SUBSTANTIAL SHAREHOLDINGS

At 18 January 2007, the Company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the Company:

Zurich Assurance Ltd	5.07%
FMR Corp	4.96%
The Capital Group Companies, Inc.	3.97%
Scottish Widows Investment Partnership Ltd	3.23%
Legal & General Investment Management Ltd	3.00%

FUTURE DEVELOPMENTS

The Group's future developments are described in the Operating and Financial Review on pages 7 to 24.

ANNUAL GENERAL MEETING

Notice of the nineteenth Annual General Meeting of The Sage Group plc to be held on Tuesday 6 March 2007 is set out on pages 115 to 118. A form of proxy is enclosed for members who wish to use one. It should be returned so as to be with the Company's registrars no later than 10.00am on 4 March 2007. Shareholders with internet access may register their voting instructions online for the forthcoming Annual General Meeting. They may register their vote electronically by going to www.sharevote.co.uk. They will be required to key in the three security numbers printed on the form of proxy to access the voting site. CREST members may appoint their proxy or proxies electronically via Lloyds TSB Registrars (ID 7RA01).

The Resolutions to be put at the Annual General Meeting are in the notice of Annual General Meeting set out on pages 115 to 118.

Resolution 1 is to receive and consider the audited accounts for the year ended 30 September 2006 together with the reports of the directors and auditors. The directors are required to present to the meeting the accounts together with these reports which are contained in this Annual Report.

Resolution 2 recommends a final dividend of 2.51 pence per ordinary share be declared. The final dividend declared cannot exceed the amount recommended by the directors. The proposed final dividend, which will be payable on 9 March 2007 to holders of ordinary shares registered at the close of business on 9 February 2007, will bring the total dividend for the year to 3.59 pence per share. Last year the total dividend was 2.875 pence per share.

Resolutions 3 to 7 relate to the re-appointment of certain directors to the Board.

In accordance with the Company's articles of association, Sir Julian Horn-Smith, Ms R Markland, Mr P A Walker, Mr P S Harrison and Mr P L Stobart will be retiring at the Annual General Meeting and, being eligible, will offer themselves for re-election. Messrs Walker, Harrison and Stobart have service contracts with the Company, terminable on twelve months' notice by the Company.

Sir Julian Horn-Smith has a contract for services with the Company for a fixed period of three years from 3 March 2006, terminable within that period by 12 months' notice from the Company or from him.

Ms R Markland has a contract for services with the Company for a fixed term of three years from 13 September 2006, terminable within that period by six months' notice from the Company and one month's notice from her.

Directors' Report continued

Resolution 3 relates to the re-appointment of Sir Julian Horn-Smith. Sir Julian joined the Board in March 2006 becoming Chairman on 1 August that year. He is also a non-executive director of Lloyds TSB and from 1984 to 2006 he was a senior executive of Vodafone Group plc becoming its Deputy Chief Executive Officer in 2005.

Resolution 4 relates to the re-appointment of Ms R Markland. Ms Markland joined the Board on 13 September 2006. She is a non-executive director of Standard Chartered plc and has extensive experience of business in the Far East from her time as Managing Partner, Asia of the international law firm Freshfields Bruckhaus Deringer.

Resolution 5 relates to the re-election of Mr P A Walker. Mr Walker joined the Company in 1984, becoming Finance Director in 1987 and Chief Executive in 1994.

Resolution 6 relates to the re-election of Mr P S Harrison. Mr Harrison joined the Group as Financial Controller in 1997, becoming Group Finance Director in 2000.

Resolution 7 relates to the re-election of Mr P L Stobart. Mr Stobart joined the Group in 1996, becoming Managing Director of UK and Ireland in June 2003.

Further biographical details of Messrs. Horn-Smith, Walker, Harrison, Stobart and Ms Markland are set out on pages 27 and 28.

The Nomination Committee, which is the Committee of the Board which considers the balance of the Board and the mix of skills, knowledge and experience of its members, has considered and approved the re-appointment of Ms Markland and of Messrs. Horn-Smith, Walker, Harrison and Stobart. Messrs. Horn-Smith, Walker, Harrison and Stobart have been subject to a formal evaluation procedure in the last twelve months. Following that procedure the Chairman confirms the continuing commitment and contribution of Messrs Walker, Harrison and Stobart to their roles. Mr D H Clayton, the Senior Independent Director, also confirms the continuing commitment and contribution to his role of Sir Julian Horn-Smith. Having joined the Board in September 2006 Ms Markland has not yet been subject to such a procedure.

Resolution 8 relates to the re-appointment of the auditors. PricewaterhouseCoopers LLP have indicated their willingness to continue in office.

Resolution 9 is to approve the Remuneration Report on pages 39 to 50. The Directors' Remuneration Report Regulations 2002 (the "Regulations") require that a report, prepared in accordance with the Regulations, is put to a vote of shareholders at the Annual General Meeting.

Resolutions 10 and 11 will be proposed to enable the directors to renew their existing power to allot unissued shares in the capital of the Company up to an aggregate nominal amount of £4,314,200 (representing 33.2% of the nominal value of the Company's issued share capital on 18 January 2007, the latest practicable date prior to the printing of this document) and to allot equity securities for cash up to an aggregate nominal amount of £647,140 (representing 4.98% of the issued ordinary share capital of the Company on 18 January 2007, the latest practicable date prior to the printing of this document). These authorities will expire at the conclusion of the next Annual General Meeting of the Company. The directors do not have any present intention of exercising these authorities other than in connection with the Group's employee share schemes and do not intend to issue more than 7.5% of the issued share capital of the Company under the authority to allot equity securities for cash in any three year period without prior consultation with the relevant investor groups. The Company currently holds no shares in treasury.

Resolution 12 set out in the Notice of Meeting will be proposed to continue to enable the Company to purchase its own shares in accordance with section 166 of the Companies Act 1985 on such terms and in such manner as the directors determine, subject to the following:

- The price which may be paid for each ordinary share will not be less than the nominal value of the share and will not exceed the higher of 5% above the average of the mid-market price of the ordinary shares of the Company (as derived from the London Stock Exchange Daily Official List) for the five business days before the purchase is made and that amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003, in each case exclusive of any expenses payable by the Company;
- The maximum aggregate number of shares that may be purchased pursuant to this authority shall be limited to 129,428,000 shares which is equivalent to approximately 10% of the Company's issued share capital as at 30 September 2006;

- The authority will remain in force until the conclusion of the next Annual General Meeting of the Company but will terminate on 31 March 2008 if the Annual General Meeting has not been held by that date.

The Company may agree before the authority terminates to purchase ordinary shares where the purchase will or may be executed after the authority terminates (either in whole or in part). The Company may complete such a purchase even though the authority has ended.

The Company has no present intention to exercise this authority, nor were any shares repurchased in the year to 30 September 2006 under previous authorities. In any event, the power given by the resolution will only be exercised if the directors are satisfied that any purchase will increase the earnings per share of the ordinary share capital in issue after the purchase and, accordingly, that the purchase is in the interests of shareholders. The directors will also give careful consideration to gearing levels of the Company and its general financial position. The purchase price would be paid out of distributable profits.

A listed company may hold shares in treasury, as an alternative to cancelling them, following a purchase of own shares by the Company in accordance with the Companies Act 1985. Shares held in treasury in this manner will be available for resale by the Company or may be transferred for the purpose of or pursuant to an employees' share scheme. Accordingly, if the directors exercise the authority conferred by Resolution 12, the Company will have the option of holding those shares in treasury, rather than cancelling them. Your Board will have regard to any guidelines published by any of the investor groups in force at the time of any such purchase, holding or re-sale of treasury shares.

The total number of options to subscribe for ordinary shares and awards to be satisfied by newly issued ordinary shares under other long-term incentive plans of the Group that were outstanding at 18 January 2007 (being the latest practicable date prior to the printing of this report) was 48,355,605. The proportion of issued share capital that they represented at that time was 3.72 per cent and the proportion of issued share capital that they will represent if the full authority to purchase shares (existing and being sought) is used is 4.14 per cent.

The Company's articles of association are reviewed annually. As a result of this review, the Company proposes to change its articles of association to reflect recent legislative changes. The Companies (Audit, Investigations and Community Enterprise) Act 2004 changed the provisions of section 310 of the Companies Act 1985 to give companies the power to extend indemnities to directors to cover liability to third parties and to provide funding for directors' defence costs as they are incurred. The Company proposes to amend its articles of association to give the Company the opportunity to take advantage of these new provisions and to allow a director to vote in relation to a resolution concerning directors' indemnification by the Company.

Companies listed on the London Stock Exchange are now required to produce their group accounts in accordance with International Financial Reporting Standards ("IFRS"). The Company proposes to make certain amendments to Article 85 (power to borrow money) to update the terminology used in Article 85 to the new terminology used by IFRS and appearing on consolidated balance sheets prepared under IFRS. The Company's borrowing limit is currently an amount equal to two times adjusted capital and reserves (after adding back any amounts attributable to goodwill which have been written-off). In order to preserve the Company's borrowing power and ability to make acquisitions in the future, the Company proposes that this figure be increased to two and a half times adjusted total equity (without any addition for goodwill written-off).

Resolution 13 will effect these changes if passed.

Resolution 14 set out in the Notice of Meeting will be proposed to enable the Company to take advantage of the new rules in the Companies Act 2006 on implied consent to website usage and, as a listed company, to benefit from the rules on electronic and website communications in the Disclosure and Transparency Rules which recently came into force.

By Order of the Board

M J Robinson
Secretary
18 January 2007

Corporate Governance Statement

The Company and the Group are committed to high standards of corporate governance and the Board is accountable to the Company's shareholders for good corporate governance. This statement describes how the relevant principles of corporate governance are applied by the Company. Throughout the year the Company has been in compliance with the provisions set out in the Revised Combined Code on Corporate Governance issued by the Financial Reporting Council (the "Combined Code"), other than A.3.2 relating to the composition of the Board and A.3.3 relating to the Senior Independent Director.

Rule A.3.2 requires at least half the Board, not counting the Chairman, to comprise non–executive directors determined by the Board to be independent. For the period from the appointment of Sir Julian Horn-Smith to the role of Chairman of the Board on 1 August 2006 to the appointment to the Board of Ms R Markland on 13 September 2006 this ratio was not maintained. There were a number of changes to the Board during the year which made compliance difficult to achieve in this short period. With the appointment of Ms R Markland on 13 September 2006 the Company is fully compliant with the rule.

Rule A.3.3 requires the Board to appoint one of the independent non-executive directors to the role of Senior Independent Director. Mr L C N Bury, who fulfilled this role, retired from the Board on 2 March 2006. Sir Julian Horn-Smith, who joined the Board in March 2006 and became Chairman on 1 August 2006, fulfilled the role for the period from Mr L C N Bury's retirement to his appointment as Chairman on 1 August 2006. On 12 September 2006, Mr D H Clayton was appointed to the role and so for a short period from 1 August 2006 to 11 September 2006 the role was vacant.

THE WORKINGS OF THE BOARD AND ITS COMMITTEES

The Board

The Board currently comprises the non-executive Chairman, the Chief Executive, four other executive directors and five other independent non-executive directors. The roles of the Chairman and the Chief Executive are quite distinct from one another and are clearly defined in written terms of reference for each role adopted by the Board and available to shareholders on request to the Secretary at the registered office and on the Company's website at www.sage.com.

The directors' biographies appear on pages 27 and 28. These demonstrate that the directors have a range of experience and are of sufficient calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct, which is vital to the success of the Group. All directors are subject to re-election at least every three years.

The Board is responsible to shareholders for the proper management of the Group. Where it is considered appropriate, training is made available to directors and training needs are assessed as part of the evaluation procedure of the Board referred to below. A statement of the directors' responsibilities in respect of the accounts is set out on page 38. The Board has formally adopted a schedule of matters specifically reserved to it for decision which is available to shareholders on request to the Secretary at the registered office and which is also available on the Company's website at www.sage.com. All directors have access to the advice and services of the Secretary, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Secretary ensures that the directors take independent professional advice as required at the expense of the Company when it is judged necessary to discharge their responsibilities as directors. The appointment and removal of the Secretary is a matter for the Board as a whole.

The Board meets formally not less than six times a year, reviewing trading performance, ensuring adequate funding, setting and monitoring strategy, examining major acquisition opportunities and reviewing regular reports to shareholders. In the year under review the Board met on nine occasions, six such meetings being formal board meetings and on three occasions at meetings of the Board called at short notice and held by telephone to consider acquisition opportunities. All directors in office at the time attended all of these Board meetings other than on two occasions when Ms T Ingram was unable to attend the formal board meetings and two occasions when Ms T Ingram and Mr A J Hobson were unable to attend the meetings called on short notice. On one occasion Mr G S Berruyer was unable to attend a meeting called on short notice.

The non-executive directors have a particular responsibility to ensure that the strategies proposed by the executive directors are fully considered. To enable the Board to discharge its duties, all directors receive appropriate and timely information. Briefing papers are distributed by the Secretary to all directors in advance of Board meetings. The members of the Board have evaluated the performance of the Board, its committees and individual members at meetings and also through the completion of detailed questionnaires. These are reviewed and considered by the Chairman and by the Board as a whole. In the year under review, the questionnaires indicated no areas of concern.

The current Board complies with the main principle in paragraph A.3 of the Combined Code in that it includes a balance of executive and non-executive directors so that no individual or small group of individuals can dominate the Board's decision taking.

New members of the Board undergo a full, formal and tailored induction to the Board. Sir Julian Horn-Smith, who was appointed to the Board in March 2006, has undertaken such an induction process since his appointment and Ms R Markland who joined the Board in September 2006 has also undertaken such a process.

The Chairman
The terms of reference for the Chairman of the Board ensure that this role is quite distinct from that of the Chief Executive and are set out on the Company's website at www.sage.com.

The Chairman of the Board has held meetings with the non-executive directors without the executive directors. In addition, the non-executive directors have met without the Chairman present to appraise the Chairman's performance. The Chairman also ensures that shareholder communication and responses are 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 Secretary.

The Senior Independent Director
The Board has appointed Mr D H Clayton to the role of Senior Independent Director. This role provides a point of contact for those shareholders who wish to raise issues with the Board, other than through the Chairman. He is available to consult with shareholders and also chairs meetings of the non-executive directors without the Chairman present.

COMMITTEES OF THE BOARD
Committees of the Board deal with certain specific aspects of the Group's affairs. These Committees are the Remuneration Committee, the Audit Committee and the Nomination Committee. Details of all these Committees are set out below. Whilst the Board notes that a number of independent non-executive directors are members of more than one Board Committee, it is considered that membership is appropriate in the light of the Board's policy that all independent non-executive directors are given the opportunity to take part in the discussions of those Committees. The terms of reference of the Remuneration, Nomination and Audit Committees are reviewed annually and are available on request from the Secretary at the registered office of the Company or on the Company's website at www.sage.com.

Remuneration Committee
The Group's Remuneration Committee is chaired by Mr T C W Ingram and its other members are the other independent non-executive directors, Mr D H Clayton, Mr A J Hobson, Ms T Ingram and Ms R Markland. Under its terms of reference, the Committee meets at least twice a year. In the year under review, two meetings of the Committee were held and all members in office at the time attended all the meetings other than Ms T Ingram who was unable to attend one meeting. Each of the Chairman and the Chief Executive may, by invitation of the Committee, attend meetings (except when his own performance and remuneration are under review) but neither is a member of the Committee. The Committee is responsible for making recommendations to the Board, within agreed terms of reference, on the Company's framework of executive remuneration and its cost. The Committee determines the contract terms, remuneration and other benefits for each of the executive directors including share options, performance share awards, performance-related bonus schemes, pension rights and compensation payments. Remuneration consultants advise the Committee. The Committee also monitors remuneration for those senior executives below Board level. The Board itself determines the remuneration of the non-executive directors. The Secretary acts as secretary to the Committee.

Details of the Company's policies on directors' remuneration are given in the Remuneration Report on pages 39 to 50, together with further details of the Remuneration Committee.

Audit Committee
The Audit Committee is chaired by Mr A J Hobson. Its other members are independent non-executive directors, Mr T C W Ingram, Mr D H Clayton and Ms R Markland (who joined the Committee on 1 January 2007). Mr A J Hobson is a Fellow of the Institute of Chartered Accountants in England and Wales and is considered by the Board to have the recent and relevant financial experience required for the provisions of the Combined Code. The other members of the Committee have a wide range of business experience, which is evidenced in their biographies on page 27 and 28. The Board makes appointments to the Committee and the Company Secretary acts as secretary to the Committee. Full induction training is provided for new members and additional training is provided as and when required.

Corporate Governance Statement continued

The main duties of the Committee, set out in its terms of reference are to:

- Make recommendations on the appointment and remuneration of external auditors and to monitor their performance;
- Approve and monitor the policy for non-audit services provided by the external auditors to ensure that the independence of the auditors is not compromised;
- Review and advise the Board on the Company's interim and annual financial statements, its accounting policies and on the control and mitigation of its financial and business risks;
- Review the nature and scope of the work to be performed by the external and internal auditors, the results of their audit work and of the response of management; and
- Review and advise the Board on the effectiveness of the Company's internal control environment, including its "whistleblowing" procedures.

Meetings

The Committee invites executive directors, management, external and internal auditors to attend meetings as it considers appropriate for the matters being discussed.

Work of the Committee

In the financial year, the Audit Committee met on four occasions and reported its conclusions to the Board. It met privately with the internal and external auditors without executives present. It also met with executive management and executive directors.

The Committee discharged its obligations in respect of the financial year as follows:

- Financial reporting. During the year the Committee reviewed the interim and annual financial statements. The Committee received a report from the external auditors setting out the accounting or judgemental issues which required its attention. The auditors' reports were based on a full audit (Annual Report) and a high level review (Interim Report) respectively.

  The Committee has also advised the board on accounting policies, disclosure and controls. It has been pivotal in considering the disclosure requirements of IFRS, including IFRS policies and the Restatement of Financial Information for the year ended 30 September 2006, under IFRS and comparatives.

- Internal controls and risk management. The Committee considers reports from internal audit on the operation of, and issues arising from, the Group's internal control procedures, together with observations from the external auditors. The Committee monitored the effectiveness of the Group's risk management process, which considers the key risks, both financial and non-financial, facing the Group and the effectiveness of the Group's controls to manage and reduce the impact of those risks.

- Internal audit. Internal audit activities and responsibilities are provided by KPMG, under an outsourcing agreement. The Group's Risk Officer provides oversight and coordination of internal audit but internal audit has a direct reporting line to the Audit Committee and its Chairman. This ensures its independence.

  It is the role of internal audit to advise management and the Board on the extent to which systems of internal control are effective and to provide independent and objective assurance that the processes by which significant risks are identified, assessed and managed are appropriate and effectively applied. The internal audit plan which covers the scope, authority and resources of the function is determined through a structured process of risk assessment and is approved by the Audit Committee.

  The nature and scope of the work of the internal audit team was reviewed and approved, the reports of results received and the responses of management considered. The plan set out at the beginning of the year was achieved and the outcome of the work was in line with expectations.

- External audit. The Audit Committee is responsible for the development, implementation and monitoring of the Group's policy on external audit. The policy assigns oversight responsibility for monitoring the independence, objectivity and compliance with ethical and regulatory requirements to the Audit Committee and day to day responsibility to the Group Finance Director.

  To assess the effectiveness of the external auditors, the Audit Committee reviewed:
  - The external auditors' fulfilment of the agreed audit plan and any variations;
  - The robustness and perceptiveness of the auditors in their handling of key accounting and audit judgements; and
  - The content of the external auditors' Internal Control Report.

The Committee is confident that the objectivity and independence of the auditors is not impaired in any way by reason of their non-audit work. The Committee has adopted controls to ensure that the independence of the external audit process is not compromised and that, in the provision of non-audit services, the objectivity and independence of the external auditors is safeguarded. These controls include the continued monitoring of the independence and effectiveness of the audit process. The scope, fee, performance and independence of the external auditor is considered annually by the Audit Committee, together with an evaluation of whether the external audit should be tendered. In addition, audit partners are rotated every five years and a formal statement of independence from the external auditors is received each year. In relation to the provision of non-audit services, executive management has the discretion, (subject to certain financial limitations), to obtain taxation services from the auditors without prior reference to the Audit Committee subject to regularly appraising the Audit Committee of the amount and nature of fees for such services. Other non-audit services may be undertaken by the external auditors, subject to all projects expected to cost in excess of an amount set by the Audit Committee being approved in advance either by the Chairman of the Audit Committee or by the full Audit Committee depending on the expected cost of the project. The Chairman of the Audit Committee may require that such projects are put out to tender to a number of firms. It is the policy of the Committee to require acquisition due diligence be undertaken by firms other than the auditors unless conflicts of interest for comparable firms make this impractical. Further details of fees paid to the auditors are set out on page 64.

In the year to 30 September 2006 the audit fee was £1,732,000 (including £0.3m of non recurring fees in connection with the Group's conversion to IFRS). The Company's auditors, PricewaterhouseCoopers LLP, also perform non-audit services for the Group (principally tax advice) over and above the external audit. The fees in relation to these services were £1,417,000 which was attributable to taxation services and compliance work. The Audit Committee keeps the ratio of audit to non-audit fees under review and has determined that the ratio of non-audit fees (other than those relating to taxation) paid to the auditors and the audit fee should not exceed 1:1. The Committee believes that the Company receives particular benefit from tax advice provided by its auditors given their wide and detailed knowledge of the Group and the very international nature of the Group.

As a consequence of its satisfaction with the results of the activities outlined above, the Audit Committee has recommended to the Board that the external auditors are reappointed.

Nomination Committee

The Nomination Committee is chaired by the Chairman of the Board, Sir Julian Horn-Smith and consists of the Chairman and the five independent non-executive directors, Mr T C W Ingram, Mr D H Clayton, Mr A J Hobson, Ms T Ingram and Ms R Markland. In the absence of the Chairman of the Board, the Committee is chaired by the Senior Independent Director. The Nomination Committee meets not less than twice a year. Two meetings of the Committee took place in the year under review at which all the members of the Committee in office at the time were present.

The Nomination Committee is responsible for a number of matters relating to the composition of the Board and its committees including proposing candidates for appointment to the Board, having regard to its balance and structure and considering issues of succession. Recruitment consultants are used to assist in the process. The Nomination Committee is also responsible for an annual review of the membership of the Board, evaluating the balance of skills, knowledge and experience on the Board and advising the Board on any areas where further recruitment may be appropriate. It also considers the succession planning of the Group for key executive personnel at Board level and below. The Secretary acts as secretary to the Committee.

RELATIONS WITH SHAREHOLDERS

Communication with shareholders is given high priority. The Chairman's Introduction and Operating and Financial Review on pages 3 to 24 include a detailed review of the business and future developments in relation to it. A full Annual Report and Accounts is sent to all shareholders who so wish, although shareholders have been given the opportunity to receive Summary Financial Statements in place of the full Annual Report and Accounts. The Company also has a website (www.sage.com) which contains up to date information on Group activities and published financial results. There is regular dialogue with individual institutional shareholders and there are presentations to analysts after the Company's announcement of the year-end and half-year results. At each Board meeting, the Board receives an update on presentations to investors and any communication from shareholders to ensure that directors, both executive and non-executive, have an understanding of their views.

The Board uses the annual general meeting to communicate with private and institutional investors and welcomes their participation. The resolutions to be proposed at the Annual General Meeting on 6 March 2007 can be found in the Notice of Meeting on pages 115 to 118.

Corporate Governance Statement continued

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for the operation and effectiveness of the Group's system of internal controls and risk management. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process has been in place for the year under review and up to the date of approval of this report. It is regularly reviewed by the Board and complies fully with the Turnbull guidance. The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed and by their nature can only provide reasonable but not absolute assurance against misstatement or loss. The effectiveness of this process has been reviewed by the Audit Committee, which reports its findings to the Board. The processes used by the Audit Committee to review the effectiveness of the system of internal control include discussions with management on significant risk areas identified and the review of plans for, and results from, internal and external audits.

The Audit Committee reports the results of its review of the risk assessment process to the Board. The Board then draws its collective conclusion as to the effectiveness of the system of internal control. The key procedures, which the directors have established with a view to providing effective internal control, are as follows:

Indication of business risks

The processes to identify and manage the key risks to the success of the Group are an integral part of the internal control environment. Such processes, which are reviewed and improved as necessary, include strategic planning, the appointment of senior managers, the regular monitoring of performance and control over capital expenditure and acquisitions. The Company has formed a Risk Committee consisting of the Chief Executive, Group Finance Director, the Group Risk Officer, members of the Group finance team, the Secretary and representatives of the Group operating companies. A representative of KPMG, the internal auditors, may attend meetings of the Committee by request.

The Committee reviews all business activities to identify the nature and extent of the significant risks facing the Group, undertakes risk review audits and considers the scope and results of audits undertaken by KPMG. It identifies significant internal control failings and weaknesses, if any, and agrees remedial action on such matters. The Risk Committee reports to the Audit Committee. Through the work of the Audit and Risk Committees, the Board is provided with a balanced assessment of the significant risks associated with the Group's operations and the effectiveness of the system of internal controls.

A "whistleblowing" telephone hotline service has been introduced in many operating companies in the Group (including all those in the UK and US) allowing employees to raise issues of concern in relation to dishonesty or malpractice on an entirely confidential basis. The Audit Committee receives regular reports on any matters raised through this service and monitors its use throughout the Group. Similar arrangements are being considered for Group companies in other jurisdictions subject to compliance with local legal requirements.

Quality and integrity of personnel

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

Management structure

The Board has overall responsibility for the Group. Each executive director has been given responsibility for specific aspects of the Group's affairs. A clearly defined organisation structure exists within which individual responsibilities are identified and can be monitored. The management of the Group as a whole is delegated to the Chief Executive and the executive directors. The conduct of Sage's individual businesses is delegated to the local executive management teams. These teams are accountable for the conduct and performance of their businesses within the agreed business strategy. They have full authority to act subject to the reserved powers and sanctioning limits laid down by the Board and to Group policies and guidelines.

Internal audit

The Group utilises internal audit resource supplied by KPMG to review compliance with procedures and assess the integrity of the control environment. Internal audit acts as a service to the businesses by assisting with the continuous improvement of controls and procedures. Actions are agreed in response to its recommendations and these are followed up by the Audit and Risk Committees to ensure that satisfactory control is maintained.

Budgetary process

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

Investment appraisal (including acquisitions)

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

STATEMENT BY THE DIRECTORS ON COMPLIANCE WITH THE PROVISIONS OF THE COMBINED CODE

Other than as referred to at page 33 above, the Company has been in full compliance with the provisions set out in Section 1 of the Combined Code throughout the year.

GOING CONCERN

The following statement has been included in accordance with the Listing Rules: Based on normal business planning and control procedures, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the accounts.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year that 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 for that period. In preparing those 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 applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements.

The directors confirm that they have complied with the above requirements in preparing the financial statements. The directors are responsible for keeping proper accounting records that 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 comply with the Companies Act 1985. 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.

Each of the persons who is a director at the time of this report 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 s234ZA of the Companies Act 1985.

By Order of the Board

M J Robinson
Secretary
18 January 2007

Remuneration Report

This report sets out the remuneration policy and remuneration details of the executive and non-executive directors of the Company. Remuneration policy for the executive directors and the Chairman of the Board of the Company is determined by the Remuneration Committee of the Board of Directors (the "Remuneration Committee") and approved by the Board. Remuneration policy for the non-executive directors is determined by the Board excluding the non-executive directors. The report has been prepared in accordance with the Companies Act 1985 (as amended) and also meets the requirements of the Listing Rules of the UK Listing Authority.

1 THE REMUNERATION COMMITTEE

1.1 Composition of the Remuneration Committee

The Remuneration Committee consists solely of non-executive directors considered by the Board to be independent and works within detailed terms of reference, copies of which are available on request from the Secretary and on the Company's website at www.sage.com. Its role includes the making of recommendations to the Board on policy for remuneration of executive directors and the Chairman, defining the remuneration packages of executive directors and the Chairman and approving the Remuneration Report. The Committee also considers the remuneration policy of the Company for senior executives of the Group other than members of the Board and seeks to maintain consistency in the approach to remuneration policy. The current members of the Remuneration Committee are Mr T C W Ingram (Chairman), Mr D H Clayton, Mr A J Hobson, Ms T Ingram and Ms R Markland. Messrs, Ingram, Clayton, Hobson and Ms Ingram have been members of the Committee throughout the year whilst Ms Markland became a member on her appointment to the Board on 13 September 2006. Mr L C N Bury retired from the Committee on retiring from the Board at the Annual General Meeting in March 2006.

1.2 Advisers to the Remuneration Committee

In order to be aware of market trends in remuneration and current best practice, the Remuneration Committee considers market data for comparable businesses. In addition, the Remuneration Committee has received advice from New Bridge Street Consultants LLP ("NBSC") and Watson Wyatt Limited, both independent firms of remuneration consultants appointed after consultation with the Board. The terms of engagement of NBSC and Watson Wyatt are available on request from the Secretary. NBSC and Watson Wyatt are entirely independent of the Board and provide no services to the Group other than advice on executive remuneration to the Remuneration Committee. Ms K Geary (Director of Human Resources and Corporate Communications) and Mr M J Robinson (Secretary) have provided advice or services to the Remuneration Committee that materially assisted it in its consideration of matters relating to directors' remuneration for the financial year and the Chairman of the Board, the Chief Executive, Ms K Geary and Mr M J Robinson have, following the invitation of the Committee, attended certain of its meetings. However, they were not present at any meeting when any matter relating to their own remuneration was discussed, nor did they advise in any way in relation to their own remuneration.

2 REMUNERATION POLICY

2.1 General Remuneration Policy

The Remuneration Committee, in setting remuneration policy, recognises the need to be competitive in an international market. The Committee's policy is to set remuneration levels which ensure that the executive directors are fairly and responsibly rewarded in return for high levels of performance. Remuneration policy is designed to support key business strategies and to create a strong, performance-orientated environment. At the same time, the policy must attract, motivate and retain talent. Accordingly, executive directors receive base salaries comparable with companies of a similar size and international scope and have the opportunity to earn enhanced total remuneration for meeting the performance targets set by the Committee. In setting remuneration levels for the executive directors, the Committee takes account of the remuneration policy and practice applicable to other Group employees.

The components of remuneration for executive directors comprise base salary (a fixed sum payable monthly which is reviewed annually in October), benefits (including car allowance and non-contributory health insurance), an annual bonus (with a deferred element), long-term incentives (comprising share options and awards under a performance share plan) and pension contributions.

The Remuneration Committee considers that a successful remuneration policy must ensure that a significant part of the remuneration package is linked to the achievement of stretching corporate performance targets. Performance-related elements for the year ended 30 September 2006 comprise share options, awards under a performance share plan and annual bonus. The policy adopted by the Committee ensures that a significant proportion of the remuneration of executives is aligned with corporate performance, generating a strong alignment of interest with shareholders. As a result, significantly over half of the executive directors' potential remuneration packages is performance-related.

2.2 Policy on Salary of Executive Directors

It is the policy of the Committee to pay base salaries to the executive directors at broadly market rates compared with those of executives of companies of a similar size and international scope (in particular those within the

FTSE 50-150 with more than 50% of revenue derived from overseas), whilst also taking into account the executives' personal performance and the performance of the Group.

2.3 Policy on fees of non-Executive Directors

The fees of the non-executive directors are reviewed every two years. Since the previous fees were effective for the two years ended on 30 September 2006, a review was recently conducted. As a result of that review and recognising that non-executive fees had not increased in the two years since the previous review, the basic fee for directors has been increased to £40,000 with effect from 1 October 2006. An additional fee of £5,000 and £7,000 is paid for membership of the Remuneration and Audit Committees respectively. Therefore, a director sitting on both those Committees will receive fees of £52,000. Further payments are made to the chair of each of these Committees, being £6,000 and £8,000 for chairing the Remuneration and Audit Committees respectively. A further payment of £4,000 is made each year to the Senior Independent Director. These revised fees are in place for the two financial years ending on 30 September 2008.

In relation to the Chairman, it is the policy of the Board for remuneration to be comparable to that of the median fees for non-executive chairs of companies of a comparable size and complexity.

Non-executive directors are not entitled to participate in long-term plans or pension schemes.

2.4 Policy on Bonus

The bonus in the case of executive directors (and indeed all employees) is designed to reward outstanding performance.

The Remuneration Committee adopted its policy on bonuses after discussion with certain institutional shareholders, taking into account market practice amongst comparator companies, the overall remuneration structure for the executive directors and the Remuneration Committee's desire to reward outstanding performance. For this reason, bonus is linked to demanding strategic targets for the Group and for the individual operating companies, the meeting or out-performance of which is a significant achievement. Taking this into account, in relation to executive directors with no specific divisional responsibility, budgeted Group EPS is the main element in determining the calculation of bonus. In the case of divisional managing directors, 75% of bonus is based on the achievement of the targets for EBITA of the relevant operating division and 25% on the budgeted Group EPS target. A bonus of 15% of salary is payable if 95% of budget is achieved, 75% of salary if budget is achieved and 125% of salary if 110% of budget is achieved. Between these points bonus is payable on a straight-line basis. In all cases, a further measure based on cash generation from operations overlays the performance condition providing a 0.9 to 1.1 multiplier to the bonus payment, depending on the achievement of the cash generation measure. In no case will the multiplier increase any bonus to more than 125% of salary.

In addition, in respect of any bonus awarded in excess of 75% of salary, 25% of that excess is to be satisfied in deferred shares and 75% in cash. These shares (which will be market purchased ordinary shares in the capital of the Company) will only be released after three years to the relevant executive and will be generally at risk of forfeiture if the executive leaves within the deferral period. Awards over deferred shares were made to executive directors as set out in the Directors' Remuneration table in paragraph 5 below.

In the year under review, significant achievements were made against stretching budgets which are reflected in the bonuses paid. These are set out in the Directors' Remuneration table in paragraph 5 below.

Wherever used in this Remuneration Report, EPS refers to earnings per share before amortisation or impairment of intangible assets, exceptional items and amounts written-off investments. This measure has been selected since the timing of acquisitions can be unpredictable, with the result that the amortisation charge in respect of intangible assets is inherently difficult to budget.

2.5 Policy on Long-Term Incentives

Executive Share Options

Under the 1999 Executive Share Option Scheme ("ESOS"), market value option grants are made to senior executives and managers across the Group, as well as to other staff with high potential or to recognise significant achievement or local market practice. The annual grant is normally made after the preliminary declaration of the annual results. Under the rules of the ESOS, the annual grant of options to an individual is limited to shares worth up to 300% of base salary. In practice, annual grants to executive directors are limited to shares under option worth 100% of base salary except in exceptional circumstances, such as a promotion or recruitment or to reflect local market practice.

The performance targets governing the vesting of options are based on stretching EPS growth measured over a fixed three year period from the start of the financial year in which the grant is made. 30% of options will vest at the end of the period if the increase in EPS exceeds RPI by 15% (an average of 5% per year) and 100% of those options will vest at that time only if RPI is exceeded in that period by 27% (an average of 9% per year). Between

Remuneration Report continued

those targets, options will vest on a straight-line basis. If those targets are not met at the end of the three year period, then no further retesting of the performance criteria will be undertaken and the options will lapse. The Remuneration Committee believes that this EPS growth target for share options is appropriately demanding for the Group at this time and will keep the target under review to ensure that it continues to be stretching. The Remuneration Committee considers that EPS growth is an appropriate performance measure as it requires executives to produce sustained improvement in the underlying financial performance of the Group.

The Remuneration Committee noted the change to accounting standards arising from the adoption of International Financial Reporting Standards and will ensure that EPS is calculated on a consistent basis over the transition period to the new standards. As it will not be practical to restate either historic or future EPS on a common accounting policy basis, the intention is to review material differences between the two approaches on an item by item basis and remove significant one-off variances to produce 'normalised earnings'.

Performance Share Plan

Under the Performance Share Plan (the "Plan"), annual grants of performance shares will normally be made to executive directors and senior executives across the Group after the preliminary declaration of the annual results. This Plan is operated in conjunction with the ESOS.

Annual awards under the Plan are limited to shares worth up to 150% of base salary. In practice, annual grants to executive directors are limited to shares worth 100% of base salary except in exceptional circumstances, such as a promotion or recruitment or to reflect local market practice.

The performance shares are subject to performance conditions measuring the Group's total shareholder return ("TSR") against a comparator group of international software and computer services companies. TSR has been chosen as the performance condition because it helps to align the interests of award holders with shareholders and complements the focus on Group financial results that arises from using EPS under the ESOS and annual bonus plan. The comparator group for awards made in the year to 30 September 2007 will comprise the following companies:

- Blackbaud
- Business Objects
- Cap Gemini
- Cegid
- Exact
- Intuit
- iSOFT
- Lawson Software, Inc.
- LogicaCMG
- Microsoft
- Misys
- MYOB
- Northgate Information Solutions
- Oracle
- Salesforce.com
- SAP

The Committee will continue to ensure that the comparator group remains appropriate.

30% of shares vest for median TSR performance as compared to the comparator group whilst all shares vest for upper quintile (top 20%) TSR performance. Between those two points, shares will vest on a straight-line basis. TSR will be measured over a single three year period from the start of the financial year in which the grant is made to establish whether the criteria have been met and if these criteria are not met on the third anniversary of grant, the rights to the performance shares will lapse. If financial performance in any year was disappointing, then the Committee would consider making no award under the Plan in the following year.

For comparator companies listed overseas the TSR is calculated in local currency since this is considered to give a better reflection of the underlying performance of the comparator companies over the performance period. The Committee will continue to review whether this treatment is appropriate.

The Committee believes that granting both options and performance shares provides a well balanced, long-term incentive package and considers that it is appropriate for executive directors to receive an annual grant worth up to 100% of salary under each of the ESOS and the Plan. However, if, for example, local legislation makes it less tax efficient to grant performance shares to any executive, an enhanced option grant may be made above 100% of salary in value to ensure equality of treatment to these executives, with a corresponding reduction in the value of the performance share award.

All-Employee Share Schemes

UK based executive directors are entitled to participate in The Sage Group Savings-Related Share Option Plan (the "SAYE Scheme"). Mr G S Berruyer currently holds units granted under the Sage Plan d'Epargne d'Entreprise ("PEE"), which is an all-employee plan designed to enable French employees to acquire shares in the Company at a discounted price under terms comparable to those offered to UK employees under the SAYE Scheme. There are no performance conditions under either the SAYE Scheme or the PEE since these generally do not apply to all-employee share plans such as these.

2.6 Policy on Pensions

All the executive directors' pension arrangements are of the defined contribution type. The Sage Executive Pension Scheme is the main pension fund for Sage executives in the UK. It is a defined contribution plan where the standard contribution rate is 15% of base salary subject, where appropriate, to limits set by HMRC. The components of remuneration other than base salary are not pensionable.

2.7 Policy on Directors' Shareholdings

The Committee believes that all executive directors should hold a substantial number of shares in the Company. It is, therefore, its policy that all executive directors over time hold shares equivalent in value to 150% of their annual salary. Until the required holding is achieved, executive directors will be expected to retain (net of any shares sold to meet the tax liability in respect of them) at least 50% of:

- Shares received as deferred bonus;
- Shares resulting (net of exercise costs) from the exercise of share options granted from December 2004 onwards; and
- Performance shares received under the Plan.

In assessing whether the target of 150% of salary is met, vested options under the share option schemes of the Company will be deemed to have a value equal to the net value after exercise costs and taxation of those options as if exercised on the relevant date.

2.8 Policy on Service Contracts

In relation to contracts with executive directors, the Remuneration Committee aims to set notice or contract periods at one year. If it is necessary to offer longer notice or contract periods to new directors recruited from outside the Group, it is the Company's policy to reduce these as soon as contractually possible after the initial period to a notice period of one year.

Both executive and non-executive directors are subject to election by shareholders at the first annual general meeting following their appointment and thereafter require re-election at least once every three years. The appointment of a non-executive director may be terminated without compensation if that director is not re-elected by shareholders or otherwise in accordance with the Company's Articles of Association. The appointment of the non-executives is for a fixed term of two or three years, during which period the appointment may be terminated by the Board on notice, ranging from 6 to 12 months. There are no provisions on payment for early termination in their letters of appointment.

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. Mr P A Walker is currently a non-executive director of Diageo plc. Mr P L Stobart is a non-executive director of Capital & Regional plc and was until 1 December 2006 a non-executive director of Planit Holdings plc. Fees received in their capacity as directors of these companies are retained by each of them reflecting the personal responsibility they undertake in these roles. In the year under review, these fees were £60,000 in the case of Mr P A Walker and £59,500 in the case of Mr P L Stobart.

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 and in no case should more than one directorship of another FTSE 100 company be taken. Where an executive director holds non-executive positions at more than one listed company only the fees from one such company will be retained by the director. No formal limit on other board appointments applies to non-executive directors under the policy but prior approval from the Chairman on behalf of the Board is required in the case of any new appointment.

The service contracts of executive directors and the letters of appointment of non-executive directors prohibit the disclosure of confidential information relating to the Group both during the term of the contract and after its termination. 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.

Remuneration Report continued

3 DIRECTORS' CONTRACTS AND COMPENSATION

All executive directors have service contracts, which may be terminated by the Company for breach by the executive or by giving 12 months' notice. There are no pre-determined special provisions for directors with regard to compensation in the event of loss of office, with compensation based on what would be earned by way of salary, pension entitlement and other benefits over the notice period. In the event that a contract is to be terminated, payments to the executive director may be staged over the notice period, or in the case of executive directors other than Mr G S Berruyer, the contract terminated and payments made in lieu of notice at the same time as salary would have been paid throughout the 12 months' notice period. There is no automatic entitlement to annual bonus or outstanding awards under share incentive plans. Non-executive directors' appointments may be terminated without compensation other than in respect of fees during the notice period. Mr L C N Bury and Mr M E W Jackson retired from the Board and their contracts were terminated by mutual agreement without further payment on 2 March 2006 and 1 August 2006 respectively. Details of the contract of service or contract for services of each person who has served as a director of the Company at any time during the financial year are set out below:

Director	Date of contract	Unexpired term of contract on 30 September 2006	Notice period under contract
Executive directors			
G S Berruyer	30 September 2004	12 months	12 months from the Company and/or 6 months from individual
P S Harrison	1 April 2000	Age 60 or 12 months	12 months from the Company and/or individual
P L Stobart	26 September 2003	Age 60 or 12 months	12 months from the Company and/or individual
R Verni	8 July 2003	12 months	12 months from the Company and/or individual
P A Walker	26 September 2003	Age 60 or 12 months	12 months from the Company and/or individual
Non-executive directors			
L C N Bury	23 September 2005	Nil (terminated 2 March 2006)	3 months from the Company and/or 1 month from individual
D H Clayton	6 September 2004	9 months	6 months from the Company and/or 1 month from individual
A J Hobson	29 June 2004	9 months	6 months from the Company and/or 1 month from individual
J M Horn-Smith	27 January 2006	2 years 3 months	12 months from the Company and/or the individual
T Ingram	21 December 2004	1 year 3 months	6 months from the Company and/or 1 month from individual
T C W Ingram	24 March 2006	1 year 6 months	6 months from the Company and/or 1 month from individual
M E W Jackson	16 September 2005	Nil (terminated on 1 August 2006)	3 months from the Company and/or 1 month from individual
R Markland	15 August 2006	3 years	6 months from the Company and/or 1 month from individual

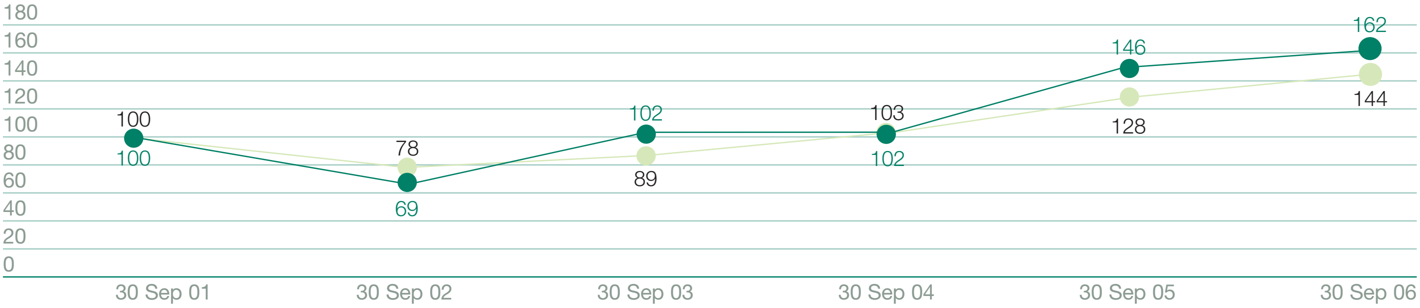
Notes:
There are no other benefits in the contracts relevant to termination payment.

4 PERFORMANCE GRAPH

Total Shareholder Return ("TSR") against FTSE 100

The graph shows, for the last five financial years of the Company, the TSR on a holding of shares in the Company as against the TSR of the FTSE 100 Index.

Total Shareholder Return



This graph shows the value, by 30 September 2006 of £100 invested in The Sage Group plc on 30 September 2001 compared with the value of £100 invested in the FTSE 100 Index. The other points plotted are the values at intervening financial year-ends.

● Sage Group ● FTSE 100 Index (Source: Thomson Financial)

The FTSE 100 Index is, in the opinion of the directors, the most appropriate index against which the TSR of the Company should be measured because of the comparable size of the companies which comprise that index.

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5 DIRECTORS' REMUNERATION

The information set out in Sections 5.1 to 5.4 below has been subject to audit as required by part 3 of Schedule 7A of the Companies Act 1985.

5.1 Directors' Emoluments and Compensation (audited information)

The total salaries, fees and benefits paid to or receivable by each person who served as a director at any time during the year, appear below. These include all payments for services as a director of the Company, its subsidiaries or otherwise in connection with the management of the Group and any other directorship he or she holds because of the Company's nomination.

Director	Salary and fees '000	Bonus '000	Bonus deferred into shares[7] '000	Benefits in kind[5] '000	2006 Total '000	2005 Total '000	2006 Pension contributions[6] '000	2005 Pension contributions '000
Executive directors								
G S Berruyer	€558	€549	€44	€7	€1,158	€1,113	-	-
P S Harrison	£300	£308	£28	£17	£653	£568	£45	£40
P L Stobart	£378	£315	£10	£17	£720	£683	£57	£54
R Verni	$693	$688	$56	-	$1,437	$1,478	$6	$1
P A Walker	£656	£672	£60	£21	£1,409	£1,320	£98	£94
Non-executive directors								
L C N Bury[1]	£26	-	-	-	£26	£48	-	-
D H Clayton	£42	-	-	-	£42	£42	-	-
A J Hobson	£48	-	-	-	£48	£45	-	-
J M Horn-Smith[2]	£59	-	-	-	£59	-	-	-
T Ingram	£37	-	-	-	£37	£29	-	-
T C W Ingram	£46	-	-	-	£46	£42	-	-
M E W Jackson[3]	£138	-	-	£1	£139	£166	£21	£25
R Markland[4]	£2	-	-	-	£2	-	-	-

Notes:
1 Retired 2 March 2006.
2 Appointed 3 March 2006.
3 Retired 1 August 2006.
4 Appointed 13 September 2006.
5 Benefits in kind include the provision of car allowance and insurance.
6 Retirement benefits were accruing to five directors (2005: five). All pension contributions accrued under money purchase schemes.
7 An element of bonus has been deferred by the Company as an award under the Sage Group Deferred Bonus Plan. Awards under the Plan, which were made on 10 January 2007 over such number of shares whose market value is as close as possible to, but no greater than, the deferred bonus, will vest on the third anniversary of the date of grant. In the event that a director ceases to be an employee of the Group for reasons other than death, retirement, redundancy, injury, ill health or disability before the third anniversary of the date of grant, then the rights to the award will lapse unless the Remuneration Committee recommend otherwise. The directors have no entitlement to the bonus deferred into an award of shares until it vests. Full details of the award will be contained in the report for the year ended 30 September 2007.

- No payments for compensation for loss of office or otherwise relating to termination of office or employment were made during the year.
- Total directors' emoluments were £4,771,000 (2005: £4,541,000).
- No other payments (including non-cash benefits) were made to third parties in respect of the services of a person who served as a director of the Company at any time during the financial year.
- Including gains on share options, the total emoluments of the highest paid director were £4,688,000 (2005: £1,319,836).

5.2 Directors' Share Options (audited information)

There are limits on the number of newly issued shares that can be used to satisfy awards under the Group's share schemes in any 10 year period. The limits and the Group's current position against those limits as at 18 January 2007 (the last practicable date prior to printing this document), are set out below:

Limit	Current position
7.5% of Group's share capital can be used for discretionary share schemes	5.93% used
10% of Group's share capital can be used for all share schemes	6.46% used

Whilst there is still sufficient scope within the above limits to satisfy options through new issue shares for the foreseeable future, the Company currently intends to satisfy awards under the Performance Share Plan through the market purchase of shares.

Executive Share Options

The Group's only current executive share option scheme is the ESOS where, in the year under review, executive directors received grants worth 100% of their base salary at the then relevant exchange rates (where applicable). The outstanding executive share options granted to each director of the Company under the executive share option schemes, including the ESOS, are recorded in the register kept by the Company under section 325 Companies Act 1985 as follows:

Director	Exercise price per share	Shares under option at 1 October 2005 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	Shares under option at 30 September 2006 number	Date exercisable
G S Berruyer	81.10p	250,000	-	-	-	**250,000**	17 December 2000 – 17 December 2007
	136.00p	350,000	-	-	-	**350,000**	16 December 2001 – 16 December 2008
	329.75p	121,304	-	-	-	**121,304**	17 January 2004 – 17 January 2011
	134.00p	223,880	-	-	-	**223,880**	31 December 2005 – 31 December 2012
	171.00p	175,438	-	-	-	**175,438**	24 December 2006 – 24 December 2013
	198.00p	189,082	-	-	-	**189,082**	6 January 2008 – 6 January 2015
	258.50p	-	147,748	-	-	**147,748**	10 January 2009 – 10 January 2016
		1,309,704	**147,748**	**-**	**-**	**1,457,452**	
P S Harrison	136.00p	60,000	-	-	-	**60,000**	16 December 2001 – 16 December 2008
	721.00p	30,000	-	-	-	**30,000**	23 February 2003 – 23 February 2010
	329.75p	65,595	-	-	-	**65,595**	17 January 2004 – 17 January 2011
	134.00p	186,567	-	-	-	**186,567**	31 December 2005 – 31 December 2012
	171.00p	128,654	-	-	-	**128,654**	24 December 2006 – 24 December 2013
	198.00p	133,838	-	-	-	**133,838**	6 January 2008 – 6 January 2015
	258.50p	-	116,054	-	-	**116,054**	10 January 2009 – 10 January 2016
		604,654	**116,054**	**-**	**-**	**720,708**	
M E W Jackson	136.00p	**300,000**	**-**	**-**	**-**	**300,000**	16 December 2001 – 31 July 2007
P L Stobart	81.10p	400,000	-	-	-	**400,000**	17 December 2000 – 17 December 2007
	136.00p	210,000	-	-	-	**210,000**	16 December 2001 – 16 December 2008
	329.75p	121,304	-	-	-	**121,304**	17 January 2004 – 17 January 2011
	134.00p	223,880	-	-	-	**223,880**	31 December 2005 – 31 December 2012
	171.00p	175,438	-	-	-	**175,438**	24 December 2006 – 24 December 2013
	198.00p	181,818	-	-	-	**181,818**	6 January 2008 – 6 January 2015
	258.50p	-	146,228	-	-	**146,228**	10 January 2009 – 10 January 2016
		1,312,440	**146,228**	**-**	**-**	**1,458,668**	
R Verni	204.50p	150,000	-	-	-	**150,000**	7 June 2002 – 7 June 2009
	329.75p	121,304	-	-	-	**121,304**	17 January 2004 – 17 January 2011
	228.50p	89,031	-	-	-	**89,031**	2 January 2005 – 2 January 2012
	134.00p	298,507	-	-	-	**298,507**	31 December 2005 – 31 December 2012
	171.00p	182,158	-	-	-	**182,158**	24 December 2006 – 24 December 2013
	198.00p	178,062	-	-	-	**178,062**	6 January 2008 – 6 January 2015
	258.50p	-	151,975	-	-	**151,975**	10 January 2009 – 10 January 2016
		1,019,062	**151,975**	**-**	**-**	**1,171,037**	
P A Walker	33.90p	1,560,000	-	(1,560,000)	-	-	15 January 1999 – 15 January 2006
	136.00p	440,000	-	-	-	**440,000**	16 December 2001 – 16 December 2008
	329.75p	151,630	-	-	-	**151,630**	17 January 2004 – 17 January 2011
	134.00p	313,432	-	-	-	**313,432**	31 December 2005 – 31 December 2012
	171.00p	280,701	-	-	-	**280,701**	24 December 2006 – 24 December 2013
	198.00p	315,656	-	-	-	**315,656**	6 January 2008 – 6 January 2015
	258.50p	-	253,771	-	-	**253,771**	10 January 2009 – 10 January 2016
		3,061,419	**253,771**	**(1,560,000)**	**-**	**1,755,190**	
Total		**7,607,279**	**815,776**	**(1,560,000)**	**-**	**6,863,055**	

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Notes:

- No options were varied during the year.
- Options granted to all directors of the Company and its operating subsidiaries throughout the Group under the ESOS that are exercisable on or after 23 February 2003 but before 6 January 2008 will normally be exercisable only if the percentage increase in the Company's EPS has exceeded the RPI by at least 3% each year in the three year period since grant i.e. by a total of 9%. If that target is not met at the end of the three year period, then those options will only be exercisable if EPS growth exceeds RPI by 12% over the four year period following the date of grant. In respect of options exercisable on or after 6 January 2008 the performance criteria for exercise are set out in paragraph 2.5 above. In respect of any share options exercisable prior to 23 February 2003 no performance conditions apply as such conditions were not deemed appropriate by the Remuneration Committee at that time.
- For the options exercised in the year, the market price of the exercised shares at the date of exercise (9 December 2005) was 244.08p.
- The market price of a share of the Company at 30 September 2006 was 251.25p and the lowest and highest market price during the year of each such share were 204.75p and 283.75p respectively.
- Total gains on the exercise of share options were £3,307,183 (2005: £478,275), including £3,278,877 (2005: £478,275) on executive share options.
- The table above does not show exercises of options after 30 September 2006 which are referred to in the notes to the table in paragraph 5.5 below.

All-Employee Share Scheme

In relation to the SAYE Scheme, the outstanding options granted to each director of the Company are as follows:

Director	Exercise price per share	Shares under option at 1 October 2005 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	Shares under option at 30 September 2006 number	Date exercisable
P S Harrison	112.00p	8,437	-	(8,437)	-	-	1 March 2006 – 31 August 2006
	184.00p	-	5,081	-	-	**5,081**	1 August 2009 – 31 January 2010
		8,437	**5,081**	**(8,437)**	**-**	**5,081**	
P L Stobart	112.00p	8,437	-	(8,437)	-	-	1 March 2006 – 31 August 2006
	184.00p	-	5,081	-	-	**5,081**	1 August 2009 – 31 January 2010
		8,437	**5,081**	**(8,437)**	**-**	**5,081**	
Total		**16,874**	**10,162**	**(16,874)**	**-**	**10,162**	

Notes:

- These options are not subject to performance conditions since these do not apply to this all-employee share scheme.
- For the options exercised in the year, the market price of the exercised shares at the dates of exercise, being 1 March 2006 was 279.75p. Neither director sold the shares after exercise.
- Under the PEE Mr G S Berruyer holds units in a French mutual fund, which holds shares in the Company. The units must be held for no less than 5 years. On 30 September 2005 10,307 units were held by Mr G S Berruyer at a price of 3.44 euros per share. On 30 September 2006 13,195 units were held at a price of 3.91 euros per share. Units are valued on a weekly basis.

5.3 Performance Share Plan (audited information)

In the year under review, the following awards were made to executive directors under the Performance Share Plan and are still outstanding at 30 September 2006:

Director	Awarded at 1 October 2005 number	Awarded during the year number	Vested during the year number	Lapsed during the year number	Awarded 30 September 2006 number	Vesting date
G S Berruyer	178,903	-	-	-	**178,903**	18 March 2008
	-	147,748	-	-	**147,748**	10 January 2009
	178,903	**147,748**	**-**	**-**	**326,651**	
P S Harrison	128,329	-	-	-	**128,329**	18 March 2008
	-	116,054	-	-	**116,054**	10 January 2009
	128,329	**116,054**	**-**	**-**	**244,383**	
P L Stobart	174,334	-	-	-	**174,334**	18 March 2008
	-	146,228	-	-	**146,228**	10 January 2009
	174,334	**146,228**	**-**	**-**	**320,562**	
R Verni	166,118	-	-	-	**166,118**	18 March 2008
	-	151,975	-	-	**151,975**	10 January 2009
	166,118	**151,975**	**-**	**-**	**318,093**	
P A Walker	302,663	-	-	-	**302,663**	18 March 2008
	-	253,771	-	-	**253,771**	10 January 2009
	302,663	**253,771**	**-**	**-**	**556,434**	
Total	**950,347**	**815,776**	**-**	**-**	**1,766,123**	

Notes:

- No variations were made in the terms of the awards in the year.
- The market price of a share on 10 January 2006, the date of the award, was 253.00p.
- The vesting of shares awarded under the Performance Share Plan is subject to performance conditions measuring the Group's total shareholder return ("TSR") against a comparator group. 30% of shares vest for median TSR performance as compared to that group whilst all shares vest for upper quintile (top 20%) TSR performance. Between those points, shares will vest on a straight-line basis. Further details are given in paragraph 2.5 above.

Remuneration Report continued

5.4 Deferred Shares (audited information)

In accordance with the rules of the Sage Group Deferred Bonus Plan awards were made as follows to directors of the Company in respect of the bonus for financial year ended 30 September 2005.

Director	Shares at 30 September 2005 number	Shares awarded during the year number	Shares at 30 September 2006 number
G S Berruyer	-	11,736	**11,736**
P S Harrison	-	8,418	**8,418**
P L Stobart	-	3,524	**3,524**
R Verni	-	17,693	**17,693**
P A Walker	-	19,853	**19,853**
Total	**-**	61,224	**61,224**

Notes:

- Awards of shares will vest on the third anniversary of the date of grant, being 10 January 2009. In the event that a director ceases to be an employee of the Group for reasons other than death, retirement, redundancy, injury, ill health or disability before the third anniversary of the date of grant then the rights to the award will lapse, unless the Remuneration Committee recommend otherwise.
- No variations were made in the terms of the awards in the year.
- The market price of a share on 10 January 2006, the date of the award, was 253.00p.

5.5 Interests In Shares

The interests of the directors in the shares of the Company according to the register kept by the Company under section 325 of the Companies Act, 1985 were:

Director	Ordinary shares at 30 September 2006 number	Ordinary shares at 30 September 2005 number
G S Berruyer	**-**	-
L C N Bury[1]	**400,000**	400,000
D H Clayton	**25,000**	25,000
P S Harrison	**8,437**	-
A J Hobson	**20,000**	11,000
J M Horn-Smith	**100,000**	-
T Ingram	**-**	-
T C W Ingram	**23,114**	10,000
M E W Jackson[1]	**90**	370,090
R Markland	**-**	-
P L Stobart	**23,477**	15,040
R Verni	**-**	-
P A Walker	**7,069,772**	7,069,772
Total	**7,669,890**	7,900,902

Notes:

1 The interests of Messrs Bury and Jackson are shares on their retirement as directors on 2 March 2006 and 1 August 2006 respectively.

- The above interests in the ordinary share capital of the Company are beneficial.
- There have been no changes in the directors' holdings in the share capital of the Company between 30 September 2006 and 18 January 2007 other than referred to in the notes below.
  - On 1 December 2006 Ms R Markland acquired 5,000 ordinary shares at a price of 263.25p per share.
  - On 1 December 2006 Mr P L Stobart exercised options under the terms of The Sage Group (No. 2) Executive Share Option Scheme over 400,000 ordinary shares at an option price of 81.10p per share and over 210,000 ordinary shares at an option price of 136.00p per share. He subsequently sold that day 610,000 ordinary shares at an average price of 260.50p per share.
  - On 4 January 2007 Mr G S Berruyer exercised options under the terms of The Sage Group (No. 2) Executive Share Option Scheme over 250,000 ordinary shares at an option price of 81.10p per share and under the terms of The Sage Group 1999 Executive Option Scheme over 223,880 ordinary shares at an option price of 134.00p per share. He subsequently sold that day 250,000 ordinary shares at an average price of 266.50p per share.
  - On 4 January 2007 Mr R Verni purchased 25,000 ordinary shares at a price of 266.50p per share.
  - On 18 January 2007 Ms T Ingram purchased 3,600 ordinary shares at a price of 275.00p per share.

5.6 Significant Awards to Past Directors

No significant awards were made to any person who was not a director at the time the award was made but who was previously a director.

Approved by the Board of Directors and signed on its behalf:

T C W Ingram
Chairman of the Remuneration Committee
18 January 2007

sage

Consolidated Financial Statements Under IFRS 2006

CONTENTS

Consolidated Income Statement

For the year ended 30 September 2006

	Note	2006 £m	2005 £m
Continuing operations			
Revenue	1	**935.6**	759.6
Cost of sales		**(80.4)**	(60.7)
Gross profit		**855.2**	698.9
Selling and administrative expenses		**(619.4)**	(499.6)
Operating profit	1,3	**235.8**	199.3
Finance income	2	**3.5**	2.8
Finance expenses	2	**(18.1)**	(8.5)
Net finance expenses	2	**(14.6)**	(5.7)
Profit before taxation		**221.2**	193.6
Taxation	4	**(68.6)**	(61.2)
Profit for the year	23	**152.6**	132.4
Attributable to:			
Equity shareholders	22,23	**152.5**	132.3
Minority interest	23,24	**0.1**	0.1
Profit for the year	23	**152.6**	132.4
EBITA*	1	**249.3**	202.1
Earnings per share (pence)			
- Basic	6	**11.81p**	10.31p
- Diluted	6	**11.73p**	10.26p

Consolidated Statement of Recognised Income and Expense

For the year ended 30 September 2006

	Note	2006 £m	2005 £m
Profit for the year	23	**152.6**	132.4
Net exchange adjustments offset in reserves	23	**(30.8)**	13.3
Net (losses)/gains not recognised in income statement		**(30.8)**	13.3
Total recognised income for the year		**121.8**	145.7
Attributable to:			
Equity shareholders		**121.7**	145.7
Minority interest		**0.1**	-
Total recognised income for the year		**121.8**	145.7

* EBITA measure (Earnings before interest, tax and amortisation) excludes the effects of:

• Amortisation of acquired intangible assets; and

• Amortisation (or capitalisation) of software development expenditure.

Consolidated Balance Sheet

As at 30 September 2006

	Note	2006 £m	2005 £m
Non-current assets			
Goodwill	7	**1,561.9**	1,076.8
Other intangible assets	8	**185.6**	45.4
Property, plant and equipment	9	**133.8**	119.9
Deferred tax assets	17	**26.3**	46.0
		1,907.6	1,288.1
Current assets			
Inventories	10	**5.6**	3.5
Trade and other receivables	11	**215.7**	149.9
Cash and cash equivalents	12	**82.0**	69.1
		303.3	222.5
TOTAL ASSETS		**2,210.9**	1,510.6
Current liabilities			
Trade and other payables	13	**(190.3)**	(145.5)
Current tax liabilities	14	**(63.5)**	(60.8)
Financial liabilities			
- Borrowings	15	**(1.0)**	(0.2)
Deferred consideration		**(21.5)**	(5.8)
Deferred income		**(282.1)**	(228.3)
		(558.4)	(440.6)
Non-current liabilities			
Financial liabilities			
- Borrowings	15	**(662.8)**	(176.3)
Retirement benefit obligations	28	**(2.1)**	(2.3)
Deferred tax liabilities	17	**(10.0)**	(2.5)
		(674.9)	(181.1)
TOTAL LIABILITIES		**(1,233.3)**	(621.7)
NET ASSETS		**977.6**	888.9
Equity			
Share capital	18	**12.9**	12.8
Share premium account	20	**462.8**	451.0
Other reserves	21	**43.7**	74.5
Retained earnings	22	**458.1**	350.4
Total parent shareholders' equity	23	**977.5**	888.7
Minority interest in equity	24	**0.1**	0.2
TOTAL EQUITY	23	**977.6**	888.9

The consolidated financial statements on pages 53 to 104 were approved by the Board of Directors on 18 January 2007 and are signed on their behalf by:

Sir Julian Horn-Smith
Chairman

P A Walker
Director

Consolidated Cash Flow Statement

For the year ended 30 September 2006

	Note	2006 £m	2005 £m
Cash flows from operating activities			
Cash generated from continuing operations	25	**267.1**	241.0
Interest received	2	**3.5**	2.8
Interest paid		**(17.5)**	(8.1)
Tax paid		**(60.3)**	(57.3)
Net cash from operating activities		**192.8**	178.4
Cash flows from investing activities			
Acquisitions of subsidiaries (net of cash acquired)	26(m)	**(617.5)**	(101.0)
Disposal of subsidiaries	26(o)	**7.8**	-
Purchase of intangible assets	8	**(3.2)**	(6.3)
Purchase of property, plant and equipment	9	**(23.8)**	(14.4)
Proceeds from sale of property, plant and equipment		**2.9**	3.5
Development expenditure		**(0.1)**	(0.7)
Net cash used in investing activities		**(633.9)**	(118.9)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital		**11.7**	4.6
Purchase of treasury shares	23	**(13.3)**	-
Finance lease principal payments	25	**(0.3)**	0.9
Issue costs on loans	25	**(2.2)**	-
Repayment of borrowings	25	**(631.7)**	(209.4)
New borrowings	25	**1,131.1**	173.1
Dividends paid to shareholders	5	**(39.1)**	(33.9)
Net cash generated/(used) in financing activities		**456.2**	(64.7)
Net increase/(decrease) in cash and cash equivalents (before exchange rate changes)		**15.1**	(5.2)
Effects of exchange rate changes		**(2.2)**	-
Net increase/(decrease) in cash and cash equivalents		**12.9**	(5.2)
Cash and cash equivalents at 1 October		**69.1**	74.3
Cash and cash equivalents at 30 September	12	**82.0**	69.1

Notes to the Accounts - Group

For the year ended 30 September 2006

GROUP ACCOUNTING POLICIES

a Basis of preparation

As an EU listed company, The Sage Group plc is required to prepare its Group accounts using International Financial Reporting Standards ("IFRS"), as adopted by the European Union, with effect from 1 October 2005. These financial statements are the first full year statements to be prepared in accordance with IFRS. The disclosures required by IFRS 1 "First-time Adoption of International Financial Reporting Standards", are set out below.

The principal IFRS accounting policies of the Group are set out below:

The accounts are also prepared in accordance with IFRIC interpretations as endorsed by the EU and with those parts of the Companies Act 1985 that are applicable to companies reporting under IFRS.

First-time adoption of IFRS

In accordance with the requirements of IFRS 1 "First-time Adoption of International Financial Reporting Standards", the Group is subject to a number of voluntary and mandatory exemptions from full restatement of comparatives to the requirements of IFRS, details of which exemptions have been applied are included in note 34 below.

The financial statements are prepared on the historical cost basis of accounting.

b Basis of consolidation

The financial statements of the Group comprise the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared at the Balance Sheet date. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to benefit from its activities.

The results of subsidiaries acquired during the year are included in the Consolidated Income Statement, Consolidated Statement of Recognised Income and Expense and Consolidated Cash Flow Statement from the date of acquisition. They are de-consolidated from the date that control ceases.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minorities' share of changes in equity since the date of the combination.

c Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

d Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

The Group derives revenue from software licences, customer support and other products and services. Customer support includes telephone support and maintenance updates. Other products and services include the sale of professional services, business forms, hardware, payment processing and training.

Software licences – the Group recognises the revenue allocable to software licences and upgrades when all the following conditions have been satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the licence;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Where appropriate the Group provides a reserve for estimated returns under the standard acceptance terms at the time the revenue is recorded.

Customer support and maintenance – revenue allocable to customer support and maintenance is recognised on a straight-line basis over the term of the support and maintenance contract. Revenue not recognised in the income statement under this policy is classified as deferred income in the balance sheet.

Other products and services – revenue allocable to other products and services is recognised as the products are shipped, or rendering of services can be estimated reliably. Revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the balance sheet date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

Notes to the Accounts - Group continued

For the year ended 30 September 2006

GROUP ACCOUNTING POLICIES continued

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group;
- The state of completion of the transaction at the balance sheet date can be measured reliably; and
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

e Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's interest in the identifiable assets, liabilities and contingent liabilities acquired in a business combination. Goodwill previously written-off directly to reserves under UK GAAP prior to 1 October 1998 has not been reinstated and is not recycled to the income statement on the disposal of the business to which it relates.

f Impairment of assets

Goodwill is allocated to cash-generating units for the purposes of impairment testing. The recoverable amount of the cash-generating unit to which the goodwill relates is tested annually for impairment or when events or changes in circumstances indicate that it might be impaired. The carrying values of property, plant and equipment, investments measured using a cost basis and intangible assets other than goodwill are reviewed for impairment only when events indicate the carrying value may be impaired.

In an impairment test, the recoverable amount of the cash-generating unit or asset is estimated to determine the extent of any impairment loss. The recoverable amount is the higher of fair value less costs to sell and the value in use in the Group. An impairment loss is recognised to the extent that the carrying value exceeds the recoverable amount.

In determining a cash-generating unit's or asset's value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the cash-generating unit or asset that have not already been included in the estimate of future cash flows.

g Intangible assets – arising on business combinations

Amortisation of intangible assets is charged to the income statement on a straight-line basis over the estimated useful lives of each intangible asset. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

• Brand names	- 5 to 20 years
• Technology / In process R&D (IPR&D)	- 3 to 7 years
• Customer relationships	- 5 to 10 years

h Intangible assets – other

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Software assets are amortised over their estimated useful lives, which do not exceed three years.

i Internally generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the development of software is recognised only if all of the following conditions are met:

- It is probable that the asset will create future economic benefits;
- The development costs can be measured reliably;
- Technical feasibility of completing the intangible asset can be demonstrated;
- There is the intention to complete the asset and use or sell it;
- There is the ability to use or sell the asset; and
- Adequate technical, financial and other resources to complete the development and to use or sell the asset are available.

Internally generated intangible assets are amortised over their estimated useful lives which is between three to six years. Where no internally generated intangible asset can be recognised, development expenditure is charged to the income statement in the period in which it is incurred.

j Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses if applicable. Depreciation on property, plant and equipment is provided down to an asset's residual value over its useful economic life as follows:

• Freehold buildings	- 50 years
• Long leasehold buildings and improvements	- over period of lease
• Plant and equipment	- 2 to 7 years
• Motor vehicles	- 4 years
• Office equipment	- 5 to 7 years

Freehold land is not depreciated.

Residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

k Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

l Cash and cash equivalents

For the purpose of preparation of the cash flow statement, cash and cash equivalents include cash at bank and in hand and short-term deposits with an original maturity period of three months or less. Bank overdrafts that are an integral part of a subsidiary's cash management are included in cash and cash equivalents where they have a legal right of set-off and there is an intention to settle net, against positive cash balances, otherwise bank overdrafts are classified as borrowings.

m Trade receivables and trade payables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement within selling and administrative expenses. When a trade receivable is uncollectible, it is written-off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written-off are credited against selling and administrative expenses in the income statement.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

n Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax and current tax are charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

In recognising income tax assets and liabilities, management makes estimates of the likely outcome of decisions by tax authorities on transactions and events whose treatment for tax purposes is uncertain. Where the final outcome of such matters is different, or expected to be different, from previous assessments made by management, a change to the carrying value of income tax assets and liabilities will be recorded in the period in which such a determination is made. The carrying values of income tax assets and liabilities are disclosed separately in the Consolidated Balance Sheet.

o Financial instruments and hedge accounting (pre and post 30 September 2005)

Financial assets and liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provision of the instrument. Trade receivables are non-interest-bearing and are stated at their nominal value less the amount of any appropriate provision for irrecoverable amounts. Trade payables are non-interest-bearing and are stated at their nominal value.

In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity. The ineffective portion is recognised immediately in profit or loss.

p Foreign currency translation

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Pounds Sterling, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency ("foreign currencies") are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Notes to the Accounts - Group continued

For the year ended 30 September 2006

GROUP ACCOUNTING POLICIES continued

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Pounds Sterling using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

q Borrowing

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of borrowing on an effective interest basis.

r Leasing

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly as finance costs to the income statement.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

s Retirement benefit costs

The Group operates money purchase pension schemes for certain of its employees. The contributions are charged to the income statement as incurred.

There is a small defined benefit scheme operating within the Group. The assets of the defined benefit scheme are held separately from the assets of the Group. The costs of providing benefits under this scheme are determined using the projected unit credit actuarial valuation method.

The current service cost and gains and losses on settlements and curtailments are included in selling and administrative expenses in the Consolidated Income Statement. Past service costs are similarly included where the benefits have vested, otherwise they are amortised on a straight-line basis over the vesting period. The expected return on assets of funded defined benefit pension schemes and the imputed interest on pension plan liabilities comprise the pension element of the net finance expense/income in the income statement.

Differences between the actual and expected return on assets, changes in the retirement benefit obligation due to experience and changes in actuarial assumptions are included in the statement of recognised income and expense in full in the period in which they arise.

The liability recognised in the balance sheet in respect of the defined benefit pension scheme is the present value of the defined benefit obligation and unrecognised past service cost and future administration costs at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximate to the terms of the related pension liability.

The Groups contributions to defined contribution schemes are charged to the income statement in the period to which the contributions relate.

The calculation of the defined benefit obligation of a defined benefit plan requires estimation of future events, for example salary and pension increases, inflation and mortality rates. In the event that future experience does not bear out the estimates made in previous years, an adjustment will be made to the plan's defined benefit obligation in future periods which could have a material effect on the Group. The carrying amounts of assets and liabilities relating to defined benefit plans, together with the key assumptions used in the calculation of the defined benefit obligations relating to those plans, are disclosed in note 28.

t Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest allowing for the effect of non market-based vesting conditions.

Fair value is measured using the Black-Scholes or the Monte Carlo pricing models. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group also provides certain employees with the ability to purchase the Group's ordinary shares at a discount to the current market value at the date of the grant. The Group records an expense, based on its estimate of the discount related to shares expected to vest, on a straight-line basis over the vesting period.

u Dividends
Dividends on ordinary shares are recognised as a liability in the period in which they are approved by the Company's shareholders.

v Provisions
A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

w Segment reporting
At 30 September 2006, the Group is organised into geographical businesses. The geographic regions are the Group's primary reporting format for segment information as they represent the dominant source and nature of the Group's risks and returns. The Group's secondary reporting format is business segments: Small Business and Mid-market.

Segment assets include all intangible assets, property, plant and equipment, inventories, trade and other receivables, cash and cash equivalents and tax assets. Segment liabilities comprise mainly trade and other payables, retirement benefit obligations, tax liabilities and certain borrowings that can be attributed to the segment but exclude borrowings that are for general corporate purposes. Capital expenditure comprises additions to property, plant and equipment and intangible assets.

x Adoption of new and revised International Financial Reporting Standards
At the date of approval of these financial statements, the following standards, interpretations and amendments there to were issued but not yet mandatory effective for the Group.

International Financial Reporting Standards ("IFRS")
- IFRS 6 "Exploration for and Evaluation of Mineral Resources"
- IFRS 7 "Financial Instruments: Disclosures"
- IFRS 8 "Operating Segments"

International Financial Reporting Interpretations Committee ("IFRIC") interpretations
- IFRIC 4 "Determining whether an arrangement contains a lease"
- IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"
- IFRIC 6 "Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment"
- IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies"
- IFRIC 8 "Scope of IFRS 2"
- IFRIC 9 "Reassessment of embedded derivatives"
- IFRIC 10 "Interim Financial Reporting and Impairment"
- IFRIC 11 "IFRS 2: Group and Treasury Share Transactions"
- IFRIC 12 "Service Concession Arrangements"

Amendments to existing standards
- Amendment to IAS 1 "Presentation of Financial Statements" – Capital disclosures
- Amendment to IAS 19 "Employee Benefits" – Actuarial Gains and Losses, Group Plans and Disclosures
- Amendment to IAS 21 "The Effects of Changes in Foreign Exchange Rates" – Net Investment in a Foreign Operation
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Cash flow hedge accounting of forecast intra-group transactions, The Fair Value Option
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 4 "Insurance Contracts"
- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IFRS 6 "Exploration for and Evaluation of Mineral Resources"

All the IFRSs, IFRIC interpretations and amendments to existing standards had been adopted by the EU at the date of approval of these consolidated financial statements with the following exceptions: IFRIC 10, IFRIC 11 and IFRIC 12.

The directors anticipate that the future adoption of those standards, interpretations and amendments listed above that have not been adopted early will not have a material impact on the Consolidated Financial Statements.

y Critical accounting estimates and judgements
In preparing the Consolidated Financial Statements, management has to make judgements on how to apply the Group's accounting policies and make estimates about the future. The critical judgements that have been made in arriving at the amounts recognised in the Consolidated Financial Statements and the key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities in the next financial year, are discussed below:

- **Acquisitions**
  When acquiring a business, we have to make judgements and best estimates about the fair value allocation of the purchase price. We seek appropriate competent and professional advice before making any such allocations. We test the valuation of goodwill on an annual basis and whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. These tests require the use of estimates. See notes 7 and 8.

- **Impairment reviews**
  The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated above. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 7).

- **Income taxes**
  The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Notes to the Accounts - Group continued

For the year ended 30 September 2006

1 SEGMENTAL REPORTING

Primary reporting format – geographical segments

The Group manages its business segments on a global basis. The operations are based in four main geographical areas. The UK is the home country of the parent. The main operations in the principal territories are as follows:

- UK & Ireland
- Mainland Europe
- North America
- Rest of World

The Rest of World segment operations are mainly based in South Africa, Australia, Singapore, Malaysia, UAE, China and India. The sales analysis in the table below is based on the location of the customer which is not materially different from the location where the order is received and where the assets are located.

Year ended 30 September 2006	Note	UK & Ireland £m	Mainland Europe £m	North America £m	Rest of World £m	Group £m
The primary segment results were as follows:						
Continuing operations						
Revenue		205.2	299.8	361.5	69.1	935.6
Segment operating profit		76.3	58.9	82.4	18.2	235.8
Finance income						3.5
Finance expenses						(18.1)
Profit before taxation						221.2
Taxation						(68.6)
Profit for the year from continuing operations						152.6
The primary segment assets and liabilities were as follows:						
Segment assets		334.0	474.4	1,307.4	95.1	2,210.9
Segment liabilities		(139.2)	(184.3)	(223.4)	(25.5)	(572.4)
Segment net assets		194.8	290.1	1,084.0	69.6	1,638.5
Unallocated liabilities						
- Corporate borrowings						(660.9)
Total net assets						977.6
Other segmental information in respect of the primary segments was as follows:						
Capital expenditure – property, plant and equipment	9	8.0	3.4	11.1	1.3	23.8
Capital expenditure – intangible fixed assets	8	0.1	1.0	2.1	-	3.2
Depreciation	9	5.7	3.7	3.5	0.8	13.7
Amortisation of intangible assets	8	0.1	7.8	8.2	0.1	16.2
Other non-cash expenses – share-based payments	19	2.8	2.0	3.5	0.5	8.8

Year ended 30 September 2005	Note	UK & Ireland £m	Mainland Europe £m	North America £m	Rest of World £m	Group £m
The primary segment results were as follows:						
Continuing operations						
Revenue		192.6	204.9	302.3	59.8	759.6
Segment operating profit		70.9	43.4	70.5	14.5	199.3
Finance income						2.8
Finance expenses						(8.5)
Profit before taxation						193.6
Taxation						(61.2)
Profit for the year from continuing operations						132.4
The primary segment assets and liabilities were as follows:						
Segment assets		320.0	313.5	798.0	79.1	1,510.6
Segment liabilities		(126.5)	(130.8)	(166.3)	(23.6)	(447.2)
Segment net assets		193.5	182.7	631.7	55.5	1,063.4
Unallocated liabilities						
- Corporate borrowings						(174.5)
Total net assets						888.9
Other segmental information in respect of the primary segments was as follows:						
Capital expenditure – property, plant and equipment	9	6.2	2.7	4.5	1.0	14.4
Capital expenditure – intangible fixed assets	8	-	0.3	6.0	-	6.3
Depreciation	9	5.3	3.5	4.6	0.8	14.2
Amortisation of intangible assets	8	-	3.2	0.7	-	3.9
Other non-cash expenses – share-based payments	19	3.0	1.8	3.0	0.4	8.2

Segment assets include all intangible assets, property, plant and equipment, inventories, trade and other receivables, cash and cash equivalents and tax assets. Segment liabilities comprise mainly trade and other payables, retirement benefit obligations, tax liabilities and certain borrowings that can be attributed to the segment but exclude borrowings that are for general corporate purposes. Capital expenditure comprises additions to property, plant and equipment and intangible assets.

Reconciliation of operating profit to EBITA (Non GAAP measure)*

	2006 £m	2005 £m
Operating profit	**235.8**	199.3
Amortisation of acquired intangible assets	**13.6**	3.3
Net amortisation of software development expenditure	**(0.1)**	(0.5)
EBITA*	**249.3**	202.1

* EBITA measure (Earnings before interest, tax and amortisation) excludes the effects of:
• Amortisation of acquired intangible assets; and
• Amortisation (or capitalisation) of software development expenditure.

Notes to the Accounts - Group continued

For the year ended 30 September 2006

1 SEGMENTAL REPORTING continued

Secondary reporting format – business segment

The business segments identified are the Small business and Mid-market divisions.

The Small business division offers products and services to smaller SMEs. Products offered to this segment are generally stand-alone software products or networked with typically up to 3 users. The Mid-market division offer products and services to mid-sized SMEs. Products offered to this segment are generally networked products which allow more than 3 users.

	Revenue		Segment assets		Capital expenditure	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Continuing operations						
Small business division	**348.1**	321.0	**822.7**	638.4	**10.0**	8.8
Mid-market division	**587.5**	438.6	**1,388.2**	872.2	**17.0**	11.9
	935.6	759.6	**2,210.9**	1,510.6	**27.0**	20.7

	Revenue	
	2006 £m	2005 £m
Sale of goods	**322.8**	286.5
Rendering of services	**612.8**	473.1
	935.6	759.6

2 NET FINANCE EXPENSES

	2006 £m	2005 £m
Finance income	**3.5**	2.8
Finance expenses:		
Finance costs on bank borrowings	**(17.5)**	(7.8)
Amortisation of issue costs	**(0.6)**	(0.7)
	(18.1)	(8.5)
Net finance expenses	**(14.6)**	(5.7)

3 OPERATING PROFIT

The following items have been included in arriving at operating profit	Note	**2006 £m**	2005 £m
Staff costs	27	**409.8**	321.5
Inventories			
- Cost of inventories recognised as an expense (included in cost of sales)	10	**13.6**	9.7
Depreciation of property, plant and equipment			
- Owned assets	9	**13.6**	14.2
- Under finance leases	9	**0.1**	-
Amortisation of intangible assets (excluding amortisation of development expenditure)	8	**15.4**	3.3
(Loss) on disposal of fixed assets		**(0.8)**	-
Profit on disposal of subsidiary	26(j)	**2.7**	-
Other operating lease rentals payable			
- Plant and machinery		**3.0**	2.2
- Property		**18.6**	17.7
Repairs and maintenance expenditure on property, plant and equipment		**2.8**	0.7
Research and development expenditure		**94.8**	80.5

Services provided by the Group's auditor and network firms

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor at costs as detailed below:

	2006 £m	2005 £m
Audit services		
- Fees payable to Company auditor for the audit of parent Company and consolidated accounts	**1.3**	0.8
Non-audit services		
Fees payable to the Company auditor and its associates for other services:		
- The audit of the Company's subsidiaries pursuant to legislation	**0.1**	0.1
- Other services	**0.3**	0.1
- Tax services and compliance work	**1.4**	1.3
	3.1	2.3

The total audit fee for the Group, including the audit of overseas subsidiaries was £1.4m (2005: £0.9m). Other services include IFRS transition costs and are therefore closely associated with the audit.

The Group reported its results under IFRS for the first time for the year ended 30 September 2006. Consequently, fees incurred in connection with audit services included significant, one-time costs associated with the conversion from UK GAAP to IFRS.

The Board's policy in respect of the procurement of non-audit services for the Group's auditor is set out on pages 35 and 36.

4 TAXATION

Analysis of charge in the year	2006 £m	2005 £m
Current tax		
- Current year	**65.4**	58.1
- Adjustment in respect of prior year	**2.4**	(0.3)
	67.8	57.8
Deferred tax	**0.8**	3.4
Taxation	**68.6**	61.2

Tax on items (charged)/credited to equity

	2006 £m	2005 £m
Deferred tax (charge)/credit on stock options	**(1.2)**	2.4
Total tax on items (charged)/credited to equity	**(1.2)**	2.4

The tax for the period is higher (2005: higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2006 £m	2005 £m
Profit on ordinary activities before taxation	**221.2**	193.6
Profit on ordinary activities multiplied by rate of corporation tax in the UK of 30% (2005: 30%)	**66.4**	58.1
Effects of:		
Adjustment in respect of prior period	**2.4**	(0.3)
Adjustment in respect of foreign tax rates	**6.1**	6.1
Expenses not deductible for tax purposes and other permanent differences	**(4.5)**	(3.8)
Other	**(1.8)**	1.1
Total taxation	**68.6**	61.2

Notes to the Accounts - Group continued

For the year ended 30 September 2006

5 DIVIDENDS

	2006 £m	2005 £m
Final dividend paid for the year ended 30 September 2005 of 1.95p per share	**25.1**	-
(2005: final dividend paid for the year ended 30 September 2004 of 1.72p per share)	-	22.0
Interim dividend paid for the year ended 30 September 2006 of 1.08p per share	**14.0**	-
(2005: interim dividend paid for the year ended 30 September 2005 of 0.92p per share)	-	11.9
	39.1	33.9

In addition, the directors are proposing a final dividend in respect of the financial year ended 30 September 2006 of 2.51p per share which will absorb an estimated £32.4m of shareholders' funds. It will be paid on 9 March 2007 to shareholders who are on the register of members on 9 February 2007.

6 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held in the employee share trust (note 22), which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has two classes of dilutive potential ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year and the contingently issuable shares under the Group's long-term incentive plan. At 30 September 2006, the performance criteria for the vesting of the awards under the incentive scheme had not been met and consequently the shares in question are excluded from the diluted EPS calculation.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

	2006			2005		
	Earnings £m	Weighted average number of shares millions	Per-share amount pence	Earnings £m	Weighted average number of shares millions	Per-share amount pence
Basic EPS						
Earnings attributable to ordinary shareholders	**152.5**	**1,290.8**	**11.81**	132.3	1,283.3	10.31
Effect of dilutive securities						
Options		**8.9**			6.4	
Diluted EPS	**152.5**	**1,299.7**	**11.73**	132.3	1,289.7	10.26

EPS – Non GAAP measure

	2006 Earnings £m	2006 Weighted average number of shares millions	2006 Per-share amount pence	2005 Earnings £m	2005 Weighted average number of shares millions	2005 Per-share amount pence
Basic EPS						
Earnings attributable to ordinary shareholders	**152.5**	**1,290.8**	**11.81**	132.3	1,283.3	10.31
Non EBITA items:						
Intangible asset amortisation and net development expenditure	**13.5**			2.8		
Taxation	**(4.1)**			(0.5)		
Net EBITA adjustments	**9.4**			2.3		
EBITA adjusted Basic EPS	**161.9**	**1,290.8**	**12.54**	134.6	1,283.3	10.49
Effect of dilutive securities						
Options		**8.9**			6.4	
EBITA adjusted Diluted EPS	**161.9**	**1,299.7**	**12.46**	134.6	1,289.7	10.44

7 GOODWILL

	Note	2006 £m	2005 £m
Cost			
At 1 October		**1,076.8**	995.8
Additions	26(n)	**503.4**	65.8
Deferred tax on intangible assets	17	**25.8**	-
Disposals	26(j)	**(7.4)**	-
Exchange adjustments		**(36.7)**	15.2
At 30 September		**1,561.9**	1,076.8
Aggregate impairment			
At 30 September		**-**	-
Net book amount at 30 September		**1,561.9**	1,076.8

Details of acquisitions and disposals in the year are shown in note 26. During the year, goodwill was reviewed for impairment in accordance with IAS 36. For the purposes of this impairment review, goodwill has been valued on the basis of discounted future cash flows arising in each relevant cash-generating unit.

Goodwill impairment tests

Goodwill acquired in a business combination is allocated to one or more cash-generating units ("CGUs"). CGUs represent the operations of a country or, in more material operations, divisions within a country.

Notes to the Accounts - Group continued

For the year ended 30 September 2006

7 GOODWILL continued

The following table shows the allocation of the carrying value of goodwill at the balance sheet date by geographic area:

	2006 £m	2005 £m
UK	**152.6**	151.9
France	**161.2**	68.9
Germany	**20.4**	6.4
Switzerland	**22.5**	20.1
Poland	**6.2**	6.0
Spain	**91.6**	84.5
North America	**1,045.5**	685.4
South Africa	**25.1**	26.8
Australia	**25.0**	26.8
Asia	**11.8**	-
	1,561.9	1,076.8

The Group conducts annual impairment tests on the carrying value of goodwill, based on the recoverable amount of CGUs to which goodwill has been allocated. The recoverable amounts of CGUs are determined from value in use calculations. The key assumptions in the value in use calculations are the discount rate applied, the long-term operating margin and the long-term growth rate of net operating cash flows. In all cases, the approved budget for the following financial year formed the basis for the cash flow projections for a CGU. The approved cash flow projections in the four financial years following the budget year reflected management's expectations of the medium-term operating performance of the CGU and growth prospects in the CGU's market.

- The discount rate applied to a CGU represents a pre-tax rate that reflects market assessment of the time value of money at the balance sheet date and the risks specific to the CGU. The discount rate applied to CGUs were in the range of 6.4% (2005: 6.4%) to 10.7% (2005: 10.7%).
- The long-term operating margin assumed for a CGU's operations is primarily based on past performance. For some CGUs, those for which management has strong reason to believe that past operating margins are not indicative of future operating margins, expected future improvements from sustainable operating cost savings are also included in management's assessment of the long-term operating margin. The long-term operating margin applied to CGUs was in the range of 18% (2005: 18%) to 54% (2005: 40%).
- Long-term growth rates of net operating cash flows are assumed equal to the long-term growth rate in the gross domestic product of the country in which the CGU's operations are undertaken and were in the range of 1.0% (2005: 1.0%) to 5.0% (2005: 5.0%).

Goodwill impairment tests were conducted separately for each CGU.

8 OTHER INTANGIBLE ASSETS

	Brands £m	Technology £m	Acquired IPR&D £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
Cost							
At 1 October 2005	**17.6**	**18.4**	**0.3**	**3.8**	**5.9**	**5.7**	**51.7**
Additions	**-**	**-**	**-**	**-**	**3.2**	**-**	**3.2**
Acquisitions – through business combinations	**16.3**	**42.2**	**-**	**-**	**11.7**	**90.7**	**160.9**
Additions – internally generated	**-**	**-**	**-**	**0.9**	**-**	**-**	**0.9**
Disposals	**-**	**-**	**-**	**-**	**(0.7)**	**-**	**(0.7)**
Exchange adjustments	**(0.4)**	**(0.2)**	**-**	**-**	**(0.6)**	**(0.1)**	**(1.3)**
At 30 September 2006	**33.5**	**60.4**	**0.3**	**4.7**	**19.5**	**96.3**	**214.7**
Aggregate amortisation							
At 1 October 2005	**0.5**	**1.3**	**-**	**1.5**	**2.5**	**0.5**	**6.3**
Charge for the year	**1.5**	**5.6**	**0.1**	**0.8**	**1.8**	**6.4**	**16.2**
Acquisitions	**-**	**-**	**-**	**-**	**6.9**	**-**	**6.9**
Disposals	**-**	**-**	**-**	**-**	**(0.3)**	**-**	**(0.3)**
At 30 September 2006	**2.0**	**6.9**	**0.1**	**2.3**	**10.9**	**6.9**	**29.1**
Net book amount							
At 30 September 2006	**31.5**	**53.5**	**0.2**	**2.4**	**8.6**	**89.4**	**185.6**

	Brands £m	Technology £m	Acquired IPR&D £m	Internal IPR&D £m	Computer software £m	Customer relationships £m	Total £m
Cost							
At 1 October 2004	-	-	-	2.7	7.0	-	9.7
Additions	5.6	-	-	-	0.7	-	6.3
Acquisitions – through business combinations	12.0	18.4	0.3	-	0.2	5.7	36.6
Additions – internally generated	-	-	-	1.1	-	-	1.1
Disposals	-	-	-	-	(1.9)	-	(1.9)
Exchange adjustments	-	-	-	-	(0.1)	-	(0.1)
At 30 September 2005	17.6	18.4	0.3	3.8	5.9	5.7	51.7
Aggregate amortisation							
At 1 October 2004	-	-	-	0.9	3.5	-	4.4
Charge for the year	0.5	1.3	-	0.6	1.0	0.5	3.9
Disposals	-	-	-	-	(1.9)	-	(1.9)
Exchange adjustments	-	-	-	-	(0.1)	-	(0.1)
At 30 September 2005	0.5	1.3	-	1.5	2.5	0.5	6.3
Net book amount							
At 30 September 2005	17.1	17.1	0.3	2.3	3.4	5.2	45.4

All amortisation charges in the year have been charged through selling and administrative expenses. Intangible assets (apart from internally generated IPR&D and computer software) relate to identifiable assets purchased as part of the Group's business combinations. Intangible assets are amortised on a straight-line basis over their expected useful economic life.

Notes to the Accounts - Group continued

For the year ended 30 September 2006

9 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Plant and equipment £m	Motor vehicles and office equipment £m	Total £m
Cost				
At 1 October 2005	**88.0**	**100.4**	**34.0**	**222.4**
Additions at cost	**1.3**	**17.6**	**4.9**	**23.8**
Acquisitions	**3.3**	**19.6**	**2.9**	**25.8**
Disposals	**-**	**(19.2)**	**(2.7)**	**(21.9)**
Exchange adjustments	**(0.4)**	**(2.8)**	**(0.8)**	**(4.0)**
At 30 September 2006	**92.2**	**115.6**	**38.3**	**246.1**
Accumulated depreciation				
At 1 October 2005	**4.0**	**75.4**	**23.1**	**102.5**
Charge for the year	**1.0**	**9.7**	**3.0**	**13.7**
Acquisitions	**0.7**	**15.1**	**1.6**	**17.4**
Disposals	**(0.8)**	**(17.3)**	**(0.5)**	**(18.6)**
Exchange adjustments	**-**	**(2.1)**	**(0.6)**	**(2.7)**
At 30 September 2006	**4.9**	**80.8**	**26.6**	**112.3**
Net book amount at 30 September 2006	**87.3**	**34.8**	**11.7**	**133.8**

	Land and buildings £m	Plant and equipment £m	Motor vehicles and office equipment £m	Total £m
Cost				
At 1 October 2004	89.2	85.4	28.8	203.4
Additions at cost	1.6	11.4	1.4	14.4
Acquisitions	2.3	4.4	6.5	13.2
Transfer of property held for sale to other debtors	(3.5)	-	-	(3.5)
Disposals	(1.9)	(1.9)	(3.0)	(6.8)
Exchange adjustments	0.3	1.1	0.3	1.7
At 30 September 2005	88.0	100.4	34.0	222.4
Accumulated depreciation				
At 1 October 2004	2.4	63.2	17.3	82.9
Charge for the year	2.0	9.3	2.9	14.2
Acquisitions	-	3.4	4.1	7.5
Disposals	(0.4)	(1.5)	(1.4)	(3.3)
Exchange adjustments	-	1.0	0.2	1.2
At 30 September 2005	4.0	75.4	23.1	102.5
Net book amount at 30 September 2005	84.0	25.0	10.9	119.9

Assets held under finance leases have the following net book amount:

	2006 £m	2005 £m
Cost	**0.6**	0.5
Accumulated depreciation	**(0.2)**	(0.1)
Net book amount	**0.4**	0.4

Included in assets held under finance leases are plant and equipment with a net book amount of £0.3m (2005: £0.2m) and vehicles £0.1m (2005: £0.2m).

10 INVENTORIES

	2006 £m	2005 £m
Materials	**1.9**	1.0
Finished goods	**3.7**	2.5
	5.6	3.5

The Group consumed £13.6m (2005: £9.7m) of inventories during the year. There was no material write down of inventories during the current or prior year.

11 TRADE AND OTHER RECEIVABLES

Amounts falling due within one year:	2006 £m	2005 £m
Trade receivables	**215.2**	153.5
Less: provision for impairment of receivables	**(30.1)**	(25.6)
Trade receivables – net	**185.1**	127.9
Other receivables	**19.2**	10.3
Prepayments and accrued income	**11.4**	11.7
	215.7	149.9

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated.

12 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the cash flow statement comprise:	2006 £m	2005 £m
Cash at bank and in hand	**81.4**	65.4
Short-term bank deposits	**0.6**	3.7
	82.0	69.1

The effective interest rate on short-term deposits was 3.9% (2005: 3.0%) and these deposits have an average maturity of 41 days (2005: 13 days).

13 TRADE AND OTHER PAYABLES - CURRENT

	2006 £m	2005 £m
Trade payables	**95.1**	80.4
Other tax and social security payable	**38.2**	30.5
Accruals	**57.0**	34.6
	190.3	145.5

14 CURRENT TAX LIABILITIES

	2006 £m	2005 £m
Current tax liabilities	**63.5**	60.8

Notes to the Accounts - Group continued

For the year ended 30 September 2006

15 FINANCIAL LIABILITIES - BORROWINGS

Current		2006 £m	2005 £m
Bank loans due within one year of demand:			
Secured	(a)	**0.6**	0.1
Unsecured		**0.3**	-
		0.9	0.1
Finance lease obligations		**0.1**	0.1
		1.0	0.2

Non-current		2006 £m	2005 £m
Bank loans:			
Secured	(a)	**1.7**	0.8
Unsecured		**660.9**	174.9
		662.6	175.7
Finance lease obligations		**0.2**	0.6
		662.8	176.3

(a) The bank loans are secured by a fixed charge over the property the acquisition of which the loan funded.

Bank loans are denominated in a number of currencies and bear interest based on LIBOR or foreign equivalents appropriate to the country in which the borrowing is incurred.

Included in loans above is £660.9m (2005: £174.6m) of unsecured loans (after unamortised issue costs) taken out in connection with acquisitions.

This is drawn down under £850.0m multi-currency revolving credit facilities, £650.0m expiring on 4 August 2011 and £200.0m expiring on 15 January 2011.

In the table above, loans are stated net of unamortised issue costs of £1.7m (2005: £0.6m). The Group has incurred total issue costs of £7.1m (2005: £4.9m) in respect of these facilities. These costs are allocated to the income statement over the term of the facility at a constant rate on the carrying amount.

Unsecured borrowings were drawn in the following currencies: US Dollar £549.2m (2005: £122.3m), Euro £106.5m (2005: £43.4m) and Swiss Franc £5.5m (2005: £9.2m) and bear interest at a rate of 0.45% (2005: 0.5%) above LIBOR.

16 FINANCIAL INSTRUMENTS

Numerical financial instruments disclosures are set out below. Additional disclosures are set out in the accounting policies relating to risk management and also in note 25.

Hedge of net investment in foreign entity

The Group has US Dollar, Euro and Swiss Franc denominated borrowings which it has designated as a hedge of the net investment in its subsidiaries in the US, France, Spain, Germany and Switzerland. The fair value of the US Dollar borrowings at 30 September 2006 was £549.2m (2005: £122.3m), the Euro borrowings £106.3m (2005: £43.0m) and Swiss Franc borrowings £5.5m (2005: £9.2m). The foreign exchange gain of £12.8m (2005: loss of £1.8m) on translation of the borrowings into sterling has been recognised in exchange reserves.

Fair values of non-derivative financial assets and financial liabilities

Where market values are not available, fair values of financial assets and financial liabilities have been calculated by discounting expected future cash flows at prevailing interest rates and by applying year end exchange rates. The carrying amounts of short-term borrowings approximate to book value.

Fair values of financial instruments

For the following financial assets and liabilities: long-term borrowings, short-term borrowings, trade and other payables, trade and other receivables, short-term deposits and cash at bank and in hand, the carrying amount approximates the fair value of the instrument due to the instrument bearing interest at market rates and/or the short-term nature of the instrument.

	Note	2006 Book value £m	2006 Fair value £m	2005 Book value £m	2005 Fair value £m
Long-term borrowings	15	**(662.8)**	**(662.8)**	(176.3)	(176.3)
Fair value of other financial assets and financial liabilities:					
Primary financial instruments held or issued to finance the Group's operations:					
Short-term borrowings	15	**(1.0)**	**(1.0)**	(0.2)	(0.2)
Trade and other payables	13	**(190.3)**	**(190.3)**	(145.5)	(145.5)
Trade and other receivables	11	**215.7**	**215.7**	149.9	149.9
Short-term bank deposits	12	**0.6**	**0.6**	3.7	3.7
Cash at bank and in hand	12	**81.4**	**81.4**	65.4	65.4

Currency exposure

The Group's other currency exposures comprise only those exposures that give rise to net currency gains and losses to be recognised in the income statement. Such exposures reflect the monetary assets and liabilities of the Group that are not denominated in the operating (or "functional") currency of the operating unit involved. At 30 September 2006 and 30 September 2005, these exposures are immaterial to the Group.

Maturity of financial liabilities

The maturity profile of the carrying amount of the Group's non-current liabilities at 30 September was as follows:

	2006 Debt £m	2006 Finance leases £m	2006 Total £m	2005 Debt £m	2005 Finance leases £m	2005 Total £m
In more than one year but not more than two years	**-**	**0.2**	**0.2**	-	0.6	0.6
In more than two years but not more than five years	**662.6**	**-**	**662.6**	175.7	-	175.7
In more than five years	**-**	**-**	**-**	-	-	-
	662.6	**0.2**	**662.8**	175.7	0.6	176.3

Borrowing facilities

The Group has the following undrawn committed borrowing facilities available at 30 September in respect of which all conditions precedent had been met at that date:

	2006 Total £m	2005 Total £m
Expiring within 1 year	**-**	20.0
Expiring between 1 and 2 years	**-**	20.0
Expiring in more than 2 years	**187.3**	194.9
	187.3	234.9

The facilities have been arranged to help finance the proposed expansion of the Group's activities. All these facilities incur commitment fees at market rates.

Notes to the Accounts - Group continued

For the year ended 30 September 2006

16 FINANCIAL INSTRUMENTS continued

The minimum lease payments under finance leases fall due as follows:

	2006 Total £m	2005 Total £m
Not later than one year	**0.1**	0.1
Later than one year but not more than five years	**0.2**	0.7
More than five years	**-**	-
	0.3	0.8
Future finance charges on finance leases	**-**	(0.1)
Present value of finance lease liabilities	**0.3**	0.7

17 DEFERRED TAX

Deferred tax has been calculated at 30% in respect of UK companies (being the prevailing corporation tax rate at 30 September 2006 and 2005) and at the prevailing rates for the overseas subsidiaries.

The movement on the deferred tax account is as shown below:

	2006 £m	2005 £m
At 1 October	**43.5**	30.2
Acquisition of subsidiary	**2.7**	16.7
Transfer to current tax	**(0.8)**	-
Deferred tax on intangible assets	**(25.8)**	-
Income statement credit	**(0.8)**	(4.0)
Exchange differences	**(1.3)**	0.6
Stock options	**(1.2)**	-
At 30 September	**16.3**	43.5

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries. As the earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the year are shown below.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Deferred tax assets

	Intangible assets £m	Tax losses £m	Other £m	Total £m
At 1 October 2005	21.4	1.0	23.6	46.0
Income statement credit	(4.1)	(1.0)	3.8	(1.3)
Deferred tax on intangible assets	(17.3)	-	-	(17.3)
Acquisition of subsidiary	-	-	2.2	2.2
Transfer to current tax	-	-	(0.8)	(0.8)
Exchange differences	-	-	(1.3)	(1.3)
Stock options	-	-	(1.2)	(1.2)
At 30 September 2006	**-**	**-**	**26.3**	**26.3**
Net deferred tax asset				
At 30 September 2006	**(8.0)**	**-**	**24.3**	**16.3**
At 30 September 2005	21.4	1.0	21.1	43.5

Deferred tax liabilities

	Intangible assets £m	Other £m	Total £m
At 1 October 2005	-	2.5	2.5
Income statement charge	(0.5)	-	(0.5)
Deferred tax on intangible assets	8.5	-	8.5
Acquisition of subsidiary	-	(0.5)	(0.5)
At 30 September 2006	**8.0**	**2.0**	**10.0**

The deferred tax liability due after more than one year is £10.0m (2005: £2.5m)

18 SHARE CAPITAL

Authorised	2006 £m	2005 £m
1,860,000,000 (2005: 1,860,000,000) ordinary shares of 1p each	**18.6**	18.6

Issued and fully paid	2006 shares	2006 £m	2005 shares	2005 £m
At 1 October	**1,285,318,582**	**12.8**	1,281,801,526	12.8
Allotted under share option schemes	**8,962,362**	**0.1**	3,517,056	-
At 30 September	**1,294,280,944**	**12.9**	1,285,318,582	12.8

Potential issues of ordinary shares

Certain senior executives hold options to subscribe for shares in the Company at prices ranging from 33.90p to 721.00p under the share option schemes approved by shareholders. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below:

Date of grant	Exercise price pence	Exercise period	2006 number	2005 number
15 January 1996	33.90p	15 January 1999 – 15 January 2006	-	1,560,000
17 December 1997	81.10p	17 December 2000 – 17 December 2007	**680,000**	993,300
20 January 1998	98.75p	20 January 2001 – 20 January 2008	**150,000**	150,000
20 April 1998	50.86p – 92.61p	8 August 1999 – 2 March 2009	**708,460**	748,520
15 May 1998	140.00p	15 May 2001 – 15 May 2008	**1,008,110**	1,238,010
16 December 1998	136.00p	16 December 2001 – 16 December 2008	**2,094,710**	2,356,120
7 June 1999	204.50p	7 June 2002 – 7 June 2009	**1,352,500**	1,566,500
11 February 2000	91.34p – 619.50p	11 February 2000 – 6 January 2010	**158,065**	184,227
23 February 2000	721.00p	23 February 2003 – 23 February 2010	**31,250**	31,250
24 May 2000	542.50p	24 May 2003 – 24 May 2010	**19,037**	26,410
10 January 2001	301.00p	10 January 2004 – 10 January 2011	**2,975,643**	3,295,354
17 January 2001	329.75p	17 January 2004 – 17 January 2011	**581,137**	581,137
16 May 2001	264.00p	16 May 2004 – 16 May 2011	**2,096,431**	2,345,359
2 January 2002	228.50p	2 January 2005 – 2 January 2012	**4,520,285**	5,360,599
31 December 2002	134.00p	31 December 2005 – 31 December 2012	**4,621,782**	7,155,060
12 May 2003	147.00p	12 May 2006 – 12 May 2013	**2,288,047**	2,873,739
24 December 2003	171.00p	24 December 2006 – 24 December 2013	**11,110,075**	13,109,831
24 May 2004	172.00p	24 May 2007 – 24 May 2014	**320,351**	387,212
6 January 2005	198.00p	6 January 2008 – 6 January 2015	**5,268,627**	5,928,002
12 May 2005	206.00p	12 May 2008 – 12 May 2015	**2,150,367**	2,294,538
10 January 2006	258.50p	10 January 2009 – 10 January 2016	**6,458,797**	-
			48,593,674	52,185,168

Under the above scheme, 7,929,609 1p ordinary shares were issued during the year for aggregate proceeds of £10,523,107.

Notes to the Accounts - Group continued

For the year ended 30 September 2006

18 SHARE CAPITAL continued

Under the Group's long-term incentive plan for certain senior executives approved by shareholders on 3 March 2005, the following awards have been made:

Date of award	Vesting date	2006 number	2005 number
18 March 2005	18 March 2008	**1,841,204**	1,899,315
12 May 2005	12 May 2008	**242,626**	242,626
10 January 2006	10 January 2009	**2,469,883**	-
		4,553,713	2,141,941

In addition, options were granted under the terms of The Sage Group plc 1996 Savings-related Share Option Scheme approved by members on 7 February 1996 up to 2005 and thereafter under the new scheme approved by the members at the Annual General Meeting on 2 March 2006, as follows:

Date of grant	Exercise price pence	Exercise period	2006 number	2005 number
8 January 1999	114.80p	1 February 2006 – 31 July 2006	**-**	29,120
1 March 2000	499.00p	1 March 2007 – 31 August 2007	**1,840**	1,840
1 March 2001	240.00p	1 March 2006 – 31 August 2006	**-**	30,230
1 March 2001	240.00p	1 March 2008 – 31 August 2008	**1,531**	1,531
1 March 2002	180.40p	1 March 2007 – 31 August 2007	**24,763**	27,330
1 March 2002	180.40p	1 March 2009 – 31 August 2009	**6,575**	6,575
1 March 2003	112.00p	1 March 2006 – 31 August 2006	**4,050**	1,034,053
1 March 2003	112.00p	1 March 2008 – 31 August 2008	**146,729**	157,287
1 March 2003	112.00p	1 March 2010 – 31 August 2010	**14,579**	29,190
1 March 2004	140.00p	1 March 2007 – 31 August 2007	**335,654**	410,081
1 March 2004	140.00p	1 March 2009 – 31 August 2009	**126,312**	161,316
1 March 2004	140.00p	1 March 2011 – 31 August 2011	**37,140**	37,140
1 March 2005	157.00p	1 March 2008 – 31 August 2008	**365,531**	423,328
1 March 2005	157.00p	1 March 2010 – 31 August 2010	**128,230**	145,701
1 March 2005	157.00p	1 March 2012 – 31 August 2012	**19,422**	21,699
1 August 2006	184.00p	1 August 2009 – 31 January 2010	**1,069,966**	-
1 August 2006	184.00p	1 August 2011 – 31 January 2012	**258,043**	-
1 August 2006	184.00p	1 August 2013 – 31 January 2014	**46,830**	-
			2,587,195	2,516,421

Under the above scheme, 1,032,753 1p ordinary shares were issued during the year for aggregate proceeds of £1,219,029.

The market price of the shares of the Company at 30 September 2006 was 251.25p and the highest and lowest prices during the year were 283.75p and 204.75p respectively.

19 SHARE-BASED PAYMENTS

The total charge for the year relating to employee share-based payment plans was £8.8m (2005: £8.2m), all of which related to equity-settled share-based payment transactions. After deferred tax, the total charge was £6.2m (2005: £5.3m). A reconciliation of share movements for options granted after 7 November 2002 to which IFRS 2 is applicable is shown below.

ESOS

Under the 1999 Executive Share Option Scheme ("ESOS"), grants are made at an exercise price which approximates to the share price at the date of the grant and are made to senior executives and managers across the Group, as well as to other staff with high potential or to recognise significant achievement or local market practice. The annual grant is normally made after the preliminary declaration of the annual results. Under the rules of the ESOS, as amended at the Annual General Meeting in 2005, the annual grant of options to an individual is limited to shares worth up to 300% of base salary. In practice, annual grants to executive directors are limited to shares under option worth 100% of base salary except in exceptional circumstances, such as a promotion or recruitment or to reflect local market practice.

The performance targets governing the vesting of options are based on stretching EPS growth measured over a fixed three year period from the start of the financial year in which the grant is made. 30% of options will vest at the end of the period if the increase in EPS exceeds Retail Prices Index ("RPI") by 15% (an average of 5% per year) and 100% of those options will vest at that time only if RPI is exceeded in that period by 27% (an average of 9% per year). Between those targets, options will vest on a straight-line basis. If those targets are not met at the end of the three year period, then no further retesting of the performance criteria will be undertaken and the options will lapse.

Options were valued using the Black-Scholes option-pricing model. Performance conditions were included in the fair value calculations. The fair value per option granted and the assumptions used in the calculation are as follows:

Grant date	December 2002	May 2003	December 2003	May 2004	January 2005	May 2005	January 2006
Share price at grant date	£1.33	£1.45	£1.75	£1.72	£1.90	£2.07	£2.53
Exercise price	£1.34	£1.47	£1.71	£1.72	£1.98	£2.06	£2.59
Number of employees	204	84	698	27	179	160	519
Shares under option	4,621,782	2,288,047	11,110,075	320,351	5,268,627	2,150,367	6,458,797
Vesting period (years)	3	3	3	3	3	3	3
Expected volatility	62%	63%	62%	57%	52%	48%	40%
Option life (years)	10	10	10	10	10	10	10
Expected life (years)	4	4	4	4	4	4	4
Risk free rate	4.1%	3.8%	4.5%	5.1%	4.4%	4.3%	4.1%
Expected dividends expressed as a dividend yield	0.3%	1.3%	0.9%	1.0%	1.6%	1.6%	1.6%
Possibility of ceasing employment before vesting	5%	5%	5%	5%	5%	5%	5%
Expectation of meeting performance criteria	100%	100%	100%	100%	100%	100%	100%
Fair value per option	£0.661	£0.678	£0.855	£0.794	£0.802	£0.777	£0.799

The expected volatility is based on historical volatility over the last four years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life. A reconciliation of option movements over the year is shown below:

	Number '000s	2006 Weighted average exercise price £	Number '000s	2005 Weighted average exercise price £
Outstanding at 1 October	**31,748**	**1.68**	26,530	1.57
Granted	**6,686**	**2.59**	8,462	2.00
Forfeited	**(2,053)**	**1.81**	(2,267)	1.65
Exercised	**(4,163)**	**1.50**	(977)	1.59
Outstanding at 30 September	**32,218**	**1.88**	31,748	1.68
Exercisable at 30 September	**9,692**	**1.51**	3,590	1.62

Range of exercise prices	2006 Weighted average excerise price £	2006 Number of shares	2006 Weighted average remaining life years Expected	2006 Weighted average remaining life years Contractual	2005 Weighted average excerise price £	2005 Number of shares	2005 Weighted average remaining life years Expected	2005 Weighted average remaining life years Contractual
1.34 – 2.59	**1.88**	**32,218**	**0.8**	**7.7**	1.68	31,748	1.1	8.3

The weighted average share price during the period for options exercised over the year was 259.10p (2005: 220.25p).

Notes to the Accounts - Group continued

For the year ended 30 September 2006

19 SHARE-BASED PAYMENTS continued

The Sage Group PSP

The Performance Share Plan (the "Plan") was approved by shareholders at the Annual General Meeting in 2005. Annual grants of performance shares will normally be made to executive directors and senior executives across the Group after the preliminary declaration of the annual results. This Plan is operated in conjunction with the ESOS.

Annual awards under the Plan are limited to shares worth up to 150% of base salary. In practice, annual grants to executive directors are limited to shares worth 100% of base salary except in exceptional circumstances, such as a promotion or recruitment or to reflect local market practice.

The performance shares are subject to performance conditions measuring the Group's total shareholder return ("TSR") against a comparator group of international software and computer services companies. TSR has been chosen as the performance condition because it helps to align the interests of award holders with shareholders and complements the focus on Group financial results that arises from using EPS under the ESOS and annual bonus plan.

The comparator group for awards made in 2005 comprised the following companies:

- Blackbaud
- Business Objects
- Cap Gemini
- Cegid
- Exact
- GEAC
- Intuit
- iSOFT
- Microsoft
- Misys
- MYOB
- Northgate Information Systems
- Oracle
- Salesforce.com
- SAP
- Systems Union

30% of shares vest for median TSR performance as compared to the comparator group whilst all shares vest for upper quintile (top 20%) TSR performance. Between those two points, shares will vest on a straight-line basis. TSR will be measured over a single three year period from the start of the financial year in which the grant is made to establish whether the criteria have been met and if these criteria are not met on the third anniversary of grant, the performance shares will lapse.

Awards were valued using the Monte Carlo option-pricing model. Performance conditions were included in the fair value calculations. The fair value per award granted and the assumptions used in the calculation are as follows:

Grant date	March 2005	May 2005	January 2006
Share price at grant date	£2.07	£2.07	£2.59
Exercise price	£0.00	£0.00	£0.00
Number of employees	21	6	97
Shares under award	1,841,204	242,626	2,469,883
Vesting period (years)	3	3	3
Expected volatility	44%	42%	32%
Award life (years)	3	3	3
Expected life (years)	3	3	3
Risk free rate	4.7%	4.3%	4.2%
Expected dividends expressed as a dividend yield	0.0%	0.0%	0.0%
Possibility of ceasing employment before vesting	0%	0%	0%
Expectation of meeting performance criteria	100%	100%	100%
Fair value per award	£1.385	£1.341	£1.401

The expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed award life. A reconciliation of award movements over the year is shown below:

	2006 Number '000s	2006 Weighted price average £	2005 Number '000s	2005 Weighted price average £
Outstanding at 1 October	**2,142**	**-**	-	-
Awarded	**2,531**	**-**	2,142	-
Forfeited	**(119)**	**-**	-	-
Exercised	**-**	**-**	-	-
Outstanding at 30 September	**4,554**	**-**	2,142	-
Exercisable at 30 September	**-**	**-**	-	-

Range of exercise prices	2006 Weighted average excerise price £	2006 Number of shares	2006 Weighted average remaining life years Expected	2006 Weighted average remaining life years Contractual	2005 Weighted average excerise price £	2005 Number of shares	2005 Weighted average remaining life years Expected	2005 Weighted average remaining life years Contractual
-	**-**	**4,554**	**1.9**	**1.9**	-	2,142	2.5	2.5

The Sage Group Savings-Related Share Option Plan (the "SAYE Plan")
In February 1996, the Company introduced an Inland Revenue approved savings-related share option scheme allowing all UK employees to apply for an option to acquire ordinary shares in the Company ("Shares") at a price per Share which was not less than 80% of the market value of those Shares when invitations for options were made. The acquisition of the Shares was funded by the proceeds of a savings account with a bank or building society. The original scheme adopted in 1996 continued in accordance with its terms for 10 years and expired in February 2006. A new scheme was approved by the members at the Annual General Meeting held on 2 March 2006.

Eligibility
All UK employees, including executive directors, of the Company and its participating subsidiaries who have completed at least one year's continuous service and are assessable to employment income tax are eligible to participate in the SAYE Plan. The directors may offer participation to other employees and may alter the length of service required to qualify to a different period, not exceeding five years.

Employee contributions
An employee who wishes to participate in the SAYE Plan will enter into a contract (the "SAYE contract") with a savings body, designated by the directors for the purpose of the SAYE Plan, to make monthly contributions by deduction from their pay of not more than the maximum contribution permitted from time to time by HMRC (currently £250).

A tax-free bonus (currently equivalent to 1.4x or 4.4x the monthly contribution) will be paid on completion of 36 or 60 monthly savings contributions respectively and another tax-free bonus (currently 8.4x the monthly contribution) (including the payment at the end of 60 months) will be paid after a further two years if the savings plus the initial bonus are not withdrawn prior to that date.

Exercise price
An employee who applies for the grant of an option to acquire Shares will do so at a price (the "Exercise Price") which is determined by the directors but which is not less than the greater of:
- 80% of the middle market quotation of a Share on the dealing day prior to the date of invitation as derived from the London Stock Exchange Daily Official List (or, if the directors so decide, 80% of the average of the middle market quotations over the three dealing days prior to the date of the invitation or 80% of the middle market quotations at such other time or times agreed in advance with HMRC), and;
- In the case of an option over unissued Shares, the nominal value of a Share.

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19 SHARE-BASED PAYMENTS continued

Grant of options

Each option is granted over a number of Shares which, when multiplied by the Exercise Price, does not exceed the total monthly contributions plus the bonus payable on the maturity of the SAYE contract. There will be no payment for the grant of an option. Invitations to apply for options must be made within a period of 42 days after:

- Approval of the SAYE Plan by HMRC, or
- The publication by the Company of its interim or final results each year, or
- The day after the Company's Annual General Meeting, or
- Any day on which any change to the savings-related share option schemes legislation is announced or made, or
- If the directors resolve that exceptional circumstances exist which justify the operation of the SAYE Plan.

Exercise of options

In normal circumstances, an option may be exercised at any time within six months following maturity of the SAYE contract, using the proceeds of the SAYE contract and the applicable bonus.

Options were valued using the Black-Scholes option-pricing model. Performance conditions were not included in the fair value calculations. The fair value per option granted and the assumptions used in the calculation are as follows:

Grant date	March 2003	March 2003	March 2003	March 2004	March 2004	March 2004
Share price at grant date	£1.34	£1.34	£1.34	£1.93	£1.93	£1.93
Exercise price	£1.12	£1.12	£1.12	£1.40	£1.40	£1.40
Number of employees	2	26	3	141	43	12
Shares under option	4,050	146,729	14,579	335,654	126,312	37,140
Vesting period (years)	3	5	7	3	5	7
Expected volatility	65%	60%	52%	58%	59%	54%
Option life (years)	3	5	7	3	5	7
Expected life (years)	3	5	7	3	5	7
Risk free rate	3.5%	3.8%	4.0%	4.5%	4.6%	4.7%
Expected dividends expressed as a dividend yield	1.1%	1.1%	1.1%	0.9%	0.9%	0.9%
Possibility of ceasing employment before vesting	5%	5%	5%	5%	5%	5%
Fair value per option	£0.644	£0.729	£0.746	£0.967	£1.135	£1.192

Grant date	March 2005	March 2005	March 2005	August 2006	August 2006	August 2006
Share price at grant date	£2.06	£2.06	£2.06	£2.28	£2.28	£2.28
Exercise price	£1.57	£1.57	£1.57	£1.84	£1.84	£1.84
Number of employees	190	36	8	535	94	18
Shares under option	365,531	128,230	19,422	1,069,966	258,043	46,830
Vesting period (years)	3	5	7	3	5	7
Expected volatility	44%	55%	54%	26%	42%	51%
Option life (years)	3	5	7	3	5	7
Expected life (years)	3	5	7	3	5	7
Risk free rate	4.7%	4.7%	4.7%	4.7%	4.7%	4.6%
Expected dividends expressed as a dividend yield	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%
Possibility of ceasing employment before vesting	5%	5%	5%	5%	5%	5%
Fair value per option	£0.847	£1.092	£1.176	£0.706	£1.028	£1.255

The expected volatility is based on historical volatility over the last three, five or seven years, consistent with the option life. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life. A reconciliation of option movements over the year is shown below:

	2006 Number '000s	2006 Weighted average price £	2005 Number '000s	2005 Weighted average price £
Outstanding at 1 October	**2,316**	**1.30**	1,953	1.22
Granted	**1,399**	**1.84**	639	1.57
Forfeited	**(84)**	**1.36**	(115)	1.36
Surrendered	**(122)**	**1.51**	(115)	1.36
Exercised	**(957)**	**1.12**	(46)	1.16
Outstanding at 30 September	**2,552**	**1.65**	2,316	1.30
Exercisable at 30 September	**4**	**1.12**	-	1.57

Range of exercise prices	2006 Weighted average excerise price £	2006 Number of shares	2006 Weighted average remaining life years Expected	2006 Weighted average remaining life years Contractual	2005 Weighted average excerise price £	2005 Number of shares	2005 Weighted average remaining life years Expected	2005 Weighted average remaining life years Contractual
1.12 – 1.84	**1.65**	**2,552**	**2.5**	**2.5**	1.30	2,316	1.7	1.7

20 SHARE PREMIUM ACCOUNT

	£m
At 1 October 2004	446.3
Premium on shares issued during the year under share option schemes	4.7
At 1 October 2005	451.0
Premium on shares issued during the year under share option schemes	**11.8**
At 30 September 2006	**462.8**

21 OTHER RESERVES

	Translation reserve £m	Other reserve £m	Other reserves £m
At 1 October 2004	-	61.1	61.1
Exchange adjustments, net of tax	13.4	-	13.4
At 30 September 2005	13.4	61.1	74.5
Exchange adjustments, net of tax	**(30.8)**	**-**	**(30.8)**
At 30 September 2006	**(17.4)**	**61.1**	**43.7**

Translation reserve

The translation reserve represents the accumulated exchange differences arising from the following sources:

- The impact of the translation of subsidiaries with a functional currency other than pounds sterling; and
- Exchange differences arising on hedging instruments that are designated hedges of a net investment in foreign operations, net of tax where applicable.

Other reserve

Other reserves brought forward at 1 October 2004 relate to the merger reserve which was present under UK GAAP and frozen on transition to IFRS.

Notes to the Accounts - Group continued

For the year ended 30 September 2006

22 RETAINED EARNINGS

	2006 £m	2005 £m
At 1 October	**350.4**	241.4
Profit for the year	**152.5**	132.3
Share-based payments	**8.8**	8.2
Dividends paid	**(39.1)**	(33.9)
Treasury shares	**(13.3)**	-
Equity movement of deferred tax	**(1.2)**	2.4
At 30 September	**458.1**	350.4

Treasury shares

The Group holds treasury shares in a trust which was set up for the benefit of Group employees. The Trust purchases the Company's shares in the market for use in connection with the Group's share-based payments arrangements. The amounts shown in the treasury shares reserve at 30 September each year would be deducted in determining the distributable profits of the Company at that date.

Interests in own shares represent the cost of £13,272,933 of the Company's ordinary shares (nominal value of £47,556) purchased in February 2006. These shares were acquired by the Trust in the open market using funds provided by the Company to meet obligations under the Performance Share Plan. The costs of funding and administering the scheme are charged to the profit and loss account of the Company in the period to which they relate. The market value of the shares at 30 September 2006 was £11.9m.

Cumulative goodwill relating to acquisitions made prior to 1998, which has been eliminated against reserves, amounts to £245.8m (2005: £254.4m).

The reserves of subsidiary undertakings have generally been retained to finance their business.

23 SHAREHOLDERS' FUNDS AND RECONCILIATION OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital £m	Share premium £m	Retained earnings £m	Other reserves £m	Equity funds £m	Minority interest £m	Total equity £m
At 1 October 2004	12.8	446.3	241.4	61.1	761.6	0.2	761.8
Exchange adjustments	-	-	-	13.4	13.4	(0.1)	13.3
Net profit	-	-	132.3	-	132.3	0.1	132.4
Equity movement of deferred tax	-	-	2.4	-	2.4	-	2.4
Share options							
- proceeds from shares issued	-	4.7	-	-	4.7	-	4.7
- value of employee services	-	-	8.2	-	8.2	-	8.2
Dividends	-	-	(33.9)	-	(33.9)	-	(33.9)
At 30 September 2005	12.8	451.0	350.4	74.5	888.7	0.2	888.9
Exchange adjustments	**-**	**-**	**-**	**(30.8)**	**(30.8)**	**-**	**(30.8)**
New shares issued	**0.1**	**-**	**-**	**-**	**0.1**	**-**	**0.1**
Purchase of minority interest	**-**	**-**	**-**	**-**	**-**	**(0.2)**	**(0.2)**
Net profit	**-**	**-**	**152.5**	**-**	**152.5**	**0.1**	**152.6**
Equity movement of deferred tax	**-**	**-**	**(1.2)**	**-**	**(1.2)**	**-**	**(1.2)**
Share options							
- proceeds from shares issued	**-**	**11.8**	**-**	**-**	**11.8**	**-**	**11.8**
- value of employee services	**-**	**-**	**8.8**	**-**	**8.8**	**-**	**8.8**
Treasury shares	**-**	**-**	**(13.3)**	**-**	**(13.3)**	**-**	**(13.3)**
Dividends	**-**	**-**	**(39.1)**	**-**	**(39.1)**	**-**	**(39.1)**
At 30 September 2006	**12.9**	**462.8**	**458.1**	**43.7**	**977.5**	**0.1**	**977.6**

Other reserves brought forward at 1 October 2004 relate to the merger reserve which was present under UK GAAP and frozen on transition to IFRS.

24 MINORITY INTEREST

	2006 £m	2005 £m
At 1 October	**0.2**	0.2
Share of net profit of subsidiaries	**0.1**	0.1
Purchase of minority interest	**(0.2)**	-
Exchange adjustments	**-**	(0.1)
At 30 September	**0.1**	0.2

25 CASH FLOWS FROM OPERATING ACTIVITIES

Reconciliation of profit for the year to cash generated from continuing operations

	2006 £m	2005 £m
Profit for the year	**152.6**	132.4
Adjustments for:		
Taxation	**68.6**	61.2
Finance income	**(3.5)**	(2.8)
Finance expenses	**18.1**	8.5
Amortisation of intangible assets	**15.4**	3.9
Depreciation of property, plant and equipment	**13.7**	14.2
Profit on sale of subsidiary	**(2.7)**	-
Loss on disposal of fixed assets	**0.8**	-
Equity-settled share-based transactions	**8.8**	7.4
Exchange movements	**(9.1)**	3.0
Changes in working capital (excluding effects of acquisitions and disposals of subsidiaries)		
• Decrease in inventories	**0.6**	0.3
• Increase in trade and other receivables	**(15.4)**	(9.3)
• (Decrease)/increase in payables	**(0.9)**	4.5
• Increase in deferred income	**20.1**	17.7
Cash generated from continuing operations	**267.1**	241.0

Notes to the Accounts - Group continued

For the year ended 30 September 2006

25 CASH FLOWS FROM OPERATING ACTIVITIES continued

Reconciliation of net cash flow to movement in net debt (inclusive of finance leases)

	2006 £m	2005 £m
Increase/(decrease) in cash in the year (pre exchange movements)	**15.1**	(5.2)
Cash (inflow)/outflow from (increase)/decrease in loans, finance leases and cash collected from customers	**(496.9)**	35.4
Change in net debt resulting from cash flows	**(481.8)**	30.2
Loans acquired with subsidiaries	**(7.4)**	(2.6)
Finance leases acquired with subsidiaries	**-**	(0.8)
Cash collected from customers acquired with subsidiaries	**-**	(7.8)
Non cash movements	**(0.6)**	(0.7)
Exchange movements	**11.0**	(1.8)
Movement in net debt in the year	**(478.8)**	16.5
Net debt at 1 October	**(114.8)**	(131.3)
Net debt at 30 September	**(593.6)**	(114.8)

Analysis of change in net debt (inclusive of finance leases)

	At 1 October 2005 £m	Cash flow £m	Acquisition £m	Other £m	Exchange movements £m	At 30 September 2006 £m
Net cash at bank and in hand	69.1	15.1	-	-	(2.2)	**82.0**
Loans due within one year	(0.1)	5.7	(6.1)	(0.4)	-	**(0.9)**
Finance leases due within one year	(0.1)	-	-	-	-	**(0.1)**
Loans due after more than one year	(175.2)	(497.6)	(1.3)	(0.2)	12.6	**(661.7)**
Finance leases due after more than one year	(0.6)	0.3	-	-	0.1	**(0.2)**
Cash collected from customers	(7.9)	(5.3)	-	-	0.5	**(12.7)**
Total	**(114.8)**	**(481.8)**	**(7.4)**	**(0.6)**	**11.0**	**(593.6)**

Included in cash above is £12.7m (2005: £7.9m) relating to cash collected from customers, which the Group is contracted to pay onto another party. A liability for the same amount is included in trade and other payables on the balance sheet and is classified within net debt above.

26 ACQUISITIONS AND DISPOSALS

a Acquisition of Adonix, S.A.

On 15 November 2005 the Group completed the acquisition of Adonix S.A. ("Adonix") for a consideration of £98.3m (inclusive of £0.6m related costs). Total goodwill arising on the acquisition is £55.7m. The fair values of net assets acquired are based on provisional assessments pending final determination of certain assets and liabilities.

In the purchase 100% of the voting shares were acquired. From the date of the acquisition to 30 September 2006 the acquisition contributed £41.0m to revenue and £7.4m to profit.

All intangible assets were recognised at their respective fair values. The residual excess over the net assets acquired is recognised as goodwill in the financial statements.

Adonix acquisition	Carrying values pre acquisition £m	Provisional fair value £m
Intangible fixed assets	8.5	**31.4**
Property, plant and equipment	1.0	**1.0**
Receivables	5.8	**5.5**
Payables	(11.1)	**(12.1)**
Taxation		
- Current	0.7	**0.7**
- Deferred	0.3	**0.6**
Cash and cash equivalents	23.2	**23.2**
Loans	(5.6)	**(5.6)**
Deferred income	(2.0)	**(2.1)**
Net assets acquired	20.8	**42.6**
Goodwill		**55.7**
Consideration		**98.3**
Consideration satisfied by:		
Cash		97.8
Deferred consideration		0.5
		98.3

The fair value adjustments contain some provisional amounts which will be finalised in the 2007 accounts.

Goodwill represents the value of synergies and assembled workforce.

The outflow of cash and cash equivalents on the acquisition of Adonix is calculated as follows:

	£m
Cash consideration	97.8
Cash acquired	(23.2)
	74.6

The intangible assets acquired as part of the acquisition of Adonix can be analysed as follows:

	£m
Brand names	7.3
Technology	19.3
Computer software	0.1
Customer relationships	4.7
	31.4

Further details of these are given in note 8.

Notes to the Accounts - Group continued

For the year ended 30 September 2006

26 ACQUISITIONS AND DISPOSALS continued

b Acquisition of Verus Financial Management, Inc.

On 6 February 2006 the Group completed the acquisition of Verus Financial Management, Inc. ("Verus") for a consideration of £176.6m (inclusive of £2.3m related costs). Total goodwill arising on the acquisition is £135.4m. The fair values of net assets acquired are based on provisional assessments pending final determination of certain assets and liabilities.

In the purchase 100% of the voting shares were acquired. From the date of the acquisition to 30 September 2006 the acquisition contributed £28.9m to revenue and £11.2m to profit.

All intangible assets were recognised at their respective fair values. The residual excess over the net assets acquired is recognised as goodwill in the financial statements.

Verus acquisition	Carrying values pre acquisition £m	Provisional fair value £m
Intangible fixed assets	42.7	**38.2**
Property, plant and equipment	0.5	**0.5**
Inventories	0.2	**0.2**
Receivables	7.8	**7.8**
Payables	(10.1)	**(10.1)**
Taxation		
- Current	0.1	**0.2**
- Deferred	(1.5)	**(0.5)**
Cash and cash equivalents	5.1	**5.1**
Deferred income	(0.2)	**(0.2)**
Net assets acquired	44.6	**41.2**
Goodwill		**135.4**
Consideration		**176.6**
Consideration satisfied by:		
Cash		169.1
Deferred consideration		7.5
		176.6

The fair value adjustments contain some provisional amounts which will be finalised in the 2007 accounts.

Goodwill represents the value of synergies and assembled workforce.

The outflow of cash and cash equivalents on the acquisition of Verus is calculated as follows:

	£m
Cash consideration	169.1
Cash acquired	(5.1)
	164.0

The intangible assets acquired as part of the acquisition of Verus can be analysed as follows:

	£m
Technology	5.4
Computer software	0.5
Customer relationships	32.3
	38.2

Further details of these are given in note 8.

c Acquisition of Master Builder

On 19 May 2006 the Group completed the acquisition of the Master Builder division of Intuit Inc. for a consideration of £12.7m (inclusive of £0.2m related costs). Total goodwill arising on the acquisition is £10.5m. The fair values of net assets acquired are based on provisional assessments pending final determination of certain assets and liabilities.

In the purchase 100% of the division was acquired. From the date of the acquisition to 30 September 2006 the acquisition contributed £2.7m to revenue and £0.4m to profit.

All intangible assets were recognised at their respective fair values. The residual excess over the net assets acquired is recognised as goodwill in the financial statements.

Master Builder acquisition	Carrying values pre acquisition £m	Provisional fair value £m
Intangible fixed assets	-	**4.9**
Payables	(0.2)	**(0.2)**
Deferred income	(2.5)	**(2.5)**
Net assets acquired	(2.7)	**2.2**
Goodwill		**10.5**
Consideration		**12.7**
Consideration satisfied by:		
Cash		12.7
Deferred consideration		-
		12.7

The fair value adjustments contain some provisional amounts which will be finalised in the 2007 accounts.

Goodwill represents the value of synergies and assembled workforce.

The outflow of cash and cash equivalents on the acquisition of Master Builder is calculated as follows:

	£m
Cash consideration	12.7
Cash acquired	-
	12.7

The intangible assets acquired as part of the acquisition of Master Builder can be analysed as follows:

	£m
Brand names	1.5
Technology	1.5
Customer relationships	1.9
	4.9

Further details of these are given in note 8.

Notes to the Accounts - Group continued

For the year ended 30 September 2006

26 ACQUISITIONS AND DISPOSALS continued

d Acquisition of Bäurer GmbH

On 11 July 2006 the Group completed the acquisition of Bäurer GmbH ("Bäurer") for a consideration of £17.6m (inclusive of £0.3m related costs). Total goodwill arising on the acquisition is £12.1m. The fair values of net assets acquired are based on provisional assessments pending final determination of certain assets and liabilities.

In the purchase 100% of the voting shares were acquired. From the date of the acquisition to 30 September 2006 the acquisition contributed £3.2m to revenue and £0.1m to profit.

All intangible assets were recognised at their respective fair values. The residual excess over the net assets acquired is recognised as goodwill in the financial statements.

Bäurer acquisition	Carrying values pre acquisition £m	Provisional fair value £m
Intangible fixed assets	2.3	**5.9**
Property, plant and equipment	0.3	**0.3**
Inventories	0.1	**0.1**
Receivables	1.8	**1.8**
Payables	(2.3)	**(2.3)**
Taxation		
- Current	0.3	**0.3**
Cash and cash equivalents	1.4	**1.4**
Loans	(0.2)	**(0.2)**
Deferred income	(1.8)	**(1.8)**
Net assets acquired	1.9	**5.5**
Goodwill		**12.1**
Consideration		**17.6**
Consideration satisfied by:		
Cash		17.3
Deferred consideration		0.3
		17.6

The fair value adjustments contain some provisional amounts which will be finalised in the 2007 accounts.

Goodwill represents the value of synergies and assembled workforce.

The outflow of cash and cash equivalents on the acquisition of Bäurer is calculated as follows:

	£m
Cash consideration	17.3
Cash acquired	(1.4)
	15.9

The intangible assets acquired as part of the acquisition of Bäurer can be analysed as follows:

	£m
Brand names	0.9
Technology	1.1
Computer software	0.4
Customer relationships	3.5
	5.9

Further details of these are given in note 8.

e Acquisition of Elit Group

On 24 July 2006 the Group completed the acquisition of Elit Group ("Elit") for a consideration of £22.2m (inclusive of £1.4m related costs). Total goodwill arising on the acquisition is £18.0m. The fair values of net assets acquired are based on provisional assessments pending final determination of certain assets and liabilities.

In the purchase 100% of the voting shares were acquired. From the date of the acquisition to 30 September 2006 the acquisition contributed £2.4m to revenue and (£0.3m) to profit.

All intangible assets were recognised at their respective fair values. The residual excess over the net assets acquired is recognised as goodwill in the financial statements.

Elit acquisition	Carrying values pre acquisition £m	Provisional fair value £m
Intangible fixed assets	5.5	**6.9**
Property, plant and equipment	0.4	**0.4**
Inventories	0.1	**0.1**
Receivables	7.1	**4.8**
Payables	(4.3)	**(7.1)**
Taxation		
- Current	0.6	**0.6**
- Deferred	-	**2.6**
Cash and cash equivalents	(0.9)	**(0.9)**
Loans	(1.6)	**(1.6)**
Deferred income	(0.6)	**(1.6)**
Net assets acquired	6.3	**4.2**
Goodwill		**18.0**
Consideration		**22.2**
Consideration satisfied by:		
Cash		14.1
Deferred consideration		8.1
		22.2

The fair value adjustments contain some provisional amounts which will be finalised in the 2007 accounts.

Goodwill represents the value of synergies and assembled workforce.

The outflow of cash and cash equivalents on the acquisition of Elit is calculated as follows:

	£m
Cash consideration	14.1
Cash acquired	0.9
	15.0

The intangible assets acquired as part of the acquisition of Elit can be analysed as follows:

	£m
Technology	1.2
Customer relationships	5.7
	6.9

Further details of these are given in note 8.

Notes to the Accounts - Group continued

For the year ended 30 September 2006

26 ACQUISITIONS AND DISPOSALS continued

f Acquisition of UBS Corporation Berhad

On 3 July 2006 the Group completed the acquisition of UBS Corporation Berhad ("UBS"), for a consideration of £14.6m. Total goodwill arising on the acquisition is £10.8m. The fair values of net assets acquired are based on provisional assessments pending final determination of certain assets and liabilities.

In the purchase 100% of the voting shares were acquired. From the date of the acquisition to 30 September 2006 the acquisition contributed £0.5m to revenue and £0.2m to profit.

All intangible assets were recognised at their respective fair values. The residual excess over the net assets acquired is recognised as goodwill in the financial statements.

UBS acquisition	Carrying values pre acquisition £m	Provisional fair value £m
Intangible fixed assets	-	**0.9**
Property, plant and equipment	1.2	**1.2**
Inventories	0.2	**0.2**
Receivables	0.5	**0.5**
Payables	(0.1)	**(0.1)**
Cash and cash equivalents	1.1	**1.1**
Net assets acquired	2.9	**3.8**
Goodwill		**10.8**
Consideration		**14.6**
Consideration satisfied by:		
Cash		14.6
Deferred consideration		-
		14.6

The fair value adjustments contain some provisional amounts which will be finalised in the 2007 accounts.

Goodwill represents the value of synergies and assembled workforce.

The outflow of cash and cash equivalents on the acquisition of UBS is calculated as follows:

	£m
Cash consideration	14.6
Cash acquired	(1.1)
	13.5

The intangible assets acquired as part of the acquisition of UBS can be analysed as follows:

	£m
Brand names	0.2
Technology	0.6
Customer relationships	0.1
	0.9

Further details of these are given in note 8.

g Acquisition of Emdeon Practice Services, Inc.

On 14 September 2006 the Group completed the acquisition of Emdeon Practice Services, Inc. ("EPS") for a consideration of £307.8m (inclusive of £3.6m related costs). Total goodwill arising on the acquisition is £245.9m. The fair values of net assets acquired are based on provisional assessments pending final determination of certain assets and liabilities.

In the purchase 100% of the voting shares were acquired. From the date of the acquisition to 30 September 2006 the acquisition contributed £8.5m to revenue and £0.9m to profit.

All intangible assets were recognised at their respective fair values. The residual excess over the net assets acquired is recognised as goodwill in the financial statements.

EPS acquisition	Carrying values pre acquisition £m	Provisional fair value £m
Intangible fixed assets	102.1	**64.4**
Property, plant and equipment	5.1	**5.1**
Inventories	2.2	**2.2**
Receivables	21.7	**31.3**
Payables	(10.0)	**(10.5)**
Cash and cash equivalents	2.0	**2.0**
Deferred income	(25.6)	**(32.6)**
Net assets acquired	97.5	**61.9**
Goodwill		**245.9**
Consideration		**307.8**
Consideration satisfied by:		
Cash		304.8
Deferred consideration		3.0
		307.8

The fair value adjustments contain some provisional amounts which will be finalised in the 2007 accounts.

Goodwill represents the value of synergies and assembled workforce.

The outflow of cash and cash equivalents on the acquisition of EPS is calculated as follows:

	£m
Cash consideration	304.8
Cash acquired	(2.0)
	302.8

The intangible assets acquired as part of the acquisition of EPS can be analysed as follows:

	£m
Brand names	6.7
Technology	11.9
Computer software	3.8
Customer relationships	42.0
	64.4

Further details of these are given in note 8.

Notes to the Accounts - Group continued

For the year ended 30 September 2006

26 ACQUISITIONS AND DISPOSALS continued

h Other acquisitions made in the year

The following acquisitions, each of the entire share capital of the relevant company, were made during the year:

- Gestexper – Informática, Lda was acquired on 1 October 2005 for a cash consideration of £0.2m (including costs). The fair value of assets acquired was £nil resulting in goodwill of £0.2m.
- Digital Pilot SARL was acquired on 22 December 2005 for a cash consideration of £0.3m (including costs) and a deferred element of £1.1m. The fair value of assets acquired was £nil resulting in goodwill of £1.4m.
- Contractor Anywhere, Inc. was acquired on 8 May 2006 for a cash consideration of £2.9m (including costs). The fair value of assets acquired was £nil resulting in goodwill of £2.9m.
- SWA Ltd. and Huatuo Software Ltd. were acquired on 16 May 2006 for a cash consideration of £0.8m (including costs). The fair value of assets acquired was (£0.2m) resulting in goodwill of £1.0m.
- Escripóvoa – Formação e Contabilidade, S.A. was acquired on 10 July 2006 for a cash consideration of £1.0m (including costs). The fair value of assets acquired was £0.1m resulting in goodwill of £0.9m.

In addition, the following acquisitions were completed during the year of the trade and assets of the following businesses:

- Certain trade and assets of Datev Symfonia SP z.o.o. were acquired on 1 February 2006 for a cash consideration of £nil. The fair value of assets acquired was (£0.3m) resulting in goodwill of £0.3m.
- Certain trade and assets of BGM Business Solutions Limited were acquired on 31 January 2006 for a cash consideration of £0.4m (including costs). The fair value of assets acquired was £nil resulting in goodwill of £0.4m.
- Certain trade and assets of Logic Galicia, S.L. were acquired on 10 August 2006 for a cash consideration of £0.6m (including costs). The fair value of assets acquired was £0.4m resulting in goodwill of £0.2m.
- The Corum Mobile Division of Corum Corporation was acquired on 15 September 2006 for a cash consideration of £9.4m (including costs). The fair value of assets acquired was £nil resulting in goodwill of £9.4m.

Other acquisitions	Carrying values pre acquisition £m	Provisional fair value £m
Property, plant and equipment	0.1	**0.1**
Receivables	0.4	**0.4**
Payables	(0.8)	**(0.8)**
Taxation		
- Current	0.1	**0.1**
Cash and cash equivalents	0.5	**0.5**
Deferred income	(0.3)	**(0.3)**
Net assets acquired	-	**-**
Goodwill		**16.7**
Consideration		**16.7**
Consideration satisfied by:		
Cash		**15.6**
Deferred consideration		**1.1**
		16.7

The fair value adjustments contain some provisional amounts which will be finalised in the 2007 accounts.

Goodwill represents the value of synergies and assembled workforce.

The outflow of cash and cash equivalents on the acquisition of the other acquisitions is calculated as follows:

	£m
Cash consideration	15.6
Cash acquired	(0.5)
	15.1

i Contribution of acquisitions

The contribution to Group revenue and net profit, had the acquisitions occurred at the beginning of the year, has not been disclosed as it would be impracticable to determine these amounts due to the following reasons;

- Certain of the acquisitions had a different year end to the Group;
- Certain of the acquisitions accounted under a different GAAP to the Group, making accounting information not comparable to the rest of the Group; and
- In certain instances, accounting information is not sufficient to determine accurately the fair value adjustments that would have been made to the balance sheets one year ago.

j Disposal of CPA Software

On 14 January 2006 the Group disposed of the CPA Software division of Sage Software, Inc. for £7.8m in cash and a deferred element of £0.6m.

	£m
Property, plant and equipment	0.1
Receivables	0.1
Payables	(0.1)
Deferred income	(1.8)
	(1.7)
Goodwill	7.4
Net assets at disposal	**5.7**
Profit on disposal	2.7
Total consideration	**8.4**
Consideration satisfied by:	
Cash	7.8
Deferred consideration	0.6
	8.4

k Other disposals

In addition, the following disposals were completed during the year of the trade and assets of the following businesses:

- Certain trade and assets of Sage Concept Italia SPA were disposed of on 15 November 2005 for a cash consideration of £0.7m. The fair value of assets disposed of was £0.7m resulting in a profit on disposal of £nil.
- Certain trade and assets of Sage ACCPAC International, Inc. were disposed of on 25 April 2006 for a cash consideration of £0.1m. The fair value of assets disposed of was £0.1m resulting in a profit on disposal of £nil.

	£m
Property, plant and equipment	0.1
Receivables	0.6
Cash and cash equivalents	0.8
Payables	(0.7)
Net assets at disposal	**0.8**
Profit on disposal	-
Total cash consideration	**0.8**

The inflow of cash and cash equivalents on the other disposals is calculated as follows:

	£m
Cash consideration	0.8
Cash disposed	(0.8)
	-

l Other

During the year ended 30 September 2006 adjustments were made in respect of goodwill on prior year acquisitions of (£1.7m), due to additional cash acquisition payments of £0.6m, reduction in deferred consideration of £0.3m and increase in net assets of £2.0m following the re-appraisal of the fair value of assets and liabilities.

In addition, adjustments were made in respect of other intangible assets on prior year acquisitions of £1.4m.

Notes to the Accounts - Group continued

For the year ended 30 September 2006

26 ACQUISITIONS AND DISPOSALS continued

m Analysis of net outflow of cash in respect of acquisitions

The outflow of cash and cash equivalents on the acquisitions is calculated as follows:

	Note	£m
Adonix	26(a)	74.6
Verus	26(b)	164.0
Master Builder	26(c)	12.7
Bäurer	26(d)	15.9
Elit	26(e)	15.0
UBS	26(f)	13.5
EPS	26(g)	302.8
Other acquisitions	26(h)	15.1
Payments in relation to previous years' acquisitions	26(l)	0.6
Payment of deferred consideration		3.3
Net cash outflow in respect of acquisitions		**617.5**

n Analysis of goodwill

The total additions to goodwill are calculated as follows:

	Note	£m
Adonix	26(a)	55.7
Verus	26(b)	135.4
Master Builder	26(c)	10.5
Bäurer	26(d)	12.1
Elit	26(e)	18.0
UBS	26(f)	10.8
EPS	26(g)	245.9
Other acquisitions	26(h)	16.7
Adjustments in relation to previous years' acquisitions	26(l)	(1.7)
Net movement in goodwill on acquisitions	7	**503.4**

o Analysis of net inflow of cash in respect of disposals

The inflow of cash and cash equivalents on the disposals is calculated as follows:

	Note	£m
CPA Software	26(j)	7.8
Other disposals	26(k)	-
Net cash inflow in respect of disposals		**7.8**

27 EMPLOYEES AND DIRECTORS

Average monthly number of people employed	2006 number	2005 number
By territory		
UK & Ireland	**2,031**	1,850
Mainland Europe	**4,001**	2,871
North America	**3,307**	2,978
Rest of World	**1,171**	987
	10,510	8,686

Staff costs	Note	2006 £m	2005 £m
Wages and salaries		**335.8**	256.1
Social security costs		**57.4**	47.6
Share-based payments		**8.8**	8.2
Other pension costs	28	**7.8**	9.6
		409.8	321.5

Key management compensation	2006 £m	2005 £m
Salaries and short-term employee benefits	**5.8**	5.5
Post-employment benefits	**0.3**	0.3
Share-based payments	**1.7**	1.6
	7.8	7.4

The key management figures given above include directors.

28 PENSION COMMITMENTS

The Group has established a number of pension schemes around the world covering many of its employees. All of these schemes are defined contribution schemes with the exception of a small scheme in Switzerland.

Pension costs for defined contribution schemes are as follows:

	Note	2006 £m	2005 £m
Defined contribution schemes	27	**7.4**	9.3

Defined benefit plan

The most recent actuarial valuation of the Swiss pension plan was performed by Swisscanto. The principal assumptions made by the actuaries were:

	2006 %	2005 %
Rate of increase in pensionable salaries	**2.00**	1.00
Rate of increase in pensions in payment and deferred pensions	**0.50**	0.25
Mortality assumption	**1.00**	1.00
Discount rate	**3.00**	3.00
Inflation assumption	**2.00**	1.00
Expected return on plan assets	**4.00**	4.50

Pensions and other post-retirement obligations

The amounts recognised in the balance sheet are determined as follows:

	2006 £m	2005 £m
Present value of funded obligations	**(11.7)**	(11.2)
Fair value of plan assets	**9.6**	8.8
Unrecognised actuarial losses	**-**	0.1
Net liability recognised in the balance sheet	**(2.1)**	(2.3)

The expected return on plan assets is based on market expectation at the beginning of the period for returns over the entire life of the benefit obligation.

The major categories of plan assets as a percentage of total plan assets are as follows:

	2006 £m	2006 %	2005 £m	2005 %
Cash	**0.7**	**6.9**	0.3	3.4
Bonds	**5.2**	**55.0**	4.9	55.0
Equities	**2.1**	**21.8**	2.0	22.3
Property	**1.0**	**10.6**	1.2	13.4
Other	**0.6**	**5.7**	0.5	5.9
	9.6	**100.0**	8.9	100.0

Notes to the Accounts - Group continued

For the year ended 30 September 2006

28 PENSION COMMITMENTS continued

The amounts recognised in the income statement are as follows:

	Note	2006 £m	2005 £m
Actuarial pension cost		**(0.9)**	(0.7)
Interest cost		**(0.3)**	(0.2)
Expected return on plan assets		**0.4**	0.3
Current service cost		**0.4**	0.3
Total included within staff costs	27	**(0.4)**	(0.3)

The entire cost is included within selling and administrative expenses.

Changes in the present value of the defined benefit obligation are as follows:

	2006 £m	2005 £m
Present value of obligation – 1 October	**(11.2)**	(10.3)
Exchange movement	**0.2**	(0.2)
Service cost	**(0.9)**	(0.7)
Interest cost	**(0.3)**	(0.2)
Benefits paid	**0.3**	0.3
Actuarial gain/(loss) on benefit obligation	**0.2**	(0.1)
Present value of obligation – 30 September	**(11.7)**	(11.2)

Changes in the fair value of plan assets are as follows:

	2006 £m	2005 £m
Fair value of plan assets – 1 October	**8.8**	8.1
Exchange movement	**(0.2)**	-
Expected return on plan assets	**0.4**	0.3
Employer's contributions	**0.6**	0.3
Employee's contributions	**0.4**	0.4
Benefits paid	**(0.3)**	(0.3)
Actuarial loss on plan assets	**(0.1)**	-
Fair value of plan assets – 30 September	**9.6**	8.8

Analysis of the movement in the balance sheet liability

	2006 £m	2005 £m
At 1 October	**(2.3)**	(2.3)
Total expense as above	**(0.4)**	(0.3)
Contributions paid	**0.6**	0.3
At 30 September	**(2.1)**	(2.3)

The actual return on plan assets was £0.3m (2005: £0.4m).

History of experience gains and losses

	2006 £m	2005 £m
Present value of defined benefit obligation	**(11.7)**	(11.2)
Fair value of plan assets	**9.6**	8.8
Deficit	**(2.1)**	(2.4)
Experience adjustments on plan liabilities	**(0.1)**	(0.1)
Change in assumptions adjustment on plan liabilities	**-**	0.3
Experience adjustments on plan assets	**0.1**	(0.1)
Total actuarial (loss)/gain	**-**	0.1

29 OPERATING LEASE COMMITMENTS – MINIMUM LEASE PAYMENTS

Commitments under non-cancellable operating leases expiring:	2006 Property £m	2006 Vehicles plant and equipment £m	2005 Property £m	2005 Vehicles plant and equipment £m
Within one year	**16.6**	**0.5**	12.1	0.8
Later than one year and less than five years	**73.3**	**2.7**	48.6	2.1
After five years	**125.1**	**0.1**	84.2	-
	215.0	**3.3**	144.9	2.9

The Group leases various offices and warehouses under non-cancellable operating lease agreements. These leases have various terms, escalation clauses and renewal rights. The Group also leases vehicles, plant and equipment under non-cancellable operating lease agreements.

30 CONTINGENT LIABILITIES

The Group had no contingent liabilities at 30 September 2006 (2005: none).

31 RELATED PARTY TRANSACTIONS

The Group has taken advantage of the exemption available under IAS 24, “Related Party Disclosures”, not to disclose details of transactions with its subsidiary undertakings. There are no other external related parties.

32 POST BALANCE SHEET EVENTS

On 13 November 2006 the Group announced that it had acquired 100% of Protx Group Ltd in the UK, for an enterprise value of £20.0m.

The book values of the net assets acquired are detailed below:

	Book value £m
Intangible assets	**0.2**
Property, plant and equipment	**0.5**
Receivables	**0.4**
Payables	**(0.4)**
Cash and cash equivalents	**0.1**
Net assets acquired	**0.8**

In accordance with IFRS 3, the directors will assess the fair values of the net assets acquired as further information becomes available.

Notes to the Accounts - Group continued

For the year ended 30 September 2006

33 PRINCIPAL SUBSIDIARIES

Detailed below is a list of those subsidiaries which in the opinion of the directors principally affect the amount of the profit or the amount of the assets of the Group. The Group percentage of equity capital and voting rights is 100% and nature of business is software and the provision of related services.

Incorporated subsidiaries

Name	Country of incorporation
Sage (UK) Limited	UK
Sage Hibernia Limited	Ireland
Sage Software, Inc.	US
Sage Software SB, Inc.	US
Sage ACCPAC International, Inc.	US
Verus Financial Management, Inc.	US
Sage Software Healthcare, Inc.	US
Sage ACCPAC Canada Inc.	Canada
Ciel SAS	France
Sage SAS	France
Adonix SAS	France
Elit Group	France
Sage Software GmbH & Co KG	Germany
Bäurer GmbH	Germany
Sage Schweiz AG	Switzerland
Simultan AG	Switzerland
Sage SP, S.A.	Spain
Sage Logic Control, S.A.	Spain
Sage Symfonia SP z.o.o.	Poland
Micropay (Pty) Ltd	Australia
Handisoft Software (Pty) Ltd	Australia
Sage Business Solutions (Pty) Ltd	Australia
Softline (Pty) Ltd	South Africa
UBS Corporation Bhd	Malaysia
Sage China Limited	China

34 RECONCILIATION OF NET ASSETS AND PROFIT UNDER UK GAAP TO IFRS

The Group reported under UK GAAP in its previously published financial statements for the year ended 30 September 2005. The analysis below shows a reconciliation of net assets and profit as reported under UK GAAP at 30 September 2005 to the revised net assets and profit under IFRS as reported in these financial statements. In addition, there is a reconciliation of net assets under UK GAAP to IFRS at the transition date for this Group, being 1 October 2004.

Impact of key differences between UK GAAP and IFRS

All relevant accounting standards have been applied to the restated financial information and the following accounting standards are those that have the most significant impact on the Group.

IFRS 2 (Share-based Payment): Under UK GAAP, the Group did not recognise compensation costs under share option schemes unless the exercise price is at a discount to the open market value of the shares at date of grant. Under IFRS, an income statement charge is recognised in respect of the cost of share options granted under the Group's various share schemes. This cost is deemed to be the fair value of the options granted and is charged to the income statement over the vesting period of the share option schemes. An amount equivalent to the charge is credited directly to equity, resulting in no net impact on net assets.

The impact of this policy for the year ended 30 September 2005 is an additional charge in the income statement of £7.4m.

Under IAS 33 (Earnings per Share), the assumed proceeds used in the diluted earnings per share calculation include the fair value of any services to be supplied to the entity in the future. This has the effect of reducing the dilutive effect of certain outstanding options in each accounting period.

The impact as shown in the IFRS 2 column in the income statement is an increase of 0.03p per share on the diluted EPS for the year ended 30 September 2005.

IFRS 3 (Business Combinations): Separate intangible assets are recognised at fair value on the acquisition of businesses after the date of transition to IFRS, which previously formed part of goodwill under UK GAAP. For the Group, these include mainly technology, brand names and customer relationships, all of which are amortised over their respective estimated useful lives. The residual goodwill balance under IFRS is therefore lower in value than under UK GAAP. The residual goodwill will continue to be tested at least annually for impairment.

The impact of this policy for the year ended 30 September 2005 is an amortisation charge in the income statement of £2.0m.

Separate intangible assets (pre-amortisation) which were previously included within goodwill of £36.4m at 30 September 2005 have been reclassified within the Group balance sheet from goodwill into intangible assets.

IAS 7 (Cash Flow Statements): Underlying cash flows are unaffected by the transition to IFRS although there are changes to their presentation. IFRS requires cash flows to be reported under three sections: operating, investing and financing, whereas the equivalent UK GAAP standard requires cash flows to be reported in far greater detail under nine standard headings.

One further impact of IAS 7 relates to reporting of cash and cash equivalents. UK GAAP reports the movements in cash. However, IFRS reports the movements in cash and cash equivalents. Under UK GAAP, there is no concept of cash equivalents, but cash flows relating to IAS 7 cash equivalents would be included in "management of liquid resources".

The impact of this policy for the year ended 30 September 2005 is to reclassify £4.8m of short-term deposits at the transition date into cash and cash equivalents and to reduce in the year cash and cash equivalents by £1.1m.

IAS 10 (Events After the Balance Sheet Date): Previously under UK GAAP, proposed dividends were recognised as an adjusting post balance sheet event. Under IFRS, dividends are not appropriated within the accounts until the shareholders' right to receive the dividend is established. In the case of the final dividend, this is not until they have been approved by shareholders at the Annual General Meeting and in the case of the interim dividend, when paid.

The impact of this standard is to reverse unapproved dividends in the balance sheet. This has the impact of increasing net assets on transition by £22.0m and by £25.1m at 30 September 2005.

IAS 12 (Income Taxes): Deferred taxation charges arise under IFRS as a result of differences between the accounting treatment in respect of share-based payment (IFRS 2), intangible assets (IFRS 3 / IAS 38), revenue recognition (IAS 18) and employee benefits (IAS 19) (holiday pay accruals and pensions).

Under UK GAAP, in accordance with FRS 19 "Deferred Tax", deferred tax is provided in full on all timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise, based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. It is the Group's policy that deferred tax assets and liabilities are not discounted.

Under IAS 12, deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

The impact of this policy is to recognise a deferred tax asset in the Group balance sheet on transition of £21.2m. A further asset of £10.0m was recognised in June 2005 on the acquisition of Logic Control SA in Spain. This was treated as an adjustment to net assets on acquisition also impacting goodwill. The adjustments to the total deferred tax asset in the Group balance sheet at 30 September 2005 was £34.5m.

IAS 18 (Revenue): Under IAS 18 there are certain revenue adjustments related to the allocation of revenue and discounts between the various elements of bundled licence and maintenance and support contracts. Under IAS 18, the amount allocated to the future services is required to be on a fair value basis, with the amount deferred being equal to the cost to provide the service plus a reasonable profit on the service.

The impact of this policy is to increase deferred income in the Group balance sheet on transition by £6.8m. The equivalent adjustment at 30 September 2005 was £8.4m, with the movement impacting revenue and profit from operations in the income statement.

Under UK GAAP marketing rebates are classified as a marketing cost within overheads. Under IFRS, certain marketing rebates are classified as a reduction of revenue. The impact of this reclassification is a reduction in revenue for the year ended 30 September 2005 of £17.0m.

IAS 19 (Employee Benefits): An accrual is recognised for employee annual leave accrued, but not taken, at each balance sheet date.

The impact of this policy is to recognise an accrual for holiday pay in the Group balance sheet on transition of £7.7m. A further charge of £1.3m is recorded in the income statement creating a total accrual of £9.0m in the Group balance sheet at 30 September 2005.

Notes to the Accounts - Group continued

For the year ended 30 September 2006

34 RECONCILIATION OF NET ASSETS AND PROFIT UNDER UK GAAP TO IFRS continued

IAS 19 allows separate recognition of the operating and financing costs of defined benefit schemes in the income statement and permits a number of options for the recognition of actuarial gains and losses. The Group has adopted the IFRS 1 transitional exemption and recognised the full actuarial deficit of a small defined benefit pension scheme that operated within the Group, which includes all cumulative actuarial gains and losses, in shareholders' equity at 1 October 2004.

During the year to 30 September 2005 the Group has recognised all actuarial gains and losses immediately in the Statement of Recognised Income and Expense.

The impact of this policy is to recognise a liability for retirement benefits in the Group Balance Sheet on transition of £1.1m. A further liability of £0.9m was recognised in December 2004 on the acquisition of Simultan AG in Switzerland. This was treated as an adjustment to net assets on acquisition also impacting goodwill. The total liability in the Group Balance Sheet at 30 September 2005 was £2.3m.

IAS 21 (The Effects of Changes in Foreign Exchange Rates): Certain exchange differences, previously recognised directly within retained earnings under UK GAAP, are reclassified into a separate currency translation reserve, directly within equity, under IFRS.

The impact of this policy results in a reduction in the retained earnings reserve at 30 September 2005 of £13.4m. These exchange movements are now recorded in a separate currency translation reserve. This policy does not impact the Group's net equity.

IAS 38 (Intangible Assets): Certain software assets are reclassified from tangible to intangible assets under IFRS. The impact is a reclassification of £3.5m on the Group Balance Sheet at transition. The equivalent reclassification was £3.4m at 30 September 2005.

Separate intangible assets are also recognised within business combinations (see IFRS 3, above). These assets are amortised to the income statement over their estimated useful lives.

Under UK GAAP all research and development expenditure activity undertaken by the Group is charged through the income statement as incurred.

Similarly under IAS 38 – Intangible assets, expenditure on research activities is recognised as an expense in the period in which it is incurred. However, an internally generated intangible asset arising from the development of software is recognised if all of the following conditions are met:

- It is probable that the asset will create future economic benefits;
- The development costs can be measured reliably;
- Technical feasibility of completing the intangible asset can be demonstrated;
- There is the intention to complete the asset and use or sell it;
- There is the ability to use or sell the asset; and
- Adequate technical, financial and other resources to complete the development and to use or sell the asset are available.

Internally generated intangible assets are amortised over their estimated useful lives. If any of the criteria above are not met then no internally generated intangible asset is recognised and development expenditure is charged to the income statement in the period in which it is incurred.

The impact of this policy is a net capitalisation of internally generated intangible assets at the transition date of £1.8m. For the year ended 30 September 2005 a further £1.1m of costs were capitalised which were offset by amortisation of £0.6m. The value of net capitalised internally generated intangible assets at 30 September 2005 was £2.3m.

The impact on the Group Cash Flow Statement is that capitalised development costs (after tax) of £0.7m for the year ended 30 September 2005, which were previously written-off as an operating expense, are now reported as development expenditure within investing activities.

Elections made under IFRS 1 (First-time adoption of International Financial Reporting Standards)

IFRS options	Basis of election
Share-based Payment	**IFRS 2**
There are two first-time adoption exemptions for accounting for share-based payments: • Share-based payments granted on or before 7 November 2002 and vested before 1 January 2005 may be restated but restatement is not mandatory; • Share-based payments granted on or before 7 November 2002 and not vested before 1 January 2005 may be restated but restatement is not mandatory.	• Share options granted on or before 7 November 2002 and vested before 1 January 2005, have not been restated in accordance with IFRS 2. • IFRS has been applied to all share options granted after 7 November 2002 which had not vested by 1 January 2005.
Business Combinations/Intangible Assets	**IFRS 3/IAS 38**
The standard is mandatory for all acquisitions after the Group's transition date of 1 October 2004. However, the standard allows a first-time adopter to apply the standard to all business combinations that occurred before this date.	The standard has been applied only to business combinations taking place after the Group's transition date of 1 October 2004. Goodwill relating to acquisitions prior to the transition date will be held at net book value at 1 October 2004 and subject to impairment review (IAS 36).
The Effects of Changes in Foreign Exchange Rates	**IAS 21**
IFRS requires certain translation differences to be recognised as a separate component of equity, rather than within retained earnings and to be considered as part of the profit or loss on any future disposal of foreign operations. However, the standard allows first-time adopters to deem the cumulative translation differences to be zero at the date of transition.	The Group will deem cumulative exchange differences to be zero as at 1 October 2004 and will not consider any cumulative exchange differences arising prior to 1 October 2004 if the relevant foreign operations are disposed in the future.
Employee Benefits	**IAS 19**
Under IAS 19, companies may choose to adopt an accounting policy in which actuarial gains and losses are recognised in the income statement over a period. When this policy is adopted, some actuarial gains and losses are unrecognised at each balance sheet date. However, first-time adopters can apply this approach prospectively from the date of transition to IFRS.	All cumulative actuarial gains and losses relating to pensions and other post retirement benefits have been recognised in full in equity at the transition date. During the year to 30 September 2005, the Group has recognised all actuarial gains and losses immediately to the statement of recognised income and expenditure in accordance with the amendment to IAS 19, issued on 16 December 2004 and endorsed by the EU in November 2005.
Financial Instruments	**IAS 32/IAS 39**
This standard is applicable from the Group's transition date of 1 October 2004. However, the standard grants a first year exemption from its application to the comparative period but also allows first-time adopters to account retrospectively for financial instruments in line with the standard.	The Group has taken the exemption from presenting comparative financial information under IAS 32/IAS 39. Therefore, the restated results for the year to 30 September 2005 do not reflect the impact of IAS 32 and IAS 39 and the related applicable financial instruments have been accounted for under UK GAAP.

Notes to the Accounts - Group continued

For the year ended 30 September 2006

34 RECONCILIATION OF NET ASSETS AND PROFIT UNDER UK GAAP TO IFRS continued

Consolidated Income Statement UK GAAP to IFRS Reconciliation

For the year ended 30 September 2005

Year ended 30 September 2005	UK GAAP - (IFRS Format) £m	IFRS 2 Share-based Payment £m	IFRS 3 Business Combinations £m	IAS 2 Income Taxes £m	IAS 18 Revenue £m	IAS 19 Employee Benefits £m	IAS 38 Intangible Assets - Development capitalisation £m	IAS 38 Intangible Assets - Development amortisation £m	IFRS £m
Revenue	**776.6**	**-**	**-**	**-**	**(17.0)**	**-**	**-**	**-**	**759.6**
Cost of sales	(71.1)	-	-	-	10.4	-	-	-	(60.7)
Gross profit	**705.5**	**-**	**-**	**-**	**(6.6)**	**-**	**-**	**-**	**698.9**
Selling and administrative expenses	(494.5)	(7.4)	(2.0)	-	5.1	(1.3)	1.1	(0.6)	(499.6)
Operating profit	**211.0**	**(7.4)**	**(2.0)**	**-**	**(1.5)**	**(1.3)**	**1.1**	**(0.6)**	**199.3**
Finance income	2.8	-	-	-	-	-	-	-	2.8
Finance expenses	(8.5)	-	-	-	-	-	-	-	(8.5)
Profit before taxation	**205.3**	**(7.4)**	**(2.0)**	**-**	**(1.5)**	**(1.3)**	**1.1**	**(0.6)**	**193.6**
Taxation	(61.8)	2.7	0.4	(3.3)	0.5	0.5	(0.4)	0.2	(61.2)
Profit for the year	**143.5**	**(4.7)**	**(1.6)**	**(3.3)**	**(1.0)**	**(0.8)**	**0.7**	**(0.4)**	**132.4**
Attributable to:									
Equity shareholders	**143.4**	(4.7)	(1.6)	(3.3)	(1.0)	(0.8)	0.7	(0.4)	**132.3**
Minority interest	0.1	-	-	-	-	-	-	-	0.1
Profit for the year	**143.5**	**(4.7)**	**(1.6)**	**(3.3)**	**(1.0)**	**(0.8)**	**0.7**	**(0.4)**	**132.4**
EBITA*	**212.3**	**(7.4)**	**-**	**-**	**(1.5)**	**(1.3)**	**-**	**-**	**202.1**
Earnings per share (pence)									
- Basic	**11.17**	(0.36)	(0.12)	(0.26)	(0.08)	(0.06)	0.05	(0.03)	**10.31**
- Diluted	**11.10**	(0.34)	(0.12)	(0.26)	(0.08)	(0.06)	0.05	(0.03)	**10.26**

* EBITA measure (Earnings before interest, tax and amortisation) excludes the effects of:
- Amortisation of acquired intangible assets; and
- Amortisation (or capitalisation) of software development expenditure.

Consolidated Balance Sheet UK GAAP to IFRS Reconciliation

As at 30 September 2005

As at 30 September 2005	UK GAAP - (IFRS Format) £m	IFRS 3 Business Combinations £m	IAS 10 Events After the Balance Sheet Date £m	IAS 12 Income Taxes £m	IAS 18 Revenue £m	IAS 19 Employee Benefits £m	IAS 21 The Effects of Changes in Foreign Exchange Rates £m	IAS 38 Intangible Assets - Development £m	IAS 38 Intangible Assets - Reclassification £m	IFRS £m
Goodwill	1,122.4	(36.4)	-	(10.0)	-	0.8	-	-	-	1,076.8
Other intangible assets	5.4	34.3	-	-	-	-	-	2.3	3.4	45.4
Property, plant and equipment	123.3	-	-	-	-	-	-	-	(3.4)	119.9
Deferred tax assets	11.5	-	-	34.5	-	-	-	-	-	46.0
Total non-current assets	**1,262.6**	**(2.1)**	**-**	**24.5**	**-**	**0.8**	**-**	**2.3**	**-**	**1,288.1**
Inventories	3.5	-	-	-	-	-	-	-	-	3.5
Trade and other receivables	149.8	0.1	-	-	-	-	-	-	-	149.9
Cash and cash equivalents	69.1	-	-	-	-	-	-	-	-	69.1
Total current assets	**222.4**	**0.1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**222.5**
TOTAL ASSETS	**1,485.0**	**(2.0)**	**-**	**24.5**	**-**	**0.8**	**-**	**2.3**	**-**	**1,510.6**
Trade and other payables	(136.5)	-	-	-	-	(9.0)	-	-	-	(145.5)
Current tax liabilities	(60.8)	-	-	-	-	-	-	-	-	(60.8)
Obligations under finance leases	(0.1)	-	-	-	-	-	-	-	-	(0.1)
Financial liabilities - Borrowings	(0.1)	-	-	-	-	-	-	-	-	(0.1)
Proposed dividends	(25.1)	-	25.1	-	-	-	-	-	-	-
Deferred consideration	(5.8)	-	-	-	-	-	-	-	-	(5.8)
Deferred income	(219.9)	-	-	-	(8.4)	-	-	-	-	(228.3)
Total current liabilities	**(448.3)**	**-**	**25.1**	**-**	**(8.4)**	**(9.0)**	**-**	**-**	**-**	**(440.6)**
Financial liabilities - Borrowings	(175.7)	-	-	-	-	-	-	-	-	(175.7)
Retirement benefit obligations	-	-	-	-	-	(2.3)	-	-	-	(2.3)
Deferred tax liabilities	(2.5)	-	-	-	-	-	-	-	-	(2.5)
Obligations under finance leases	(0.6)	-	-	-	-	-	-	-	-	(0.6)
Total non-current liabilities	**(178.8)**	**-**	**-**	**-**	**-**	**(2.3)**	**-**	**-**	**-**	**(181.1)**
TOTAL LIABILITIES	**(627.1)**	**-**	**25.1**	**-**	**(8.4)**	**(11.3)**	**-**	**-**	**-**	**(621.7)**
NET ASSETS	**857.9**	**(2.0)**	**25.1**	**24.5**	**(8.4)**	**(10.5)**	**-**	**2.3**	**-**	**888.9**
Share capital	12.8	-	-	-	-	-	-	-	-	12.8
Share premium account	451.0	-	-	-	-	-	-	-	-	451.0
Other reserve	61.1	-	-	-	-	-	-	-	-	61.1
Currency translation reserve	-	-	-	-	-	-	13.4	-	-	13.4
Retained earnings	332.8	(2.0)	25.1	24.5	(8.4)	(10.5)	(13.4)	2.3	-	350.4
Total parent shareholders' equity	**857.7**	**(2.0)**	**25.1**	**24.5**	**(8.4)**	**(10.5)**	**-**	**2.3**	**-**	**888.7**
Minority interest in equity	**0.2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0.2**
TOTAL EQUITY	**857.9**	**(2.0)**	**25.1**	**24.5**	**(8.4)**	**(10.5)**	**-**	**2.3**	**-**	**888.9**

Notes to the Accounts - Group continued

For the year ended 30 September 2006

34 RECONCILIATION OF NET ASSETS AND PROFIT UNDER UK GAAP TO IFRS continued

Consolidated Cash Flow Statement

For the year ended 30 September 2005

Year ended 30 September 2005	UK GAAP - (IFRS Format) £m	IAS 7 Cash Flow Statements £m	IAS 38 Intangible Assets £m	IFRS £m
Cash flows from operating activities	**240.3**	**-**	**0.7**	**241.0**
Interest received	2.8	-	-	2.8
Interest paid	(8.1)	-	-	(8.1)
Tax paid	(57.3)	-	-	(57.3)
Net cash from operating activities	**177.7**	**-**	**0.7**	**178.4**
Cash flows from investing activities				
Acquisitions of subsidiaries (net of cash acquired)	(101.0)	-	-	(101.0)
Purchase of property, plant and equipment	(20.7)	-	-	(20.7)
Proceeds from sale of property, plant and equipment	3.5	-	-	3.5
Development expenditure	-	-	(0.7)	(0.7)
Net cash used in investing activities	**(118.2)**	**-**	**(0.7)**	**(118.9)**
Cash flows from financing activities				
Net proceeds from issue of ordinary share capital	4.6	-	-	4.6
Movement in short term investments	1.1	(1.1)	-	-
Finance lease principal payments	0.9	-	-	0.9
Repayment of borrowings	(209.4)	-	-	(209.4)
New borrowings	173.1	-	-	173.1
Dividends paid to shareholders	(33.9)	-	-	(33.9)
Net cash used in financing activities	**(63.6)**	**(1.1)**	**-**	**(64.7)**
Net decrease in cash and cash equivalents	**(4.1)**	**(1.1)**	**-**	**(5.2)**
Cash and cash equivalents at 1 October 2004	69.5	4.8	-	74.3
Effects of exchange rate changes	-	-	-	-
Cash and cash equivalents at 30 September 2005	**65.4**	**3.7**	**-**	**69.1**
Short-term deposits included within cash on the balance sheet	3.7	(3.7)	-	-
Net cash at bank and in hand shown on the balance sheet	**69.1**	**-**	**-**	**69.1**

Consolidated Balance Sheet UK GAAP to IFRS Reconciliation

As at 1 October 2004 (Transition date)

As at 1 October 2004	UK GAAP - (IFRS Format) £m	IFRS 3 Business Combinations £m	IAS 10 Events After the Balance Sheet Date £m	IAS 12 Income Taxes £m	IAS 18 Revenue £m	IAS 19 Employee Benefits £m	IAS 21 The Effects of Changes in Foreign Exchange Rates £m	IAS 38 Intangible Assets - Development £m	IAS 38 Intangible Assets - Reclassification £m	IFRS £m
Goodwill	994.8	-	-	-	-	-	-	-	-	994.8
Other intangible assets	-	-	-	-	-	-	-	1.8	3.5	5.3
Property, plant and equipment	124.0	-	-	-	-	-	-	-	(3.5)	120.5
Deferred tax asset	13.9	-	-	21.2	-	-	-	-	-	35.1
Total non-current assets	**1,132.7**	**-**	**-**	**21.2**	**-**	**-**	**-**	**1.8**	**-**	**1,155.7**
Inventories	3.2	-	-	-	-	-	-	-	-	3.2
Trade and other receivables	121.6	-	-	-	-	-	-	-	-	121.6
Cash and cash equivalents	74.4	-	-	-	-	-	-	-	-	74.4
Total current assets	**199.2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**199.2**
TOTAL ASSETS	**1,331.9**	**-**	**-**	**21.2**	**-**	**-**	**-**	**1.8**	**-**	**1,354.9**
Trade and other payables	(113.9)	-	-	-	-	(7.7)	-	-	-	(121.6)
Current tax liabilities	(59.6)	-	-	-	-	-	-	-	-	(59.6)
Financial liabilities - Borrowings	(6.2)	-	-	-	-	-	-	-	-	(6.2)
Proposed dividends	(22.0)	-	22.0	-	-	-	-	-	-	-
Deferred consideration	(2.3)	-	-	-	-	-	-	-	-	(2.3)
Deferred income	(190.9)	-	-	-	(6.8)	-	-	-	-	(197.7)
Total current liabilities	**(394.9)**	**-**	**22.0**	**-**	**(6.8)**	**(7.7)**	**-**	**-**	**-**	**(387.4)**
Financial liabilities - Borrowings	(199.7)	-	-	-	-	-	-	-	-	(199.7)
Retirement benefit obligations	-	-	-	-	-	(1.1)	-	-	-	(1.1)
Deferred tax liabilities	(4.9)	-	-	-	-	-	-	-	-	(4.9)
Total non-current liabilities	**(204.6)**	**-**	**-**	**-**	**-**	**(1.1)**	**-**	**-**	**-**	**(205.7)**
TOTAL LIABILITIES	**(599.5)**	**-**	**22.0**	**-**	**(6.8)**	**(8.8)**	**-**	**-**	**-**	**(593.1)**
NET ASSETS	**732.4**	**-**	**22.0**	**21.2**	**(6.8)**	**(8.8)**	**-**	**1.8**	**-**	**761.8**
Share capital	12.8	-	-	-	-	-	-	-	-	12.8
Share premium account	446.3	-	-	-	-	-	-	-	-	446.3
Other reserve	61.1	-	-	-	-	-	-	-	-	61.1
Currency translation reserve	-	-	-	-	-	-	-	-	-	-
Retained earnings	212.0	-	22.0	21.2	(6.8)	(8.8)	-	1.8	-	241.4
Total parent shareholders' equity	**732.2**	**-**	**22.0**	**21.2**	**(6.8)**	**(8.8)**	**-**	**1.8**	**-**	**761.6**
Minority interest in equity	**0.2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0.2**
TOTAL EQUITY	**732.4**	**-**	**22.0**	**21.2**	**(6.8)**	**(8.8)**	**-**	**1.8**	**-**	**761.8**

Independent Auditors' Report to the Members of The Sage Group plc

We have audited the Group financial statements of The Sage Group plc for the year ended 30 September 2006 which comprise the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent Company financial statements of The Sage Group plc for the year ended 30 September 2006 and on the information in the Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Chairman's Introduction, the Operating and Financial Review, the Directors' Report and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Opinion
In our opinion:
- The Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 September 2006 and of its profit and cash flows for the year then ended;
- The Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- The information given in the Directors' Report is consistent with the Group financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
18 January 2007

Parent Company Financial Statements Under UK GAAP 2006

CONTENTS

Company Balance Sheet

At 30 September 2006

Prepared using UK Generally Accepted Accounting Practice ("UK GAAP")

	Note	2006 £m	Restated 2005 £m
Fixed assets			
Investments	1	**1,475.7**	923.9
		1,475.7	923.9
Current assets			
Debtors	2	**939.2**	540.0
Cash at bank and in hand		**1.4**	2.1
		940.6	542.1
Creditors: amounts falling due within one year	3	**(777.7)**	(264.2)
Net current assets		**162.9**	277.9
Total assets less current liabilities		**1,638.6**	1,201.8
Creditors: amounts falling due in more than one year	4	**(660.9)**	(174.6)
NET ASSETS		**977.7**	1,027.2
Capital and reserves			
Called up equity share capital	5	**12.9**	12.8
Share premium	6	**462.8**	451.0
Treasury shares	6	**(13.3)**	-
Merger reserve	6	**61.1**	61.1
Profit and loss account	6	**454.2**	502.3
EQUITY SHAREHOLDERS' FUNDS	7	**977.7**	1,027.2

Recognised gains and losses

The Company has no recognised gains or losses, as defined in Financial Reporting Standard 3 ("FRS 3"), Reporting Financial Performance.

The financial statements on pages 107 to 112 were approved by the Board of Directors on 18 January 2007 and are signed on their behalf by:

Sir Julian Horn-Smith
Chairman

P A Walker
Director

Notes to the Accounts - Company

For the year ended 30 September 2006

PARENT COMPANY ACCOUNTING POLICIES

a Basis of accounting

These financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom. A summary of the more important Company accounting policies, which have been consistently applied, is set out below.

b Foreign currency translation

Foreign currency assets and liabilities are translated into sterling at rates of exchange ruling at the year-end. Differences arising on the re-translation of the net investments and the results for the year are taken directly to reserves together with differences on foreign currency borrowings to the extent that they are used to finance or provide a hedge against equity investments in foreign enterprises. All other exchange differences are dealt with in the profit and loss account.

c Deferred tax

Deferred tax is accounted for under FRS 19, which requires a form of full provision for accounting for deferred tax, called the incremental liability approach. Deferred tax is provided on timing differences where the Company has an obligation to pay more tax in the future as a result of those timing differences. Deferred tax assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted.

As permitted by FRS 19, the Company has adopted a policy of not discounting deferred tax assets and liabilities.

d Investments

Fixed asset investments are stated at cost less provision for any diminution in value.

e Parent Company profit and loss account

The amount of loss for the financial year before dividends within the accounts of the parent Company is £16.0m (2005: £234.5m profit). There is no material difference between the profits and losses as reported above and historical cost profits and losses and there are no other gains or losses in the year.

No profit and loss account is presented for the Company as permitted by Section 230 of the Companies Act 1985.

f Changes in accounting policies

The Group has adopted FRS 21 “Events after the Balance Sheet Date” in the financial statements. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly. Details of the effect of the prior year adjustment have been given in note 7.

Other accounting standards which have recently been issued have had no impact on the Company’s accounting policies.

1 INVESTMENTS

Equity interests in subsidiary undertakings are as follows:

	£m
Cost	
At 1 October 2005	924.2
Additions in year	**551.5**
At 30 September 2006	**1,475.7**
Provision for diminution in value	
At 1 October 2005	(0.3)
Reversal of provision for diminution in value	**0.3**
At 30 September 2006	**-**
Net Book Value	
At 30 September 2006	**1,475.7**
At 30 September 2005	923.9

The additions in the year represent investments both in new and existing subsidiary undertakings.

Principal trading subsidiary undertakings, included in the Group accounts at 30 September 2006, are shown in note 33 of the Group financial statements. All of these subsidiary undertakings are wholly owned and are engaged in the development, distribution and support of business management software and related products and services for small and medium-sized businesses.

Notes to the Accounts - Company continued

For the year ended 30 September 2006

2 DEBTORS

	2006 £m	2005 £m
Amounts owed by Group undertakings	**933.4**	538.5
Other debtors	**1.3**	0.6
Taxation recoverable	**4.5**	0.9
	939.2	540.0

3 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006 £m	Restated 2005 £m
Amounts owed to Group undertakings	**777.0**	263.5
Accruals	**0.7**	0.7
Proposed dividend	**-**	-
	777.7	264.2

4 CREDITORS: AMOUNTS FALLING DUE IN MORE THAN ONE YEAR

	2006 £m	2005 £m
Loans	**660.9**	174.6

Loans **Amounts falling due:**	2006 £m	2005 £m
In one year or less	**-**	-
In more than one year but not more than two years	**-**	-
In more than two years but not more than five years	**660.9**	174.6
	660.9	174.6

5 CALLED UP EQUITY SHARE CAPITAL

Authorised	2006 £m	2005 £m
1,860,000,000 (2005: 1,860,000,000) ordinary shares of 1p each	**18.6**	18.6

Issued and fully paid	2006 shares	2006 £m	2005 shares	2005 £m
At 1 October	**1,285,318,582**	**12.8**	1,281,801,526	12.8
Allotted under share option schemes	**8,962,362**	**0.1**	3,517,056	-
At 30 September	**1,294,280,944**	**12.9**	1,285,318,582	12.8

Potential issues of ordinary shares

Certain senior executives hold options to subscribe for shares in the Company at prices ranging from 33.90p to 721.00p under the share option schemes approved by shareholders. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below:

Date of grant	Exercise price pence	Exercise period	2006 number	2005 number
15 January 1996	33.90p	15 January 1999 – 15 January 2006	-	1,560,000
17 December 1997	81.10p	17 December 2000 – 17 December 2007	680,000	993,300
20 January 1998	98.75p	20 January 2001 – 20 January 2008	150,000	150,000
20 April 1998	50.86p – 92.61p	8 August 1999 – 2 March 2009	708,460	748,520
15 May 1998	140.00p	15 May 2001 – 15 May 2008	1,008,110	1,238,010
16 December 1998	136.00p	16 December 2001 – 16 December 2008	2,094,710	2,356,120
7 June 1999	204.50p	7 June 2002 – 7 June 2009	1,352,500	1,566,500
11 February 2000	91.34p – 619.50p	11 February 2000 – 6 January 2010	158,065	184,227
23 February 2000	721.00p	23 February 2003 – 23 February 2010	31,250	31,250
24 May 2000	542.50p	24 May 2003 – 24 May 2010	19,037	26,410
10 January 2001	301.00p	10 January 2004 – 10 January 2011	2,975,643	3,295,354
17 January 2001	329.75p	17 January 2004 – 17 January 2011	581,137	581,137
16 May 2001	264.00p	16 May 2004 – 16 May 2011	2,096,431	2,345,359
2 January 2002	228.50p	2 January 2005 – 2 January 2012	4,520,285	5,360,599
31 December 2002	134.00p	31 December 2005 – 31 December 2012	4,621,782	7,155,060
12 May 2003	147.00p	12 May 2006 – 12 May 2013	2,288,047	2,873,739
24 December 2003	171.00p	24 December 2006 – 24 December 2013	11,110,075	13,109,831
24 May 2004	172.00p	24 May 2007 – 24 May 2014	320,351	387,212
6 January 2005	198.00p	6 January 2008 – 6 January 2015	5,268,627	5,928,002
12 May 2005	206.00p	12 May 2008 – 12 May 2015	2,150,367	2,294,538
10 January 2006	258.50p	10 January 2009 – 10 January 2016	6,458,797	-
			48,593,674	52,185,168

Under the above scheme, 7,929,609 1p ordinary shares were issued during the year for aggregate proceeds of £10,523,107.

Under the Group's long-term incentive plan for certain senior executives approved by shareholders on 3 March 2005, the following awards have been made:

Date of award	Vesting date	2006 number	2005 number
18 March 2005	18 March 2008	1,841,204	1,899,315
12 May 2005	12 May 2008	242,626	242,626
10 January 2006	10 January 2009	2,469,883	-
		4,553,713	2,141,941

Notes to the Accounts - Company continued

For the year ended 30 September 2006

5 CALLED UP EQUITY SHARE CAPITAL continued

In addition, options were granted under the terms of The Sage Group plc 1996 Savings-Related Share Option Scheme approved by members on 7 February 1996 up to 2005 and thereafter under the new scheme approved by the members at the Annual General Meeting on 2 March 2006, as follows:

Date of grant	Exercise price pence	Exercise period	2006 number	2005 number
8 January 1999	114.80p	1 February 2006 – 31 July 2006	**-**	29,120
1 March 2000	499.00p	1 March 2007 – 31 August 2007	**1,840**	1,840
1 March 2001	240.00p	1 March 2006 – 31 August 2006	**-**	30,230
1 March 2001	240.00p	1 March 2008 – 31 August 2008	**1,531**	1,531
1 March 2002	180.40p	1 March 2007 – 31 August 2007	**24,763**	27,330
1 March 2002	180.40p	1 March 2009 – 31 August 2009	**6,575**	6,575
1 March 2003	112.00p	1 March 2006 – 31 August 2006	**4,050**	1,034,053
1 March 2003	112.00p	1 March 2008 – 31 August 2008	**146,729**	157,287
1 March 2003	112.00p	1 March 2010 – 31 August 2010	**14,579**	29,190
1 March 2004	140.00p	1 March 2007 – 31 August 2007	**335,654**	410,081
1 March 2004	140.00p	1 March 2009 – 31 August 2009	**126,312**	161,316
1 March 2004	140.00p	1 March 2011 – 31 August 2011	**37,140**	37,140
1 March 2005	157.00p	1 March 2008 – 31 August 2008	**365,531**	423,328
1 March 2005	157.00p	1 March 2010 – 31 August 2010	**128,230**	145,701
1 March 2005	157.00p	1 March 2012 – 31 August 2012	**19,422**	21,699
1 August 2006	184.00p	1 August 2009 – 31 January 2010	**1,069,966**	-
1 August 2006	184.00p	1 August 2011 – 31 January 2012	**258,043**	-
1 August 2006	184.00p	1 August 2013 – 31 January 2014	**46,830**	-
			2,587,195	2,516,421

Under the above scheme, 1,032,753 1p ordinary shares were issued during the year for aggregate proceeds of £1,219,029.

The market price of the shares of the Company at 30 September 2006 was 251.25p and the highest and lowest prices during the year were 283.75p and 204.75p respectively.

Share–based payments

The grants and related accounting treatment adopted by the Company under FRS 20 “Share-based Payment”, are identical to that adopted by the Group under IFRS 2 “Share-based Payment”. For details please refer to note 19 in the Group financial statements.

6 RESERVES

	Treasury shares £m	Share premium account £m	Merger reserve £m	Profit and loss account £m	Total £m
At 1 October 2005 as previously reported	-	451.0	61.1	477.2	989.3
Prior year adjustment – FRS 21	-	-	-	25.1	25.1
At 1 October 2005 as restated	**-**	**451.0**	**61.1**	**502.3**	**1,014.4**
New shares issued	**-**	**11.8**	**-**	**-**	**11.8**
Treasury shares	**(13.3)**	**-**	**-**	**-**	**(13.3)**
Retained loss for the year	**-**	**-**	**-**	**(16.0)**	**(16.0)**
Dividends	**-**	**-**	**-**	**(39.1)**	**(39.1)**
Equity-settled transactions	**-**	**-**	**-**	**7.0**	**7.0**
At 30 September 2006	**(13.3)**	**462.8**	**61.1**	**454.2**	**964.8**

7 SHAREHOLDERS' FUNDS AND STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital £m	Reserves £m	Total £m
At 1 October 2004	12.8	786.2	799.0
New shares issued	-	4.7	4.7
Retained profit for the year	-	197.6	197.6
Equity-settled transactions	-	0.8	0.8
At 30 September 2005 as previously reported	**12.8**	**989.3**	**1,002.1**
Prior year adjustment – FRS 21	-	25.1	25.1
At 1 October 2005 as restated	**12.8**	**1,014.4**	**1,027.2**
New shares issued	**0.1**	**11.8**	**11.9**
Treasury shares	**-**	**(13.3)**	**(13.3)**
Retained loss for the year	**-**	**(16.0)**	**(16.0)**
Dividends	**-**	**(39.1)**	**(39.1)**
Equity-settled transactions	**-**	**7.0**	**7.0**
At 30 September 2006	**12.9**	**964.8**	**977.7**

Prior year adjustment
The prior year adjustment relates to the implementation of FRS 21.

Under FRS 21, dividends declared out of profits earned are not deducted from equity until they have either been approved by shareholders' or have become irrecoverable.

The adoption of FRS 21 has resulted in an increase in shareholders' funds of £25.1m at 1 October 2005 due to the write back of the final dividend proposed at 30 September 2005.

Treasury shares
The Group holds treasury shares in a trust which was set up for the benefit of Group employees. The Trust purchases the Company's shares in the market for use in connection with the Group's share-based payments arrangements. The amounts shown in the treasury shares reserve at 30 September each year would be deducted in determining the distributable profits of the Company at that date.

Interests in own shares represent the cost of £13,272,933 of the Company's ordinary shares (nominal value of £47,556) purchased in February 2006. These shares were acquired by the Trust in the open market using funds provided by the Company to meet obligations under the performance share plan. The costs of funding and administering the scheme are charged to the profit and loss account of the Company in the period to which they relate. The market value of the shares at 30 September 2006 was £11.9m.

8 OPERATING LEASE COMMITMENTS – MINIMUM LEASE PAYMENTS
The Company had no operating lease commitments during the year (2005: nil).

9 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES
The Company had no capital commitments or contingent liabilities at 30 September 2006 (2005: none).

10 RELATED PARTY TRANSACTIONS
The Company has taken advantage of the exemption available under FRS 8 "Related Party Disclosures", not to disclose details of transactions with its subsidiary undertakings. There are no other external related parties.

Independent Auditors' Report to the Members of The Sage Group plc

We have audited the parent Company financial statements of The Sage Group plc for the year ended 30 September 2006 which comprise the primary financial statements such as the Balance Sheet and the related notes. These parent Company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration Report that is described as having been audited.

We have reported separately on the Group financial statements of The Sage Group plc for the year ended 30 September 2006.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Remuneration Report and the parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent Company financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the parent Company financial statements give a true and fair view and whether the parent Company financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report is consistent with the parent Company financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent Company financial statements. The other information comprises only the Directors' Report, the unaudited part of the Remuneration Report, the Chairman's Introduction and the Operating and Financial Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent Company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent Company financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent Company financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent Company financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent Company financial statements and the part of the Remuneration Report to be audited.

Opinion

In our opinion:

- The parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 September 2006;
- The parent Company financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- The information given in the Directors' Report is consistent with the parent Company financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
18 January 2007

Investors

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Notice of Meeting

Notice is hereby given that the nineteenth Annual General Meeting of The Sage Group plc will be held at North Park, Newcastle upon Tyne, NE13 9AA at 10.00am on 6 March 2007 for the following purposes:

To consider and, if thought fit, to pass the following resolutions, of which resolutions 1 to 10 (inclusive) and 14 will be proposed as ordinary resolutions and resolutions 11 to 13 will be proposed as special resolutions:

1 To receive and consider the audited accounts for the year ended 30 September 2006 together with the reports of the directors and the auditors.

2 To declare a final dividend recommended by the directors of 2.51 pence per ordinary share for the year ended 30 September 2006 to be paid on 9 March 2007 to members whose names appear on the register at the close of business on 9 February 2007.

3 To re-appoint Sir Julian Horn-Smith.

4 To re-appoint Ms R Markland.

5 To re-elect Mr P A Walker.

6 To re-elect Mr P S Harrison.

7 To re-elect Mr P L Stobart.

8 To re-appoint Messrs PricewaterhouseCoopers LLP as Auditors to the Company and to authorise the directors to determine their remuneration.

9 To approve the Remuneration Report forwarded to shareholders with this Notice of Annual General Meeting.

10 That:
- subject to and in accordance with Article 6 of the Company's Articles of Association, the directors be authorised to allot relevant securities up to a maximum nominal amount of £4,314,200;
- all previous authorities under section 80 of the Companies Act 1985 shall cease to have effect; and
- this authority shall expire at the conclusion of the next Annual General Meeting of the Company.

11 That:
- subject to and in accordance with Article 7 of the Company's Articles of Association, the directors be given power to allot equity securities for cash and that, for the purposes of paragraph 1(b) of Article 7, the nominal amount to which this power is limited is £647,140; and
- the power given to directors by this resolution be extended to sales for cash of any shares which the Company may hold as treasury shares.

12 That the Company be and is hereby granted general and unconditional authority to make one or more market purchases (within the meaning of section 163 of the Companies Act 1985) of ordinary shares in the capital of the Company on such terms and in such manner as the directors shall determine PROVIDED THAT:
- the maximum number of ordinary shares which may be acquired pursuant to this authority is 129,428,000 ordinary shares in the capital of the Company;
- this authority shall expire on 31 March 2008, or if earlier, at the conclusion of the next Annual General Meeting; and
- the minimum price which may be paid for each such ordinary share is its nominal value and the maximum price is the higher of 105% of the average of the middle market quotations for an ordinary share as derived from The London Stock Exchange Daily Official List for the five business days immediately before the purchase is made and the amount stipulated by Article 5 (1) of the Buy-back and Stabilisation Regulation 2003 (in each case exclusive of expenses).

13 That the Articles of Association be amended as follows:
(i) that Article 85 be deleted in its entirety and replaced by the following:

"85. Power to borrow money
85.1 The board may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of its undertaking, property and assets (both present and future) and uncalled capital and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

85.2 The board shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings (if any) so as to secure (but as regards subsidiary undertakings only so far as by such exercise it can secure) that the aggregate principal amount outstanding at any time in respect of all borrowings by the Group (exclusive of any borrowings which are owed by one Group company to another Group company) after deducting the amount of cash deposited and cash equivalents held will not, without the previous authority of the Company in general meeting, exceed:

a an amount equal to two and a half times adjusted total equity; or

b any higher limit fixed by ordinary resolution of the Company which is applicable at the relevant time.

85.3 In this article:
(a) adjusted total equity means the amount of total equity as shown in the relevant balance sheet but after:
(A) making such adjustments as may be appropriate in respect of:

i any variation in the amounts of the paid up share capital, the share premium account or capital redemption reserve since the date of the relevant balance sheet and so that for this purpose if any proposed allotment of shares by the Company for cash has been underwritten or agreed to be subscribed then these shares shall be deemed to have been allotted and the amount (including any premium) of the subscription monies payable (not being monies payable later than six months after the date of allotment) shall be deemed to have been paid up on the date when the issue of the shares was underwritten or agreed to be subscribed (or if the underwriting or subscription agreement was conditional, the date on which it became unconditional); and

ii any undertaking which was not a subsidiary undertaking at the date of the relevant balance sheet but which would be a subsidiary undertaking if group accounts were prepared as at the relevant time (and as if such time were the end of the Company's financial year) or any undertaking which was a subsidiary undertaking but which would no longer be so if group accounts were to be so prepared at the relevant time; and

iii any variation in the interest of the Company in another Group company since the date of the relevant balance sheet.

(B) excluding minority and other outside interests in any subsidiary undertaking;

(C) adding the amount of any equity instruments deducted in arriving at the amount of total equity; and

(D) making such other adjustments (if any) as the auditors may consider appropriate or necessary/board may consider appropriate or necessary and as are approved by the auditors;

(b) borrowings include the following except in so far as otherwise taken into account:

i the principal amount of any debenture (whether secured or unsecured) of a Group company;

ii the outstanding amount raised by acceptances under an acceptance credit or bills facility opened by a bank or acceptance house on behalf of or in favour of a Group company, excluding acceptances of trade bills relating to goods purchased in the ordinary course of trading;

iii the nominal amount of any share capital and the principal amount of any debenture or borrowing, the beneficial interest in which is not owned by a Group company, to the extent that their payment or repayment is the subject of a guarantee or indemnity by a Group company;

iv the principal amount of any share capital (not being equity share capital) of any subsidiary undertaking owned otherwise than by a Group company;

v any fixed or minimum premium payable on final repayment of any borrowing or deemed borrowing; and

vi any fixed amount in respect of a finance lease payable by any Group company which would be shown at the relevant time as an obligation in a balance sheet and prepared in accordance with the accounting principles used in the preparation of the relevant balance sheet and for this purpose finance lease means a contract between a lessor and a Group company as lessee or sub-lessee where substantially all the risks and rewards of the ownership of the asset leased or sub-leased are to be borne by the lessee or sub-lessee,

but exclude the following:

(A) borrowings incurred by a Group company in the ordinary course of business and which are repayable on demand or at any time on seven days' notice or less or which have a fixed maturity or tenor of 35 days or less;

(B) borrowings incurred by a Group company for the purpose of repaying within six months of the borrowing all or part of any borrowings made by it or another Group company, pending their application for that purpose during that period;

(C) borrowing incurred by a Group company to finance a contract where a part of the price receivable under the contract by that or another Group company is guaranteed or insured by any government, governmental agency or body or by a person (not being a Group Company) carrying on the business of providing credit insurance up to an amount equal to that part of the price which is guaranteed or insured;

(D) a proportionate amount of the borrowings of a Group company which is not a wholly-owned subsidiary of the Company corresponding to the minority or outside interest in it; and

(E) borrowings of an undertaking which was not a subsidiary undertaking at the date of the relevant balance sheet, to the extent that those borrowings were outstanding on the date when it became a Group company and borrowings of any person other than a Group company which were secured by any mortgage or other security over an asset acquired by a Group company and which were outstanding on the date of the acquisition, but only until six months after the date on which the undertaking became a subsidiary undertaking or the asset was acquired; and

(c) cash deposited means an amount equal to the aggregate for the time being of all cash deposits with any bank or other person (not being a Group company), (whether on current account or otherwise), the realisable value of certificates of governments and companies or other readily realisable deposits owned by any Group company except that in the case of any such items owned by a Group company which is not a wholly-owned subsidiary of the Company, there shall be excluded a proportionate amount of those items corresponding to the minority or outside interests in it;

(d) Group means the Company and its subsidiary undertakings for the time being;

(e) Group company means any undertaking in the Group; and

(f) relevant balance sheet means most recent audited consolidated balance sheet of the Group at the relevant time.

Notice of Meeting continued

85.4 For the purposes of any calculation under this article:
(a) a borrowing denominated or repayable, in a currency other than sterling shall be translated into sterling: (i) at the London exchange rate for the date as at which the calculation is being made; or (ii) if it would result in a lower figure, at the London exchange rate on the date of the relevant balance sheet, and for this purpose the London exchange rate for any date is the spot rate of exchange, quoted at or about 11.00 a.m. on the business day before that date by a first class bank in London selected by the board; and

(b) where under the terms of any borrowing the amount of money that would be required to discharge its principal amount in full if it fell to be repaid (at the option of the borrower or by reason of default) on the date as at which the calculation is being made is less than the amount that would otherwise be taken into account in respect of that borrowing for the purpose of this article, the amount of the borrowing to be taken into account shall be the lesser amount.

85.5 The limit imposed under paragraph 85.2 above shall be deemed not to have been breached until the amount of borrowings has exceeded that limit for 30 consecutive days. This paragraph overrides all other provisions of this article.

85.6 A certificate or report by the Company's auditors:
(a) as to the amount of adjusted total equity or the amount of borrowings; or

(b) to the effect that the limit imposed under this article was not exceeded or breached at a particular date; or

(c) to the effect that (subject to any assumptions described in the certificate or report) the limit will not be exceeded or breached at a particular date or as a result of a particular transaction,

shall be conclusive evidence (subject to any such assumptions) as to that amount or fact.

85.7 If the Company has joint auditors, references in this article to the Company's auditors are to any of the joint auditors.

85.8 No lender or other person dealing with any Group company need enquire whether the limit imposed under paragraph 85.2 above has been or will be complied with.

85.9 A borrowing or security resulting in a breach of the limit shall not be void nor shall it be voidable at the instance of the Company or any other Group company."

(ii) that Article 91 be amended by the deletion of "and" at end of paragraph (e) and by the insertion of "and" at the end of paragraph (f) and the insertion of a new paragraph (g) as follows:

"(g) indemnification (including loans made in connection with it) by the Company in relation to the performance of his duties on behalf of the Company or of any of its subsidiary undertakings."

(iii) that Article 126 be deleted in its entirety and replaced by the following:

"Except to the extent prohibited or restricted by the Statutes, but without prejudice to any indemnity to which a director or other office may otherwise be entitled, every director or other officer (excluding an auditor) of the Company may be indemnified out of the assets of the Company against all liabilities incurred by him in the actual or purported execution or discharge of his duties or the exercise or purported exercise of his powers or otherwise in relation to or in connection with his duties, powers or office."

14 That the Company may:
- Send or supply documents or information to members by making them available on a website for the purposes of paragraph 10(2) of Schedule 5 to the Companies Act 2006 and otherwise; and
- Use electronic means (within the meaning of the Disclosure Rules and Transparency Rules Sourcebook published by the Financial Services Authority) to convey information to members.

By Order of the Board

M J Robinson
Secretary
Registered office:
North Park, Newcastle upon Tyne, NE13 9AA
18 January 2007

Notes:

(i) A member entitled to attend and vote may appoint one or more proxies to attend and vote instead of him. A proxy need not also be a member.

(ii) To be valid, a Form of Proxy and any power of attorney or other authority (if any) under which it is signed (or a duly certified copy thereof) must be lodged with the Company's Registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6UQ, or received via the sharevote website, no later than 10.00am on 4 March 2007. The completion and return of a Form of Proxy will not prevent a member who wishes to do so from attending and voting in person. In relation to appointing a proxy through the CREST electronic proxy appointment service, please see note (vi) below.

(iii) Copies of the service contracts and terms of appointment of the directors are available for inspection at North Park, Newcastle upon Tyne, NE13 9AA during normal business hours on any weekday (weekends and public holidays excepted) and will be available at the Annual General Meeting (for 15 minutes prior to and during the meeting).

(iv) The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those members registered in the register of members of the Company as at 6.00pm on 4 March 2007 or, in the event that this meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after 6.00pm on 4 March 2007 or, in the event that this meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting shall be disregarded in determining the rights of any person to attend or vote at the meeting.

(v) If you return paper and electronic proxy instructions, those received last by the Registrar before the latest time for receipt of proxies will take precedence. You are advised to read the website terms and conditions of use carefully. Electronic communication facilities are available to all shareholders and those who use them will not be disadvantaged.

(vi) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting and any adjournment(s) of that meeting by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 7RA01) by the latest time(s) for receipt of proxy appointments specified in the Notice of Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed (a) voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

(vii) If you have sold or otherwise transferred all your shares in The Sage Group plc please forward this document, together with the form(s) of proxy as soon as possible to the purchaser or other agent through or to whom the sale or transfer was effected for transmission to the purchaser or transferee.

Shareholder Information

FINANCIAL CALENDAR	
Annual General Meeting	6 March 2007
Dividend Payments	
Final payable – year ended 30 September 2006	9 March 2007
Interim payable – period ending 31 March 2007	June 2007
Results Announcements	
Interim results – period ending 31 March 2007	9 May 2007
Final results – year ending 30 September 2007	28 November 2007

SHAREHOLDER INFORMATION ONLINE

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

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

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

REGISTRARS

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA

www.shareview.co.uk
Tel: 0870 600 3970
(from outside the UK: +44 121 415 7047)
Fax: 0870 600 3981
(from outside the UK: +44 121 415 7057)

INFORMATION FOR INVESTORS

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

INVESTOR ENQUIRIES

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

Cynthia Alers
Director of Investor Relations
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