sage

Leading supplier of software and services to over 5 million customers worldwide

Sage is one of the leading global suppliers of business management software and services to small and medium-sized enterprises ("SMEs"). Operating in 20 countries worldwide, we aim to help our customers manage their businesses more efficiently through the provision of locally tailored products and quality support service.

2007 financial highlights

Revenue
£1,157.6m +30%*
2006: £892.4m*

Adjusted pre-tax profit**
£251.3m +14%^
2006: £221.3m^

Cash generation from operations
Cash flows from operating activities/EBITA 112%
2006: 107%

Adjusted EPS**
13.34p +13%^
2006: 11.83p^

Total dividend
7.00p +95%
2006: 3.59p

EBITA† margin
24%
2006: 26%*

EBITA†
£283.2m +20%*
2006: £235.9m*

Revenue £m

2007	**1,157.6**
2006	935.6
2005	759.6
2004	687.6
2003	560.3

Adjusted pre-tax profit** £m

2007	**251.3**
2006	234.7
2005	196.4
2004	181.1
2003	151.0

Adjusted EPS** pence

2007	**13.34**
2006	12.54
2005	10.49
2004	9.90
2003	8.16

* Foreign currency results for the year ended 30 September 2006 have been retranslated based on the average exchange rates for the year ended 30 September 2007 of $1.98/£1 and €1.48/£1 to facilitate the comparison of results.
** Pre-tax profit and earnings per share figures stated prior to amortisation of intangible fixed assets, prior year gain on disposal of £2.7m.
† Earnings before interest, tax, amortisation of intangible fixed assets (EBITA) and prior year gain on disposal in North America of £2.7m.
^ After neutralisation of foreign exchange movements.
Figures included in the graphs above for the years 2003 and 2004 reported under UK GAAP and the results of all comparative years have not been retranslated to current year exchange rates.

www.sage.com

About Sage

Sage recorded another year of strong financial results, with good growth and profitability across all our regions. The UK & Ireland, Mainland Europe and Rest of World regions all reported excellent performances for the year. North America delivered good profitability and substantially expanded its scale in the US through strategically important acquisitions in 2006.

In light of our on-going financial and commercial strength and our commitment to creating shareholder value, we are rebasing our dividend and are, as a result, significantly increasing our dividend for the full year.

Dear Shareholder

Sage recorded another year of strong financial results, with good growth and profitability across all our regions. The UK & Ireland, Mainland Europe and Rest of World regions all reported excellent performances for the year. North America delivered good profitability and substantially expanded its scale in the US through strategically important acquisitions in 2006. These achievements result from a consistent and focused business strategy, underpinned by continuing investment in our products, services and underlying systems as well as the expertise and commitment of our colleagues. We thank all our people for their contribution to our success over the year.

Increase in dividend

The Board is strongly committed to enhancing shareholder value. Over the past year, the Board reviewed Sage's capital requirements, including future investment in our products and services, potential acquisition funding and on-going commitment to creating shareholder value. Following that review, we are pleased to announce a rebasing of our dividend. We are confident that our consistently strong cash flows and recurring revenue streams provide a solid foundation for future growth through both organic and acquisition-led investment. In light of our on-going financial and commercial strength and our commitment to creating shareholder value, we are rebasing our dividend and are, as a result, significantly increasing our dividend for the full year. It is our intention to follow a progressive dividend policy.

As a result of the rebasing of the dividend, the proposed final dividend is being raised to 5.73p per share (2006: 2.51p per share), giving a full year dividend of 7.00p per share (2006: 3.59p per share), an increase of 95%.

Board changes

I was appointed Chairman on 25 May 2007, following the resignation of Sir Julian Horn-Smith on 26 April 2007. We thank Sir Julian for his contribution to Sage during his tenure.

We subsequently welcomed three new Board members. David Clayton joined the Board on 1 October 2007 as Group Strategy and Mergers and Acquisitions Director, an executive board position. Mr Clayton will focus on long-term strategic planning and our acquisition strategy. He was previously a non-executive director of Sage and Senior Independent Director. Tim Ingram, non-executive director of Sage, became Senior Independent Director, taking over from Mr Clayton on 25 July 2007.

On 1 November 2007, Ian Mason, Chief Executive of Electrocomponents plc, joined the Board as a non-executive director. Mark Rolfe, former Finance Director of Gallaher Group plc, joined the Board on 1 December 2007 as a non-executive director and will from 1 April 2008 chair the Audit Committee. We welcome Messrs Mason and Rolfe to the Board and look forward to their valuable contributions.

On 11 October 2007, as part of the reorganisation of our North American business, Ron Verni (CEO, North America) stepped down from the Sage Board as executive director. We thank Mr Verni for his long service to Sage and for successfully developing our North American business.

Outlook

The new year has started well, with all regions performing in line with our expectations. Whilst we recognise the current uncertainties in the macro-economic situation, the defensive characteristics of our business mean that we are well placed to meet these challenges.

Tony Hobson
Chairman

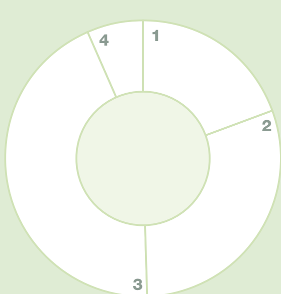
About Sage | Group overview

Presence in 20 countries

Sage operates a decentralised organisational structure with four regions managing day-to-day business activities. Each region – UK & Ireland, Mainland Europe, North America and Rest of World – is run by a regional management team headed by a regional CEO. The regions all report into the parent Company, The Sage Group plc, which sets the Company's longer term strategic direction, as well as providing central services such as financial controls and management, HR, business development, corporate responsibility and corporate communications.

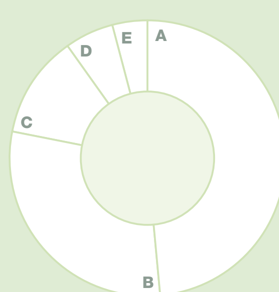
With our strategic focus on developing products tailored to our local markets, all business functions, such as research and development, sales and marketing and service support, are organised by our regions.

Revenue by region



1	UK & Ireland	£224.1m
2	Mainland Europe	£349.1m
3	North America	£508.1m
4	Rest of World	£76.3m
	Total	**£1,157.6m**

Revenue by sector



A	Accounting	£561.7m
B	Industry-specific	£342.5m
C	HR and payroll	£139.4m
D	Customer Relationship Management ("CRM")	£66.4m
E	Payment processing	£47.6m
	Total	**£1,157.6m**

UK & Ireland

Countries of operation: United Kingdom and Republic of Ireland.

Revenue	£m
2007	**224.1**
2006	204.4

EBITA	£m
2007	**82.6**
2006	75.6

Sectors: Accounting, HR and payroll, industry-specific solutions, CRM, payment processing services.

Key products: KCS (HR, payroll and time & attendance), Protx (payment processing), Sage 50 Accounts, Sage 50 ACT!, Sage 50 Forecasting, Sage 50 Payroll, Sage 200, Sage 1000, SageCRM, Sage Instant, Sage Intelligent Reporting, Sage MMS, Sage Practice Suite, SalesLogix, Snowdrop (HR and payroll), TAS Books.

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Our strengths

Global leadership
Sage is one of the leading global suppliers of business management software and services to SMEs. We are the leading supplier in our chosen market segment concentrating primarily on customers whose businesses have less than 500 employees.

Our principles
Our 2010 strategy is based on our core principles of Simplicity, Agility, Innovation, Integrity and Trust. Each of our operating companies adapts and implements these principles in a manner appropriate to their markets.

2010 strategy
We aim to differentiate ourselves from our competition by building closer relationships with our customers through the provision of outstanding customer service, product and service innovation and improving the ease of using our products.

Worldwide distribution
The diversity of our distribution channels is one of our key strengths. Worldwide, we have over 40,000 advisers and 25,000 business partners and certified consultants.

Mainland Europe

Countries of operation: France, Germany, Switzerland, Austria, Belgium, Spain, Portugal and Poland.

Revenue	£m
2007	**349.1**
2006	295.9*

EBITA	£m
2007	**80.6**
2006	65.7*

Sectors: Accounting, industry-specific solutions, HR and payroll, CRM.

Key products: France: Ciel!, Sage Coala, Sage Cogestib, Elit, Sage 100, Sage 1000, Sage X3 Entreprise, XRT; Spain: Logic Control, SP; Germany/Switzerland: Baürer, Classic Line, Office Line, ProConcept, Sesam, Simultan; Poland: Symfonia; CRM: ACT!, SageCRM, SalesLogix.

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North America

Countries of operation: United States and Canada.

Revenue	£m
2007	**508.1**
2006	329.1*

EBITA†	£m
2007	**100.0**
2006	78.0*

Sectors: Accounting, industry-specific solutions, payment processing services, CRM, HR and payroll.

Key products: Business Management Division: ACT!, Peachtree, Sage Accpac ERP, SageCRM, Sage FAS, Sage MAS 90/200/500 ERP, SalesLogix, Simply Accounting; Industry & Specialised Solutions Division: Sage Abra, Sage Compliance Services, Sage MIP Fund Accounting, Sage Timberline Office; Sage Healthcare Division; Sage Payment Solutions Division.

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Rest of World

Countries of operation: South Africa, Australia, Singapore, China, UAE, Malaysia, India and Saudi Arabia.

Revenue	£m
2007	**76.3**
2006	63.0*

EBITA	£m
2007	**20.0**
2006	16.6*

Sectors: Accounting, HR and payroll, industry-specific solutions, CRM.

Key products: South Africa: Pastel, VIP Payroll; Australia: Handisoft, MicrOpay; Singapore: Creative; Malaysia: UBS; All: Accpac ERP, ACT!, SageCRM, SalesLogix.

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† Earnings before interest, tax, amortisation of intangible fixed assets (EBITA) and prior year gain on disposal in North America of £2.7m.

Business review

I am pleased to report that Sage has had another successful year, significantly surpassing the milestone of £1 billion in revenues. The Group once again delivered double digit revenue and adjusted profit growth and substantial cash generation whilst achieving revenue growth of 7%*.

Going into 2008, we anticipate further good performances in the UK & Ireland, Mainland Europe and Rest of World. In North America, we expect to see the early results of the actions taken within this business in 2007.

Group results
I am pleased to report that Sage has had another successful year, significantly surpassing the milestone of £1 billion in revenues. The Group once again delivered double digit revenue and adjusted profit growth and substantial cash generation whilst achieving revenue growth of 7%*.

We have continued to experience good organic revenue growth whilst expanding our product and services portfolio through strategic acquisitions. Revenues increased 30%* to £1,157.6m (2006: £892.4m*), with a significant contribution from prior year acquisitions of £283.4m, or 24% of total revenues. Organic revenue growth for the year was 7%*, as reported in both the first and second halves of the year.

Total software licence revenues were £343.7m (2006: £308.1m*), with organic growth of 4%*. Total services revenues increased to £813.9m (2006: £584.3m*), benefiting from strong organic growth of 9%* for the year.

To facilitate a comparison of results we use adjusted profitability as described on pages 32 and 33. We again reported good growth in profitability with EBITA† increasing 20%* to £283.2m (2006: £235.9m*). Adjusted earnings per share** grew 13%^ to 13.34p (2006: 11.83p^).

Product and service strategy
Customer demand for combined software and service contracts continues to grow. This type of offering now makes up 59% of our services revenues and contributed to our strong growth in this area. Customers have shown that they are willing to pay for excellent, value-added service that helps them to run their businesses more efficiently. This continuous service model is very familiar to Sage, and presages potential future changes to our market. Broadband and internet usage are increasingly evident across our SME customer base and present exciting opportunities for the deployment of new products and services.

We have introduced several products which are web-enabled or available as a hosted "on-demand" service, including *Sage 50 Accounts Professional Online* in the UK and *SageCRM.com* and *Accpac ERP* in North America. There are very early signs that customers are increasingly receptive to utilising the efficiencies that web-based technologies offer in delivering business applications. In addition, we plan to introduce additional web-enabled and hosted products and services across the Group in the near future, although we anticipate that adoption of these will be gradual, and that for the foreseeable future a combination of desktop applications, web-enabled and hosted systems will be used by SME customers.

Specialist sectors
Industry-specific and specialised solutions
As our customers' needs evolve, they increasingly demand more sophisticated business software solutions to manage both front office and financial back office operations and integrate management of all their business requirements. Over the years, our product and services mix has adapted to meet our customers' changing needs, moving from pure back office accounting solutions to introducing solutions applicable to the more specialised requirements of specific industries, such as manufacturing,

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^ After neutralisation of foreign exchange movements.

We see many opportunities arising from the changing needs of our core SME customer base, which this year reached 5.5 million customers.

construction and real estate, transport and distribution, healthcare and retail, which now comprise almost 30% of our total revenues. We anticipate that customer demand for industry-specific solutions will continue to grow, providing a continuing source of growth for our product offerings.

Industry-specific and specialised solutions

	UK & Ireland	Mainland Europe	North America	Rest of World
Healthcare			•	
HR and payroll	•	•	•	•
Construction/real estate	•	•	•	
Transport/distribution		•		
Payment processing	•		•	
Accountancy	•	•	•	•
Not-for-profit		•	•	
Manufacturing	•	•	•	
Retail	•	•	•	

Our customers also now demand a wider range of products and services relating to specialist areas such as HR and payroll, payment processing services and CRM (see below), which are all showing very healthy rates of growth. Our strategy is to focus on these new product areas and integrate them into our existing product solutions as integrated product suites. The early signs in the UK, which has led this initiative, are that integrated solutions will prove increasingly popular with our customer base, and we expect gradually to extend this concept to our other regions.

Customer Relationship Management ("CRM")

CRM is one of our specialist global applications. We offer three products in our CRM range: *ACT!* at the entry-level, *SageCRM/SageCRM.com* in the mid-market, which is increasingly integrated into our product suites, and *SalesLogix*, a highly customisable product for the upper mid-market.

North America is our largest market for CRM, accounting for 65% of our global CRM revenues. The UK & Ireland accounts for a further 22% of CRM revenues. Mainland Europe and Rest of World account for the remaining revenues, as these markets increasingly adopt CRM solutions.

North America reported a mixed performance from the three core products. *SageCRM* delivered strong growth, albeit off a small base. This good performance was offset by the performance of *ACT!* where fewer large corporate contracts were closed compared to the prior year. The new release of *SalesLogix* was well received, although sales in the year were lower than anticipated.

In the UK & Ireland, our second largest market for CRM, *ACT!*, *SalesLogix* and *SageCRM* all reported very strong growth, as demand for CRM software is firmly established, and our CRM products are increasingly integrated into the *Sage 50*, *Sage 200* and *Sage 1000* product suites.

CRM had a good year in France and Germany, where mid-market demand for CRM is growing rapidly, although the market is still immature relative to North America. Investments were made in resources and marketing over the year to position the business for further growth in CRM in the near future. Rest of World also reported strong growth in these fledgling markets.

2010 strategy

Objective	Strategy	Progress
Be a key leader in all markets of the world	Supply business management software and services that help our customers run their businesses more efficiently	We continue to strive to improve our leading market positions in all our major markets
Develop products and services which are the most compelling fit with a customer's country and industry	Maintain high levels of quality service support that feed back into the product and services development cycle	Our focus on improving support levels has contributed to a net increase in contract retention
Have the most trusted brands	Position our brands to meet our customers' requirements	Investment in consistent core identity and future brand development
Have the most satisfied and active customers in our industry	Focus on product innovation and value-added services to meet the changing needs of our customers	544,000 upgrades in 2007 82,000 migrations in 2007 90,000 net new service contracts in 2007
Experience superior organic revenue growth versus our peer group	Develop products and services that meet the changing needs of our customers	Two regions reported double digit organic revenue growth for the year Continual improvement in the Group's organic revenue growth rate remains a strategic priority for our businesses
Be recognised as one of the most admired employers	Building organisational capability to drive business performance	Invest in talent management, people development and HR processes

2010 strategy

It is our stated objective that in the medium term, we will be focusing on improving further our service support levels in North America. Excellent service support leads to improved customer satisfaction levels which drive our upgrade and migration strategies. Maintaining our reputation for support excellence is consequently a key strategic objective.

We continue to listen to our customers' through the 7.5 million customer calls we take globally every year. Customer feedback is an essential component of our product development that allows us to introduce regular product improvements as well as compelling product upgrades that meet our customers' changing needs.

Improving organic revenue growth remains our primary objective as it measures our success in continuously innovating our business management solutions and changing to meet the evolving needs of our customers. Customers will remain at the heart of our business strategy.

We have successfully followed a focused and targeted strategy that has made our business one of the leading suppliers of business management software and services in the world. We plan on building on our market-leading position going forward, and we have set out a long-term strategy to accomplish that objective. Over the year, we achieved significant progress towards our 2010 goals, as shown in the table above.

Outlook

Going into 2008 we anticipate further good performances in the UK & Ireland, Mainland Europe and Rest of World. In North America, in this new financial year, we expect to see the early benefits of the actions taken within this business, with a modest improvement in organic growth. We will increase our investment in our North American business to build sustainable organic growth in the medium term.

We see many opportunities arising from the changing needs of our core SME customer base, which this year reached 5.5 million. Developments in technology, a greater demand for customised solutions and the increasing use of value-added products and services all provide a rich source of long-term growth from which we are well-placed to benefit.

Whilst we recognise the current uncertainties in the macro-economic situation, the defensive characteristics of our business model, including strong cash flows and a high percentage of recurring revenues through our service support contracts, mean that we are well placed to meet these challenges.

Paul Walker
Chief Executive

Business review | Our business and markets

Our guiding principles

Simplicity	Agility	Innovation	Integrity	Trust
High quality, innovative solutions 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 and services.	The changing nature of our customers' businesses requires us to respond quickly to market developments. Our decentralised management structure enables us to be flexible and agile in the markets in which we operate.	The competitive nature of our market environment demands that we are adept in anticipating our customers' needs and introducing products and services that address their immediate business requirements. We aim to be first to market with creative solutions to our customers' needs.	Our long-term relationships with customers, suppliers, shareholders and employees are based on mutual trust and integrity. This is the cornerstone of our stakeholder strategy. Integrity in our corporate relationships has always been central to corporate vision.	Our customers depend on us to deliver products and services to run their businesses more effectively. We take that responsibility seriously and strive to fulfil our customers' expectations.

Marketplace overview

Sage is one of the leading global suppliers of business management software and services to SMEs.

Our goal is to help the customers we serve run their businesses more efficiently, helping them to gain greater insight into their business activities and providing them with lasting benefits by automating their business processes.

With the benefit of local understanding and insight, we provide software and services that are relevant, practical and useful for the demands of today's SMEs. Handling on average 32,000 customers' calls a day allows us to have a profound understanding of their needs. Our excellent customer service and our customer-centric approach are designed to engender customer loyalty, whilst at the same time setting us apart from our competition. The quality of our products and service encourages recommendation by our customers, as well as by over 40,000 accountants in practice.

In our established markets such as the UK & Ireland, Mainland Europe and North America, much of the growth in the software sector is being driven by SMEs extending their business process automation. We are meeting SMEs' changing needs by offering complementary products for sales and customer service, industry-specific production processes and management reporting.

In emerging markets such as Africa and Asia, growth is being driven by small businesses computerising their business processes for the first time. Our model of expanding by acquiring a leading local player in accounting or payroll software allows us to choose the ideal time to enter these markets and ensures that Sage solutions meet the unique needs of these local businesses.

We add value to new acquisitions by bringing operational excellence to their local initiatives and helping them to introduce models to manage their customer service and support related activities more effectively.

These strategies have been proven to deliver consistent growth in our established markets over the past decade.

The core of our products cover accounting, but Sage is not just about accounting software. Our product range also includes:

- Payroll
- CRM
- Financial forecasting
- Job costing
- HR
- Business intelligence
- Taxation and other products for accountants
- Business stationery
- Development platforms
- E-business
- Payment processing

We also offer tailored software for the needs of business within some specific industries that enhance our core products, including:

- Healthcare
- Construction/real estate
- Transport/distribution
- Accountancy
- Not-for-profit
- Manufacturing
- Retail

SMEs highly value quality customer support and locally tailored products, which we have made the cornerstone of our successful business strategy. Customer focus is at the heart of our business model, and we aim to build customer loyalty through the provision of outstanding service and relevant product innovation. The loyalty of our customer base remains one of our strongest barriers to competitive entry and has helped us over the years to build a customer base of over five million. This year alone, we added 319,000 new customers.

Executive Committee

Paul Walker
Group Chief Executive

Paul Harrison
Group Finance Director

David Clayton
Group Strategy and Mergers and Acquisitions Director

Paul Stobart
CEO UK & Ireland

Guy Berruyer
CEO Mainland Europe and Asia

To be appointed
CEO North America

Ivan Epstein
CEO South Africa and Australia

Michael Robinson
Company Secretary and Group Legal Director

Klaus-Michael Vogelberg
Chief Technology Officer

Karen Geary
Group Director of Human Resources and Corporate Communications

As a global company, we face a wide range of market conditions. In all our markets, we are one of the market leaders supplying business management solutions to our target market of SMEs, which we define as businesses with typically less than 500 employees. The core of our business is customers with less than 100 employees, these account for 93% of our customer base.

Strategy and guiding principles

Our strategic vision is to continue to be one of the leading global suppliers of business management software solutions to SMEs. This is a sector in which we have specialised for over 25 years, and it forms the basis of our strategic positioning.

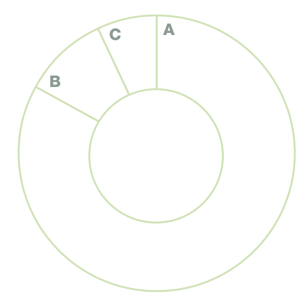
Our business philosophy is founded on the belief that SMEs want locally designed solutions that meet the unique legal and regulatory environment of their local market. Our local focus allows us to develop compelling products tailored to specific market requirements, but with the support of a respected global brand. This focus on local markets differentiates us from our competition and has contributed to our successful growth strategy over the years.

Our guiding principles are more than just words; they are effective strategic shorthand to running our business most effectively along the principles that made Sage successful since its creation. Application of our guiding principles is inherent in the operating plans of each of our businesses, with the focus on improving the application of each principle to our business processes.

Management structure

To allow us to leverage the power of our local expertise, we operate a deliberately devolved organisational structure, with four regions: UK & Ireland, Mainland Europe, North America and Rest of World. The regional businesses report into the Group, but have substantial independence in determining their own business strategy and product development as appropriate to the conditions in their local markets. The CEOs of each of these regions are represented on our Executive Committee which also comprises senior members of our Group management team. The Executive Committee structure is shown in the diagram above.

Customer base



Number of employees	2007
A < 25	83%
B 26–100	10%
C > 100	7%

2007 acquisitions

Date	Company	Industry specialism	Country	Enterprise value (£m)
November 2006	Protx Group Ltd	Payment processing services	UK	£20.7m
April 2007	Pro-Concept SA	Accounting: Mid-market	Switzerland	£5.8m
May 2007	Snowdrop Systems Ltd	HR and payroll	UK	£17.2m
July 2007	Creative Software Pte Ltd	HR and payroll	Singapore, Malaysia	£3.1m
September 2007	XRT SA	Treasury and cash management	France, Spain, South America	£26.3m
Total enterprise value				£73.1m
Other smaller acquisitions				£11.0m
Payment of deferred consideration on prior year acquisitions				£13.2m
Deferred consideration on current year acquisitions				(£1.1m)
Net cash paid				£96.2m

Distribution strength

Our distribution strength remains one of our key competitive advantages, and our business partners play an important role in promoting our products and services. As customers demand increasing levels of tailored products and specialised services, the role of our business partners will continue to develop. Our business partners are a key component in our customer relationship strategy.

SMEs rely on professional advisers such as bank managers and accountants for advice on managing their businesses. We have over 25,000 business partners globally as well as 40,000 accountants recommending our products. This strong referral and distribution network constitutes one of our competitive advantages.

We continue to build on and innovate in our routes to market, through new business partners such as banks. We are preparing and adapting products and services for these new distribution initiatives to complement our existing channels.

Acquisition strategy

Acquisitions remain an important part of our growth strategy, and we continue to pursue a number of acquisition opportunities which could expand our product and service offering to SMEs in both new and existing territories. During the year, we completed five principal acquisitions, for an enterprise value of £73.1m. A further acquisition, KCS Global Holdings Limited, was completed in October 2007 for an enterprise value of £20.0m.

Three acquisitions were in the fast-growing field of HR and payroll services. The acquisition of Creative, with businesses in Singapore and Malaysia, consolidates our position as one of the leading suppliers of HR and payroll services in South East Asia. Snowdrop and KCS build on our existing product offering in this area in the UK, whilst the acquisition of Protx adds payment processing capability to our UK solutions. Pro-Concept in Switzerland extends our accounting solutions in Mainland Europe. XRT, with operations in France and Spain, as well as South America, complements our existing capabilities in treasury and cash management, which we acquired in 2003 with Concept in Mainland Europe.

A summary of the acquisitions made over the year is set out in the table above.

The three principal acquisitions completed in 2006, Verus, Emdeon and Adonix, have contributed to strong revenue and profit growth, and will, from 2008, begin to contribute to our organic growth. Adonix was integrated into a new mid-market division in France. Verus, now renamed Sage Payment Solutions Division, has completed the integration of its payment solutions into Peachtree and Emdeon. Emdeon Practice Services, now renamed Sage Healthcare Division, has strengthened its management team and is focused on improving its operational efficiency and developing its market position. The search for a permanent CEO of this division is well advanced, with the division currently under the experienced management of an interim CEO.

Key performance indicators

As summarised on page 11, our corporate strategy is focused on creating value and building a strong, sustainable business with high levels of customer satisfaction. We monitor our performance against a number of different benchmarks which allow us to measure the value we are creating for both our customers and our shareholders.

Key performance indicators

1 **Adjusted EPS** growth** 13%^ (2006: 20%)	2 **Organic revenue growth** 7%* (2006: 7%)	3 **EBITA† margin** 24% (2006: 26%*)
4 **Cash generation from operations** 112% (2006: 107%)	5 **Renewal rates on maintenance and support contracts** 81% (2006: 80%)	

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† Earnings before interest, tax, amortisation of intangible fixed assets (EBITA) and prior year gain on disposal in North America of £2.7m.

** Pre-tax profit and earnings per share figures stated prior to amortisation of intangible fixed assets, prior year gain on disposal of £2.7m.

^ After neutralisation of foreign exchange movements.

In selecting these key performance indicators, we have incorporated our 2010 strategic goals set out on page 11, and which we believe are manifest in a strong and growing market.

Consistent and sustainable earnings growth, good organic revenue growth and strong cash generation from our businesses are key performance indicators on the health of our business. Over the year, we performed well against these financial benchmarks and in line with our forecasts at the beginning of the financial year.

We also closely monitor the degree of customer satisfaction relating to our products and services. We take over 7.5 million calls a year, or over 32,000 calls a day, from all over the world. This customer feedback helps us improve our products and services as well as providing a rich source of input on customer satisfaction levels.

A key performance indicator of customer satisfaction is the level of renewal rates on our service support contracts. Customers who choose to renew their service contracts, upgrade their software or migrate to new Sage products, by definition must have a high degree of satisfaction with Sage. Our renewal rates historically have been over 80% and in 2007 we again achieved this high rate of customer renewal.

1 Adjusted EPS growth
Adjusted EPS 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 after the neutralisation of foreign exchange movements.

2 Organic revenue growth
Organic revenues are derived from our core business operations, excluding the contribution from acquisitions and disposals 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.

3 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.

4 Cash generation from operations
Cash flows from operating activities 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.

5 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.

UK & Ireland

A clear focus on the customer, on-going innovation in software and service, and the outstanding efforts of our people have combined to deliver a year of strong organic growth.

Countries of operation: United Kingdom and Republic of Ireland.

Key products: KCS (HR, payroll and time & attendance), Protx (payment processing), Sage 50 Accounts, Sage 50 ACT!, Sage 50 Forecasting, Sage 50 Payroll, Sage 200, Sage 1000, SageCRM, Sage Instant, Sage Intelligent Reporting, Sage MMS, Sage Practice Suite, SalesLogix, Snowdrop (HR and payroll), TAS Books.

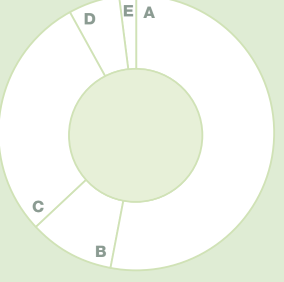
Revenue	£m
2007	**224.1**
2006	204.4

EBITA	£m
2007	**82.6**
2006	75.6

Customers	'000
2007	**741**
2007 New customers	40

Contracts	'000
2007	**363**
2007 New contracts	12

Revenue by sector



		2007	**2006**
A	Accounting	**53%**	54%
B	Industry-specific	**10%**	11%
C	HR and payroll	**29%**	29%
D	CRM	**6%**	6%
E	Payment processing	**2%**	0%

Regional results

UK & Ireland revenues grew by 10% overall to £224.1m (2006: £204.4m) with strong organic growth of 7%. *Sage 50*, our core UK product, grew by 7%, through the application of a strategy combining innovation, product quality and high quality service. Our fully integrated product suite solutions, *Sage 200* and *Sage 1000*, launched this year, were very well received by both customers and business partners, reporting strong growth since launch. New products and services in the areas of HR and payroll, as well as increased functionality in accounting, CRM and Enterprise Resource Planning ("ERP") also contributed to our strong growth over the year.

The EBITA margin was maintained at 37% (2006: 37%).

The UK business made two acquisitions in the year, plus an additional acquisition after the close of the financial year. Protx, the payment solutions company, has performed strongly, growing revenues by 56% on a like-for-like basis. Snowdrop, the mid-market HR and payroll services provider, brings a new mid-market capability to our existing HR services. KCS was acquired in October 2007, after the close of the financial year. KCS further strengthens Sage's mid-market payroll service, complementing and broadening Snowdrop's HR and payroll offerings. These two acquisitions conform to our strategy of expanding our product and services offering to our SME customer base and mean that we now have a powerful product portfolio in HR and payroll.

1

A Woman's Touch

www.awomanstouch.org.uk	
Business:	Property maintenance/ project management/DIY training
Location:	London, UK
Sage products:	*Sage 50*

1 ***Sage 50*** **is entry-level accounting software and has all the standard features needed to manage customers and suppliers.**

Kerrie Keeling set up A Woman's Touch as an interior and exterior decorating company in 2003 having spent seven years working for one of the City of London's leading investment banks.

The company started off with small scale jobs from supportive friends and family members but quickly expanded, employing a team of all female trades people as its excellent reputation spread.

The business has now been in operation for four years, employs 20 people, and has expanded from interior and exterior decorating into carpentry, plumbing, tiling, roofing and electrics. A Woman's Touch now has the capabilities to refurbish an entire house from a shell to completion.

As the business has grown, Keeling has increasingly been involved in "off-tools" activity behind the scenes, ensuring that the business is run efficiently and that there is a constant flow of work.

Until recently Keeling had been running the financial side of the business through increasingly complex spreadsheets. This format was adequate when the business was in its infancy and the financial set up was much simpler. However, with 20 employees and multiple projects running concurrently, this method of financial planning became unwieldy and inefficient.

As the business has expanded and the finances have become more sophisticated, Keeling chose *Sage 50* in order to meet her growing business demands and give her an even more accurate view of her business' financial health.

2

The Fin Machine Company Limited

www.fin-machine.co.uk	
Business:	Manufacturer of special purpose capital equipment used within the global automotive industry
Location:	Co. Durham, UK
Sage products:	*Sage 200 Commercials*

Our business

Our vision for the UK & Ireland business is to be the business software company that everyone recommends. This means putting the customer at the forefront of everything we do. It is through this focus on the customer that we are market leader in the region. *Sage 50*, our flagship offering in the UK & Ireland, is now in its 26th year and continues to deliver strong organic growth, in large part because of its ease-of-use and affordability, backed up by outstanding support.

Looking forward, we are determined to do even more for the customer in the UK & Ireland. Our UK & Ireland business is committed to the delivery of a "breathtaking customer experience": breathtaking, because the quality of every interaction between Sage and its customers needs to be outstanding if we are to continue to differentiate ourselves from the competition; and experience, because it is the sum of all the interactions with Sage that will encourage a customer to do more business with us, and to recommend us to others. Every interaction counts: the impact of the Sage brand; the way customers find out about Sage; the process of selecting, buying and registering the software; the experience of using the software; getting support; accessing online services; being kept informed about any fiscal or legal developments that might impact the customer; and responding in a timely and efficient manner whenever the customer needs our help and support. By delivering this breathtaking experience, we will drive new customer acquisition and continued strong growth in revenue.

We continue to invest in, and deliver, business software that meets individual customer needs. This year we have made significant improvements to the usability and integration capability of our three flagship business software suites: *Sage 50*; *Sage 200*; and *Sage 1000*. We continue to add new modules to the suites in response to customer demand. *Sage 50*, for example, now offers not only core financial and payroll functionality but a range of additional modules including contact management, business reporting, and people management modules, and, in addition, a series of industry-specific modules for the retail, manufacturing and construction industries.

Our customers have shown continuing strong interest in CRM software. In response to this demand we have invested significant resource in improving the integration between our CRM offerings (*ACT!*, *SageCRM* and *SalesLogix*) and our business software suites: *Sage 50*, *Sage 200* and *Sage 1000*. These developments have been very well received by our customers.

To enable our accountants' community to connect more effectively with their clients, we launched *Sage 50 Accounts Professional Online* during 2007. This "on-demand" software allows an accountant in practice to collaborate online with their clients at any time and from any location. An accountant can therefore review a client's books, make amendments, provide commentary and do all of this over the web, without having to visit the client's premises. The improvements in efficiency and productivity for the accountant and the reduced costs for the client, as there is no chargeable travel time, make this offering highly attractive.

We intend to launch further "on-demand" software services aimed at smaller businesses during 2008. Work is well advanced in the development of a mobile service which will allow our customers to access their business software from mobile devices, such as the Blackberry.

Offering our customers innovative services has been a driver for growth this year. Our core service offering is a support contract, giving customers access to a highly skilled and approachable team of support people, and helping customers make the very most of their investment in Sage software. In the last few years we have added more value to these contracts by offering upgrades in

3

Mantinga UK Limited

www.mantinga.co.uk	
Business:	Supplier of specialty frozen bakery products
Location:	Gloucestershire, UK
Sage products:	*Sage 200 Suite*

addition to core support. In the last year we have introduced additional services including HR management, Health and Safety, and Excel support, all of which have been well received. In October 2007, we launched a premium service for accountants in practice, giving them priority access to a team of dedicated support people, which has also proved to be very popular.

During 2008 we will continue to invest in people, products, services, brand and our systems. Our clear and collective focus is to get closer to the delivery of a truly breathtaking experience for the customer. If we can get this right, then our customers will stay loyal to us, will be more prepared to do more business with us, and will recommend us to others, which, in turn, will drive new customer acquisition and organic growth in the UK & Ireland.

2 *Sage 200 Commercials* comprises a number of further finance modules covering sales and purchase order processing, stock and pricing.

The Fin Machine Company is a market leading manufacturer of special-purpose capital equipment used within the global automotive industry. According to current estimations, two out of three car radiators are built on the company's machines.

With a growing business to manage, the company's financial director felt that it had the potential to do more – with support from the right technology. After consultations with a Sage Business Partner, the company purchased *Sage 200 Commercials* and recently became an early adopter of project accounting, a highly configurable costing and analysis module.

Reflecting on a year of using the new system, the financial director commented, "All in all, it's been a tremendous success and a very positive experience throughout. We have the data we need for the things that matter."

3 *Sage 200 Suite* incorporates *Sage 200* financial software and integrated CRM software which works across the business covering many activities including accounting, sales, marketing, customer service and support and industry-specific operations.

Mantinga UK Limited supplies high quality frozen European bakery products. As a start-up company, Mantinga's management took the unusual decision to make a substantial investment in IT from the outset. The company decided on *Sage 200 Financials* and *Commercials* to support its back office, combined with the *SalesLogix* CRM system.

4

Babycare International Ltd

www.babycareinternational.com	
Business:	Wholesale and retailer of baby equipment
Location:	Wicklow, Ireland
Sage products:	*Sage 50* with *Sage PayPoint*

The implementation of the system resulted in noticeable gains to the business. Within the sales team there was more efficient management of customer and prospect information in *SalesLogix* and *Sage 200* quickly contributed to efficient management of customer orders and delivery, thus ensuring high customer satisfaction and guaranteed repeat business – a key objective for the Mantinga management team.

4 Babycare International Ltd wholesales and retails a wide range of nursery equipment to the Irish market. Its wholesale operation sources quality nursery products from many European countries and markets this range of products to retailers and pharmacies throughout Ireland.

Because of the company's involvement in wholesale and retail operations, it required an integrated solution that would provide accounting and stock control capabilities, while also incorporating an easy to use retail point of sale solution. Additionally, the management team needed to access the accounting and management information from both sides of the business in a single system.

The company prides itself on customer relationships and chose *Sage 50* with *Sage PayPoint* to provide this integrated solution. As a result it is in a better position to provide high levels of service to customers and has increased efficiencies and productivity.

Mainland Europe

Our businesses in Mainland Europe performed very strongly this year. Total revenues grew by 18%* overall to £349.1m (2006: £295.9m*) with strong organic growth of 10%*.

Countries of operation: France, Germany, Switzerland, Austria, Belgium, Spain, Portugal and Poland.

Key products: **France:** Ciel!, Sage Coala, Sage Cogestib, Elit, Sage 100, Sage 1000, Sage X3 Entreprise, XRT; **Spain:** Logic Control, SP; **Germany/Switzerland:** Baürer, Classic Line, Office Line, ProConcept, Sesam, Simultan; **Poland:** Symfonia; **CRM:** ACT!, SageCRM, SalesLogix.

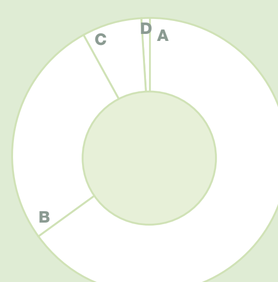
Revenue	£m
2007	**349.1**
2006	295.9*

EBITA	£m
2007	**80.6**
2006	65.7*

Customers	'000
2007	**1,502**
2007 New customers	87

Contracts	'000
2007	**569**
2007 New contracts	53

Revenue by sector



		2007	2006
A	Accounting	65%	72%
B	Industry-specific	27%	19%
C	HR and payroll	7%	8%
D	CRM	1%	1%
	Payment processing	0%	0%

* Foreign currency results for the year ended 30 September 2006 have been retranslated based on the average exchange rates for the year ended 30 September 2007 of $1.98/£1 and €1.48/£1 to facilitate the comparison of results.

1

Precisport, S.L.

www.precisport.es	
Business:	Handles image rights of top sports people/design and production of sportswear clothing (motorsports)
Location:	Barcelona, Spain
Sage products:	*Logic Class*

Regional results

Our businesses in Mainland Europe performed very strongly this year. Total revenues grew by 18%* overall to £349.1m (2006: £295.9m*) with strong organic growth of 10%*.

France improved its performance in the second half of the year as expected, reporting 9%* organic growth in H2, and 6%* for the full year. A strong performance from *Sage 100* contributed to these results. *Ciel!*, our entry-level product, reported good volume growth and expanded its premium services offering.

Germany/Switzerland benefited from country-specific fiscal changes which resulted in strong organic growth of 8%*, particularly at the entry-level. Germany also began to show the benefits of the strategic investments made in CRM and industry-specific solutions in HR and in the public sector as well as successfully integrating Baürer into our upper mid-market solutions.

Spain recorded another year of strong organic growth of 19%*, with excellent progress in developing the full spectrum of support offering and strong migration strategies. Poland also enjoyed another excellent year with 21%* organic growth, driven by a strong uptake in the new service contract model.

Our smaller European territories, Portugal, Austria and Belgium continue to grow well. In Austria, we have established a successful business, DPW, in upper mid-market HR and payroll, serving larger customers. Belgium continues to grow well, with excellent products such as *BOB* at the entry-level and *Sage 100* in the mid-market, contributing to our position as one of the market leaders. We plan to build on our strong market position in French-speaking Belgium to expand into the Flemish-speaking regions in future.

The EBITA margin increased to 23% (2006: 22%*), helped by the strong performance in Germany/Switzerland and continued growth in Spain.

Two principal acquisitions were made in this region over the year. Pro-Concept, an upper mid-market ERP accounting solutions provider based in Switzerland, was acquired in April 2007 and complements our existing Simultan business. The acquisition in September 2007 of XRT, a leading supplier of treasury and cash management software in France, Spain and South America, strengthened our solutions in treasury and cash management.

1 **Sage Logic Control is a leading provider of management software and computer services to SMEs in Spain. Their principal offering, *Logic Class*, provides an advanced integrated ERP solution to medium-sized (mid-market) customers in Spain, complementing the small business solutions of the *SP* business.**

Precisport is a leading company whose business is based on obtaining and handling rights to images of top sports people, mainly related to competitive motor racing. Also, they design, produce and market merchandise and sportswear.

The company required a solution that would integrate administrative, commercial, logistic, CRM, accounting and payroll processing. A key issue was a logistics and distribution solution that would allow the company to sell their textile products through a wide variety of channels in Spain and internationally, as well as at all kinds of events, by e-commerce and in specialist shops.

Precisport migrated from the *SP* accounting and payroll products to *Logic Class*. This integrated the businesses administrative, commercial, logistics, CRM, accounting and payroll processing and specifically led to improvements in supply chain management and product shipping processes.

In addition, it provided more integrated information, such as payroll and accounting details that facilitated the calculation of product line profitability.

2

Hotels & Preference

www.hotelspreference.com	
Business:	Hospitality group representing independent top-of-the range hotels
Location:	Paris, France
Sage products:	*Sage 100 Edition Pilotée*

Our business
We have strong positions across a variety of markets in Mainland Europe. We are market leaders in France, our largest European market, with strong positions at both the entry-level, through *Ciel!*, and the mid-market, through *Sage 100*. France originally pioneered tiered support contracts under which various levels of support are offered, a concept that has been successfully adopted by our other regions, and one that continues to contribute to organic growth. Through recent acquisitions, France has also developed strong industry-specific solutions in the upper mid-market in specialisms such as transport, distribution and treasury management.

In Germany and Switzerland, we continue to build on our leading mid-market positions and have consolidated our market positions through acquisition and investment in our existing products. We have also invested in CRM solutions to underpin our future position in these markets and have seen excellent growth in these nascent products. Over the year, our CRM products recorded strong growth in France and Germany as demand for more front office automation develops in the more mature economies of Mainland Europe. We also have ERP products such as *Sage X3* which suit customers with cross-border requirements for business management solutions.
We believe that new products and services such as these will continue to drive future organic growth.

We are the market leaders in Spain at both the entry-level and the mid-market.
At the entry-level, our *SP* product solutions continue to grow through the increasing adoption of tiered support contracts.
In the mid-market, our Logic Control product solutions experienced strong migration to higher level mid-market and ERP solutions. We also introduced a new payroll solution which has been very well received.

Poland is one of our newer markets where we are again growing strongly through good positioning of our entry-level and mid-market solutions and the increasing focus on support contracts.

Our customers in our subsidiary countries of Portugal, Austria and Belgium also show a propensity to subscribe for support, strengthening customer upgrade and migration strategies.

Ludwig GmbH

www.ludwig-bau.de	
Business:	Trade/construction machinery
Location:	Karlsruhe, Germany
Sage products:	*Office Line*

3

4

Cushman & Wakefield Polska

www.cushmanwakefield.com	
Business:	Real estate consultancy
Location:	Warsaw, Poland
Sage products:	*SYMFONIA Handel Forte, SYMFONIA Kontroling Forte*

In all our European markets, we face challenging competition from local suppliers, as well as limited competition from global suppliers at the very top of our product range. We believe that the excellence of our products and service support offerings enables us to compete successfully and grow in our chosen markets and consolidate our leading market positions. Over the year, we added 87,000 new customers in Mainland Europe. We anticipate another strong year in 2008, although growth and margins in Germany and Switzerland will moderate slightly following legislative and fiscal stimulus in those markets in 2007.

2 *Sage 100* is an accounting solution for SMEs with 2 to 200 employees. *Edition Pilotée* provides business intelligence and dashboard functionality.

Due to further international growth, Hotels & Preference required innovation of their accounting software to enable them to generate quickly the key commercial analyses they require for monitoring their business.

Hotels & Preference successfully reduced processing time during a period of growth and their close time for reporting. In addition, they improved their commercial responsiveness.

3 Ludwig GmbH sell construction equipment, power and measuring tools, along with construction and manufacturer supplies. With the fully integrated *Office Line* accounting solution, all areas from order and stock management to financial accounting, billing and control are integrated, optimising the related processes.

***Office Line* also met all the industry-specific requirements of the construction machinery and equipment supplier. Important key figures became immediately available from the system to the executive management for strategic decision making.**

4 *SYMFONIA Forte* is a Polish ERP-class solution offering lasting and measurable business benefits to enterprises.

Cushman & Wakefield is a leading real estate services firm. The Warsaw office was established in 1991 and employs approximately 150 people. They offer a wide range of real estate services.

The implementation of *SYMFONIA Forte* increased productivity, saving both time and costs and led to the automation of a number of financial processes.

North America

Our North American business experienced a year of challenging change and exceptional growth through acquisition. We are well poised to benefit from planned investment in our strong brands to drive organic growth going forward.

Countries of operation: United States and Canada.

Key products: Business Management Division: ACT!, Peachtree, Sage Accpac ERP, SageCRM, Sage FAS, Sage MAS 90/200/500 ERP, SalesLogix, Simply Accounting; **Industry & Specialised Solutions Division:** Sage Abra, Sage Compliance Services, Sage MIP Fund Accounting, Sage Timberline Office; **Sage Healthcare Division; Sage Payment Solutions Division.**

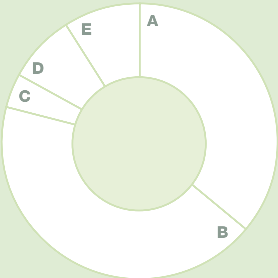
Revenue	£m
2007	**508.1**
2006	329.1*

EBITA†	£m
2007	**100.0**
2006	78.0*

Customers	'000
2007	**2,871**
2007 New customers	147

Contracts	'000
2007	**598**
2007 New contracts	(2)

Revenue by sector



		2007	2006
A	Accounting	**36%**	53%
B	Industry-specific	**43%**	20%
C	HR and payroll	**4%**	6%
D	CRM	**8%**	13%
E	Payment processing	**9%**	8%

* Foreign currency results for the year ended 30 September 2006 have been retranslated based on the average exchange rates for the year ended 30 September 2007 of $1.98/£1 and €1.48/£1 to facilitate the comparison of results.

† Earnings before interest, tax, amortisation of intangible fixed assets (EBITA) and prior year gain on disposal in North America of £2.7m.

1

Island Lake Resort Group

www.islandlakeresorts.com

Business:	Country lodge and ski destination
Location:	Fernie, B.C., Canada
Sage products:	*Sage Accpac ERP, SageCRM*

Regional results

In North America total revenues grew by 54%* to £508.1m (2006: £329.1m*), benefiting from the contribution from major acquisitions made in 2006. Organic revenue growth was 4%* for the year.

The Small Business Division grew organically by 3%*. *Simply*, the market leader in Canada, again recorded good growth, with double digit growth in bundled annual software/service contracts. *Peachtree Quantum* continued to show strong revenue growth, as customers migrated from the *Peachtree* line. *Peachtree 2008* showed continued growth in support services, although licence sales of the new upgrade, which has historically driven revenue, proved somewhat disappointing, as customers chose to remain on older versions of *Peachtree. ACT!* revenue was affected by a lack of large corporate contracts relative to the prior year.

The Mid-Market Division recorded organic growth of 4%*, reflecting improved 5%* organic growth in the second half of the year which was driven by improved performances in Construction & Real Estate, Non-profit, Accpac and in CRM. *MAS 90 4.2*'s new release was well-received by the market and by business partners.

The EBITA† margin decreased to 20% (2006: 24%*) due to the dilutive effect of acquisitions made in 2006. Excluding acquisitions made in 2006, North America's EBITA† margin was maintained at 23% (2006: 23%*).

Of the 2006 acquisitions, Verus, now Sage Payment Solutions Division, performed in line with our expectations over the year, reporting 14%* revenue growth on a like-for-like basis and increased margins of 42%.

Emdeon, now Sage Healthcare Division, reported slower than anticipated revenue growth of 1%* on a like-for-like basis, but with an improved margin of 7% for the full year (9% in the second half of the year). Over the past year, there have been operational and management issues at this division which will continue to impact revenue growth in the short term. These issues are being addressed, and we remain confident that Sage Healthcare Division provides the Group with a leading position in a highly attractive market with good growth potential over the longer term.

1 *Sage Accpac ERP* is an advanced web-based accounting solution built on a world-class, object-oriented, multi-tiered architecture. It offers seamless integration with a number of solutions including *SageCRM*. *SageCRM* is a wireless and web-based suite of applications that provides enterprise-wide access to vital customer, partner and prospect information anytime, anywhere.

Island Lake Resort Group (ILRG) is a world-class vacation spot with three locations perched in the Canadian Rocky Mountains.

With the business expanding to more than 230 employees in multiple locations, ILRG needed to streamline their operations. After many successful years using *Simply* by Sage, they decided a web-based solution would best suit their needs, so they migrated to *Sage Accpac ERP*. The powerful consolidation tool and flexibility of the payroll module are particularly important and allow flexibility in the way information can be delivered. The new system changed the way ILRG conducts business and streamlined many tasks.

***SageCRM* integrates seamlessly with *Sage Accpac ERP* and enables ILRG to manage information on their customers spending habits from reservations and point of sale in order to tailor marketing campaigns. Regular newsletters are e-mailed to customers which has led to an increase in customer satisfaction and business at all resorts making ILRG number three in the world.**

The solution is scalable, customisable and, being web-based, totally flexible and fully accessible anytime, anywhere.

2

Etnia Barcelona

www.etniabarcelona.com	
Business:	Wholesale distribution – spectacles
Location:	Miami, Florida, US
Sage products:	*Peachtree by Sage Quantum*

Our business

We have been present in North America since 1991 through our first acquisition, *DacEasy*, followed by acquisitions in the years following that led to our *Peachtree* and *MAS* product ranges. North America is now our largest market, accounting for over 40% of our total revenues. *ACT!*, *Simply Accounting* and *Peachtree* are leading and well-recognised brands in the North American market – we are the market leader in Canada through our *Simply Accounting* solutions and number two in the US at the entry-level with *Peachtree*. In the mid-market, our *MAS* and *Accpac* product solutions are market leaders in both the United States and Canada with highly customisable solutions and deep functionality across our product portfolio.

North America is also our largest market for CRM, accounting for over 65% of our global CRM revenues, through our range of CRM solutions, *ACT!*, *SageCRM/SageCRM.com* and *SalesLogix*.

Our North American business has a number of industry-specific solutions for customers in construction/real estate, not-for-profit and healthcare as well as products such as *Accpac* which are suitable for our customers with multi-national requirements.

The US is our most competitive market with a number of regional and global companies competing across our product range. We have, nonetheless, for over 16 years, expanded our market presence as one of the leading global suppliers of business management solutions in this market. Over the year, we added 147,000 new customers, and now have over 2.8 million customers in North America.

Following several years of growth and an active acquisition programme, including in 2006 the acquisition of Verus (renamed Sage Payment Solutions Division) and Emdeon (renamed Sage Healthcare Division), our North American business reorganised into four new operating divisions to improve agility and customer connection. From 1 October 2007, we will begin reporting results along the business lines of these four divisions:

Business Management Division:
All accounting products and CRM (45% of regional 2007 revenues).

Industry & Specialised Solutions Division:
HR and payroll, Construction & Real Estate, Non-profit (15% of 2007 regional revenues).

Sage Payment Solutions Division:
(9% of 2007 regional revenues).

Sage Healthcare Division:
(31% of 2007 regional revenues).

This reorganisation will improve customer focus, commercial agility and product innovation. We plan on investing in this business to maintain our strong market positions. We also made a number of management changes and are seeking to appoint a new CEO of the North American business early in 2008.

Our strategic focus for the coming year will be on reconnecting with our corporate principles of agility and simplicity in all our customer processes, from entry-level to mid-market to our industry-specific solutions and CRM. We will be investing in our service support offering to improve customer satisfaction levels. Customer service satisfaction feeds directly into the upgrade

3

Litecubes LLC

www.litecube.com	
Business:	Novelty manufacturing
Location:	San Diego, California, US
Sage products:	*Sage MAS 90 ERP* (with financial and inventory modules), *ACT!*

and migration cycle for our software products and is also our key competitive advantage. In terms of technology, we will concentrate on introducing product suites ("end-to-end" solutions) in the coming year as well as evaluating market demand for hosted or "on-demand" products, also known as software-as-a-service.

Our outlook for 2008 is focused and confident. Organic growth is expected to improve modestly over the next 12 months, although investment in our businesses will slightly reduce our operating margins in the short term. Our strong brands and quality support offering position us well for continued long term success in this market.

2 *Peachtree Quantum* is a comprehensive accounting solution that provides premium features like multi-company consolidations, progress billing, serialised inventory, and Crystal Reports® for *Peachtree*. It provides a multi-user option for improved productivity.

Etnia Barcelona distributes handcrafted European eyewear for sale through exclusive optical boutiques across the United States, Canada, and South America. They started using *Peachtree Quantum* last year when the company's transaction volume and number of users dramatically increased.

***Peachtree Quantum* accommodates a large number of users and high transaction volume while enjoying superior functionality and ease of use.**

The rich feature set of *Peachtree Quantum* delivers the functionality of higher-priced products. Easy to learn software minimises training time. A clear migration path reassures Etnia Barcelona of a Sage Software solution to match its growing business needs.

3 *Sage MAS 90 ERP* offers a broad selection of feature-rich solutions, including accounting, financial reporting, distribution, manufacturing and e-business management. *ACT!* contact management software tracks and manages customer and vendor relationships.

Litecubes manufacture non-toxic plastic blocks which look like ice cubes. The company grew quickly and once they began processing hundreds of orders every month they upgraded from QuickBooks to *Sage MAS 90 ERP* because of the easy conversion path via the data migrator tool. *Sage MAS 90 ERP* provides Litecubes with an end-to-end business system, automating and integrating everything from accounts receivable and accounts payable to payroll and sales orders. Using *Sage MAS 90 ERP* cut sales order processing time by 75%.

Speedy growth mandated a robust financial system with multi-user data entry, automated sales orders, streamlined invoicing and powerful inventory management.

Tight integration with *ACT!* makes it easy to access lead data and convert them into active customers.

4

Internal Medicine Associates

www.ima-md.com	
Business:	Healthcare provider
Location:	Bloomington, Indiana, US
Sage products:	*Intergy, Intergy EHR* (Electronic Health Records), *Practice Analytics*

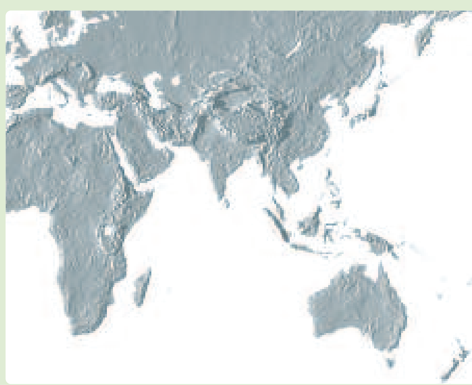
4 *Intergy* is a comprehensive practice management system providing advanced scheduling, billing, and management tools which also easily integrates with *Intergy EHR, Practice Analytics* and *EDI solutions*.

Internal Medicine Associates is a 62 provider practice with nine sites throughout Indiana. The practice manages over 1,000 encounters per day, and issues over 26,000 bills per month.

Internal Medicine Associates selected *Intergy EHR* to complement *Intergy* to improve efficiencies and better manage their rapidly increasing number of patient records. The result is improved workflow between their nine sites and enhanced patient care, maintaining the high quality of service the community has come to rely on.

Rest of World

Once again we have experienced an exceptional year – our growth has been driven by innovation, investment in our core products and service excellence. Our entrepreneurial culture, passion and customer centric approach has contributed to our continued success.



Countries of operation: South Africa, Australia, Singapore, China, UAE, Malaysia, India and Saudi Arabia.

Key products: **South Africa:** Pastel, VIP Payroll; **Australia:** Handisoft, MicrOpay; **Singapore:** Creative; **Malaysia:** UBS; **All:** Accpac ERP, ACT!, SageCRM, SalesLogix.

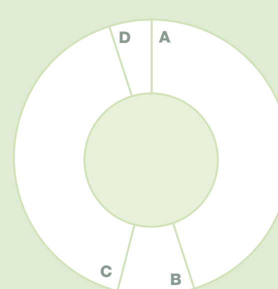
Revenue	£m
2007	**76.3**
2006	63.0*

EBITA	£m
2007	**20.0**
2006	16.6*

Customers	'000
2007	**442**
2007 New customers	45

Contracts	'000
2007	**119**
2007 New contracts	27

Revenue by sector



		2007	2006
A	Accounting	45%	44%
B	Industry-specific	9%	10%
C	HR and payroll	41%	41%
D	CRM	5%	5%
	Payment processing	0%	0%

* Foreign currency results for the year ended 30 September 2006 have been retranslated based on the average exchange rates for the year ended 30 September 2007 of $1.98/£1 and €1.48/£1 to facilitate the comparison of results.

1

Soaring Eagle Distributors

Business:	Harley Davidson dealer
Location:	Gauteng, South Africa
Sage products:	Softline Pastel – *Pastel Evolution*

Regional results

Rest of World again reported strong growth and revenues of £76.3m (2006: £63.0m*) with organic growth of 17%*. South Africa had another impressive year, with excellent growth in new licences, migration and support service contracts. Australia again reported strong growth in licences and services. Australia and South Africa continue to build a successful business on the principles of innovation, simplicity, customer focus and agility to bring new ideas to life. This entrepreneurial and customer-centric strategy has resulted in two major awards over the year for customer service.

The EBITA margin was maintained at 26% (2006: 26%*).

In July 2007, we acquired Creative Software, a HR and payroll solutions provider in both Malaysia and Singapore. Creative complements our acquisition in 2006 of UBS Corporation Berhad, the leading vendor of business management software solutions for SMEs in Malaysia.

1 *Pastel Evolution* is business management software for large businesses with multiple users. It gives businesses the ability to control finances as well as relationships with customers, suppliers and employees.

Soaring Eagle Distributors wanted superior CRM facilities and enterprise resource management capabilities that automatically integrate with administrative and accounting requirements.

Pastel Evolution met all functionality requirements and no customisation was necessary.

Soaring Eagle Distributors had previous experience of Pastel products, and the business found the software logically designed, easy to use and were able to save on implementation costs.

The modules of *Pastel Evolution* implemented include bill of materials (for the clothing/accessory kits), job costing (for the service and maintenance centre), multi-warehousing (for portioning of stock between service and store), point of sale (for sale of peripheral and clothing lines), serial tracking (tracking of motor cycles), resolve CRM (tracking of incident history against clients as well as workflows for automating processes), and business intelligence centre (for reporting financials as well as projections).

Soaring Eagle Distributors has been able to integrate and streamline its operations and improve service to the 650 existing members and the 400 new customers they attract every year.

2

Pickles Auctions

www.pickles.com.au	
Business:	Auctioneers
Location:	Belmore, NSW, Australia
Sage products:	Sage MicrOpay – *MicrOpay Meridian*

Our business
Our businesses in the strongly growing economies, which we report as Rest of World, cover a geographically diverse area, stretching from South Africa and Australia in the Southern Hemisphere to Singapore, China, Malaysia and India in the Far East, UAE and Saudi Arabia in the Middle East. Accounting for 7% of total revenues, the businesses are growing rapidly through a combination of product and service innovation as well as commitment to excellence in the way business is undertaken.

Through consistent organic growth and acquisition, we have built up market-leading positions in all our chosen product segments. We continue to consolidate and strengthen our position despite growing competition in these attractive, high growth markets. Over the year, we added 45,000 new customers across the region.

In South Africa, *Softline Pastel* (Accounting) and *Softline VIP* (Payroll) are both leaders within their respective product markets. In Australia, our *Sage MicrOpay* business leads the Australian market in payroll solutions, with *Sage Handisoft* retaining consistent market share within the practice management and taxation software space. We expect to expand further geographically from this promising market position in the emerging markets of the Far East.

This year was our first full year of operation in China and our fourth in India. Both these businesses are growing well and establishing a strong position in these rapidly growing markets. We continue to pursue opportunities to build these businesses both organically and by acquisition.

We continue to expand in Singapore and Malaysia and this year acquired Creative Software, the leading payroll vendor for SMEs in this region. We also experienced good growth in the Middle East through our UAE office and have now opened an office in Saudi Arabia, one of the fastest growing markets in the Middle East.

Going forward, we are confident that our growth in these economies will remain strong, as our business grows in strength and scale. Our strategy focuses on driving growth by consolidating our service offering and broadening our product portfolio into industry-specific solutions. CRM is still in its infancy in these markets, but should begin to contribute to growth in the near future.

Thomson Financial

www.thomson.com.au	
Business:	Corporate communications webcasts provider
Location:	Pyrmont, NSW, Australia
Sage products:	Sage Business Solutions – *SageCRM*

3

2 *MicrOpay Meridian* is an advanced payroll management solution designed specifically for medium to larger organisations.

Pickles Auctions' payroll has grown from 120 to 450 in the past five years. The company required a solution that would automate payroll processing and reporting.

The business deployed *MicrOpay Meridian* payroll software which reduced processing and reporting time by up to 60%, eliminating the need for manual cheques and produced more detailed payroll information to aid efficient analysis of costs and budget management.

3 *SageCRM* is a CRM solution for mid-sized businesses. It allows customers to analyse and manage sales, marketing and customer care across the business.

Thomson Financial needed to grow its CRM from manual processes to a large, automated database solution.

SageCRM allowed the company to develop an application that closely aligns with the business processes they wanted to automate and provided strong integration capability and depth of functionality.

SageCRM allowed Thomson Financial to focus its time on its customers rather than day-to-day paperwork.

4

MYOJO Foods Company

www.myojosingapore.com	
Business:	Instant noodles manufacturer
Location:	Singapore
Sage products:	Sage Software Asia – *Accpac ERP*

4 *Accpac ERP* is a sophisticated accounting and operations system for small and mid-sized businesses.

MYOJO Foods required a solution which would reduce the level of manual input and therefore speed up and improve the financial and operational procedures and the quality of information produced.

Accpac ERP helped to achieve this. Benefits reported by the business included reducing manpower hours via automated data entry, easily produced inventory reports, improved staff morale and increased customer confidence in the operational process.

Business review | Financial review

Overview

In the year ended 30 September 2007, revenue increased by 24% to £1,157.6m (2006: £935.6m). Operating profit increased by 8% to £255.2m (2006: £235.8m). Profit before taxation increased by 1% to £223.3m (2006: £221.2m). EPS increased to 11.85p (2006: 11.81p).

To facilitate a comparison of like-for-like results for the year, we neutralise the impact of movements in foreign currency exchange rates and remove the effects of amortisation of aquired intangible assets and the net amortisation or capitalisation of software development expenditure. These adjustments are summarised in the table on page 33.

The impact of the year-on-year movement in exchange rates was to increase prior year revenue by £43.2m and EBITA by £10.7m, mainly due to the weakening of Sterling against the US Dollar.

Revenue analysis

Revenues increased 30%* to £1,157.6m (2006: £892.4m*), reflecting strong organic growth and a significant contribution from prior year acquisitions, which contributed 24% of total revenues, or £283.4m. Organic revenue growth for the year was 7%*, as reported in both the first and second halves of the year. Organic revenue growth excludes the contributions of current year and prior year acquisitions and disposals (together 26% of total revenues) and non-core products (2% of total revenues).

Total software licence revenues were £343.7m (2006: £308.1m*), with organic growth of 4%*. Total services revenues increased to £813.9m (2006: £584.3m*), benefiting from strong organic growth of 9%* for the year. Over 59% of our annual service contracts now include a software licence element, which is recorded in services revenues. This trend is a response to customer demand for a bundled service.

Profit measures

	EBITA to operating profit 2007 £m	EBITA to operating profit 2006 £m	Growth %	Pre-tax profit 2007 £m	Pre-tax profit 2006 £m	Growth %	EPS 2007 pence	EPS 2006 pence	Growth %
Disclosed measure	283.2	235.9	20%	251.3	221.3	14%	13.34	11.83	13%
Gain on disposal	–	2.7		–	2.7		–	0.14	
	283.2	238.6	19%	251.3	224.0	12%	13.34	11.97	11%
Impact of movements in foreign currency exchange rates	–	10.7		–	10.7		–	0.57	
	283.2	249.3	14%	251.3	234.7	7%	13.34	12.54	6%
Amortisation of acquired intangible assets and net development	(28.0)	(13.5)		(28.0)	(13.5)		(1.49)	(0.73)	
Statutory measure	255.2	235.8	8%	223.3	221.2	1%	11.85	11.81	0%

From a financial reporting perspective, it is not practical to separate these bundled offerings into software and services, therefore, all bundled revenue resulting from these contracts is recorded in services revenues. Underlying growth in software licence revenue is therefore higher than the 4%* organic growth reported.

Following the acquisition of Verus and Protx, services revenues now include three categories of revenues: maintenance and support (67% of services revenue), payment processing services (6% of services revenue) and other (network services in Sage Healthcare Division, business forms, professional services and hardware) (representing 27% of services revenue). Maintenance and support revenues grew by 10%* organically. Payment processing services comprises Verus and Protx. The category of other services grew by 6%* organically.

EBITA†

EBITA† increased 20%* to £283.2m (2006: £235.9m*).

The Group's EBITA† margin was reduced by 2% to 24% (2006: 26%*) due to the initial dilutive effects from recent acquisitions, principally Sage Healthcare Division.

Finance expenses

Net finance expenses of £31.9m (2006: £14.6m) were greater than the prior year. This was primarily due to greater borrowings following the acquisitions made during 2006 in addition to increased average interest rates. Interest cover was in excess of 8 times, which was reduced from 16 times in the prior year.

Profit before taxation

Statutory profit before taxation of £223.3m (2006: £221.2m) was impacted by amortisation of acquired intangible assets and net development of £28.0m (2006: £13.5m). Adjusted pre-tax profit** rose 14%^ to £251.3m (2006: £221.3m^).

Taxation

The tax charge of £69.2m (2006: £68.6m) was greater than the prior year reflecting the additional profits and gives an effective rate of 31% (2006: 31%).

EPS

Basic earnings (after amortisation) per share for the year ended 30 September 2007 were 11.85p compared to 11.81p in 2006. Diluted earnings per share were 11.79p compared to 11.73p in 2006. Adjusted earnings per share** grew 13%^ to 13.34p (2006: 11.83p^).

* Foreign currency results for the year ended 30 September 2006 have been retranslated based on the average exchange rates for the year ended 30 September 2007 of $1.98/£1 and €1.48/£1 to facilitate the comparison of results.

** Pre-tax profit and earnings per share figures stated prior to amortisation of intangible fixed assets, prior year gain on disposal of £2.7m.

† Earnings before interest, tax, amortisation of intangible fixed assets (EBITA) and prior year gain on disposal in North America of £2.7m.

^ After neutralisation of foreign exchange movements.

Capital structure

	Assets £m	Liabilities £m	Net assets £m
Property, plant and equipment	130.5	–	130.5
Goodwill and intangible assets	1,767.6	–	1,767.6
Current assets and liabilities	235.0	(561.4)	(326.4)
Post-retirement obligations	–	(5.3)	(5.3)
Deferred tax	8.3	(14.2)	(5.9)
Total before net debt	2,141.4	(580.9)	1,560.5
Net debt	66.4	(576.1)	(509.7)
Total as at 30 September 2007	2,207.8	(1,157.0)	1,050.8
Total as at 30 September 2006	2,210.9	(1,233.3)	977.6

Dividend
Over the past year, the Board reviewed Sage's capital requirements, including future investment in our products and services and potential acquisition funding. Following that review, we are pleased to announce a rebasing of our dividend. We believe that our consistently strong cash flows and recurring revenue streams provide the basis for a progressive dividend policy, whilst ensuring that the Board can continue to maintain the appropriate levels of organic and acquisition-led investment.

As a result of the rebasing of the dividend, the proposed final dividend is being raised to 5.73p per share (2006: 2.51p per share), giving a full year dividend of 7.00p per share (2006: 3.59p per share), an increase of 95%.

The final dividend will be payable on 7 March 2008 to shareholders on the register at close of business on 8 February 2008.

R&D and capex
The Group spent £111.4m in the year ended 30 September 2007 on research and development (2006: £94.8m). No expenditure was capitalised 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 2007 (including the purchase of third party software systems for internal use) was £38.0m (2006: £27.0m). The majority of this expenditure relates to IT infrastructure, both in new and replacement systems.

Capital structure
Our balance sheet at 30 September 2007 can be summarised as set out in the table above.

Net assets increased by 7% to £1,050.8m (2006: £977.6m) and net assets per share by 7% to 81p (2006: 76p). The main movements in the balance sheet items were in goodwill and intangible fixed assets (relating mainly to investment in acquisitions) and the associated change in net debt (see further "Net debt" and "Cash flow" below).

Net debt
The Group has net debt of £509.7m at 30 September 2007 (2006: £593.6m). During the year additional debt of £122.2m was drawn down and £189.0m was repaid. 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 £96.2m have therefore been funded by debt financing.

In October 2007, after the close of the financial year, the Group drew down an additional £20.0m of debt in connection with the acquisition of KCS Global Holdings Limited in the UK (see "Post balance sheet events" below).

Cash flow
The Group remains highly cash generative with operating cash flow of £317.1m representing 112% of EBITA. After interest, tax and net capex, this gave free cash flow of £182.1m. The net cost of acquisitions completed in the period was £96.2m and net cash receipts of disposals were £0.9m.

After dividends of £49.0m and other movements of £46.1m, including exchange movements, net debt stood at £509.7m at 30 September 2007 (30 September 2006: £593.6m).

The Group remains highly cash generative with operating cash flow of £317.1m representing 112% of EBITA.

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 13 January 2011 and £650m expire on 4 August 2011. At 30 September 2007, £562.3m had been drawn under these facilities, leaving £287.7m undrawn. Group cash balances are invested for appropriate periods with institutions and in instruments with high credit ratings.

Treasury controls and operations

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 2007, all outstanding debt was held at variable interest rates.

Post balance sheet events

On 29 October 2007 the Group announced that it had acquired KCS Global Holdings Limited, 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.

Paul Harrison
Finance Director

Highlighted are some of the risks that we face, particularly focusing on those that are considered to be specific to the provision of business management software and services.

Group risk factors
As with all businesses, Sage is affected by certain risks, not wholly within our control, such as the loss of key people, which could have a material impact on our long-term performance and could cause actual results to differ materially from forecast and historic results. Highlighted are some of the risks that we face, particularly focusing on those that are considered to be specific to the provision of business management software and services. This section of the report should be read in conjunction with the Internal control and risk management section of this report, found on page 54.

We operate in a highly competitive environment
The market for business management solutions is highly competitive. This competition continues to intensify, particularly in the SME market, where the barriers to entry are relatively low, attracting more companies to enter the market. Many companies with which we compete, or which may enter into competition with us, have greater financial, marketing and technical resources than we do.

Through the provision of outstanding customer support, we continue to build strong customer relationships. Our strategy to develop our product and service offering to meet local customer needs further strengthens customer loyalty.

Our business operations rely on systems and networks that could be disrupted
Our business operations rely significantly on internal systems and networks. Any incident on the systems and networks; caused by new system implementations, presence of old systems or existence of weaknesses; could lead to misappropriation of or damage to our proprietary information or could cause disruption to the delivery of our products and services. Critical information used in our business operations, such as customer orders, customer support and accounts payable, could be disabled.

We continue to build and develop all relevant recovery plans for such situations. We also continue to review our security and system and network infrastructure to ensure that, wherever possible, these risks are kept to an acceptable level.

As an international company we face potential challenges from economic, political, legal, accounting and business factors across the globe
We have operations in many international markets. Our strategy is to continue to expand our international operations. This global scope leads to various risks inherent in administering the complexities of a global business. A variety of international regulatory requirements and unexpected changes to economic and market conditions are examples of specific risks associated with managing an international business. Any failure to maintain compliance with foreign laws or changes in local regulations or any failure to adapt to international market changes or local business conditions could have a material, adverse impact on our business.

As we grow through acquisition and expand our geographical coverage, we continually review all relevant requirements to ensure appropriate policies and controls are developed. Our compliance programme seeks to ensure that local operating companies manage and review local rules and regulations on an on-going basis.

A change in technology could decrease demand for our products
Technology in the software industry is constantly and rapidly changing. Being able to adapt to rapidly changing technologies is important to maintain current products, attract new customers and retain existing customers. Rapidly changing technology places demands on employees, particularly research and development teams, to stay up to date with technology changes and customer demands. Future success depends on our ability to adapt to these rapidly changing technologies and continue to provide competitive products to satisfy market demand. In addition, our future success will depend on our ability to enhance existing products and to develop robust and stable new products to address the continually changing and evolving demands of our customers.

We continue to build strong customer relationships, to develop and expand our product and service offering to meet customer needs and to seek organic and acquisitive growth opportunities to mitigate this ever present risk.

As our operations diversify, new types of business products and services bring additional regulatory requirements
We have in recent years sought to acquire complementary businesses, but with different product offerings to the original core Sage products. Moving into the credit card processing and healthcare business sectors has brought additional requirements from a regulatory perspective and has brought additional processing risks as customers have different expectations.

We have retained expertise in relevant fields and have ensured, as with other rules and regulations, that we continually review all relevant requirements to ensure appropriate policies and controls are developed.

Legal protection for intellectual property may not always prevent unauthorised use or copying
We rely on intellectual property laws, including laws on copyright, patent, trade secrets and trademarks, to protect our products. However, despite laws and regulations being in place, unauthorised copies of software still exist. In addition, the internet can increase and provide new methods for illegal copying of the technology used in our products and services.

While relying, as other companies do, on the laws and regulations in existence, we also continually police the unauthorised use of our products.

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 2007, all outstanding debt was held at variable interest rates.

During 2007 our focus has been on the consideration of Sage's impact on our world and the areas on which we should focus our corporate responsibility efforts.

Management of corporate responsibility during 2007
Sage is committed to carrying out its business activities in a socially responsible manner. 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, and it 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 our businesses to report on key indicators on a quarterly basis. 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. We have also set up a new steering committee on corporate responsibility matters, led by the Director of Human Resources and Corporate Communications.

Our businesses are encouraged and supported in undertaking positive corporate responsibility activities within a common policy framework regarding employment, community and environmental matters provided by the Group, including:

- 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.

A summary and examples of this activity are detailed in this report.

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. It is our goal to bring out the best in our people and to pursue practices that are sensitive to the needs of our people.

We have an equal opportunities policy that applies across the Group and this prohibits discrimination on grounds such as race, gender, religion, sexual orientation or disability. We operate in a number of geographic regions, adhering to all relevant laws that apply and also supporting internationally accepted standards, including those 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.

Our guiding principles continue to drive our culture and the Sage way of doing things. Simplicity, Agility, Innovation, Integrity and Trust are at the heart of behaviour in many parts of our business, and we continue to work with our people to make these cultural traits ubiquitous.

We now employ over 13,900 people (2006: 13,000), and our employees are at the heart of our customer experience.

1

HOPE committee

Focus:	Local organisations
Location:	Saint Petersburg, Florida US

Employment priorities 2007

- 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 where possible;
- Communicating openly and transparently with our people and taking into account their feedback;
- Recognising and rewarding our people for their contribution;
- Embedding our principles in all of our businesses.

Examples of activities undertaken

- Enhanced policies in many countries such as maternity in the UK and flexible working in Portugal;
- New Wellness programme and employee handbook launched in North America;
- New or refreshed management development programmes introduced in several countries;
- A talent management strategy to harness top talent in the businesses across the Group;
- English lessons available to employees who wish to learn (Portugal, Spain);
- Training, development and reward programmes for employees at all levels continually developed and improved in line with business strategy and guiding principles;
- Employee surveys undertaken in all of our larger businesses;
- Enhanced internal communication channels with CEO webcasts, introduction of podcasts and other media to enable greater connection and knowledge sharing;
- New employee portal to improve communication (Portugal);
- Employee consultation forum established in South Africa;
- Milestones awards programme in North America, South Africa, UK and Poland to reward long service;
- Awards schemes to reward behaviour aligned to the principles introduced (UK, Germany, Spain, Poland, South Africa);
- Employee creativity training (France).

1 Each year the Saint Petersburg office's HOPE committee focuses their attention on local organisations, schools and employees and their families who are in need and would not receive significant donations from other larger charitable organisations. This year they donated school supplies to Woodlawn Elementary School which is close to the office and considered to be an "in-need" school. Substantial supplies were sent including school equipment, stationery and a washer and dryer to launder the uniforms of the children. The committee received a flood of thank you notes from children at the school which now fill a bulletin board in the office.

As part of their support for Woodlawn, Sage employees participated in "The Great American Teach-In", where employees spent time in the school talking to pupils about working life, career aspirations, hobbies and other topics of interest to the students.

Awards achieved include:

Region	Awards won in 2007
UK & Ireland	• Software satisfaction award – *SageCRM* • Information age award – *Sage 1000* • European contact centre award • Real Finance FD excellence award – software provider of the year
Mainland Europe	• Customer service Golden Laurel Award • Best HR software at HRM GigaCon • Best brand integration • eBay ecommerce award • SME engagement award • Bäurer "ERP system of the year"
North America	• CRM satisfaction award • Healthcare partner of the year • Value Added Reseller business company of the year
Rest of World	• Best customer service award • National payroll consultant of the year

Our marketplace

It is our aim to be a trusted adviser 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.

Customer satisfaction is our primary focus which we monitor through various methods, including:

- Customer advocacy and recommendation;
- Loyalty surveys;
- Customer support phone calls handling an average of 32,000 calls per day;
- Customer awareness events and discussion groups to enable customers and Sage employees to meet face to face;
- Surveying SMEs to understand their business issues.

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 business is demonstrated by our commitment to pay customers and suppliers on fair terms.

Our 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. Our businesses have fostered close relationships with many communities through local initiatives and numerous donations have been made to local, national and international charities and community foundations.

Environment and climate change

It is our policy to ensure, by encouraging environmental best practice in the business, that our operations have as little environmental impact as is consistent with our business needs. The effect on the environment of the Group's activities is monitored, where appropriate, with regard to the low overall environmental impact of our primary activities as a software publisher and service provider. We work to promote environmental care, to increase our understanding of environmental issues and to spread environmental best practice throughout our businesses.

Activities undertaken by our businesses to minimise environmental impact during 2007 include recycling programmes and use of recycled products where practical in all our regions and the continued development in the use of electronic documents such as marketing literature, operating manuals, payslips, etc to minimise print.

We make maximum use of internet and telephone based tools to manage international meetings in order to minimise air travel where possible and our businesses have introduced policies and incentives to reduce car use.

This year we have reviewed our approach to managing our environmental impact and during 2008 we will ask all of our businesses to measure both their carbon emissions and waste production with a view to making reductions.

Looking ahead

Corporate responsibility offers Sage the opportunity to not only act as a "good citizen" but also to support our 2010 goals, particularly:

- Be the most trusted brand in our markets;
- Be the most admired employer within our markets.

To do this we have elected to take a simple, pragmatic approach which will enable us to:

- Focus on areas most meaningful to Sage;
- Measure our progress;
- Build in flexibility for our businesses.

2

Softline Pastel

Focus:	Working with schools to increase IT literacy in young people
Location:	South Africa

3

Sage Day 2007

Focus:	Creating a public library in Paraguay
Location:	Spain

Inherent in our guiding principles is Sage's commitment to acting as a responsible corporate citizen, being aware of our impact as a business and seeking to enhance the positive and minimise the negative.

It is possible to undertake a raft of initiatives and actions under the remit of corporate responsibility. In 2008, Sage will focus on the key areas where we believe we can make a difference, in a way that is meaningful to our business strategy and our people.

Although the standards established by local legislation will apply as a minimum, we aim to achieve best practice in the local context of every country in which we operate, and share across the Group so that we implement continuous improvement.

It is our policy to set out high level expectations in three key areas of corporate responsibility, and for our businesses to select the aspects of these in which they will invest their resources. The fourth area of community and charity activity will be entirely locally driven and no Group level policy requirements will be set.

The three areas of focus for 2008 are:

People
Talent, integrity, employee engagement
Targets for improvement will be set locally and approved at Group level.

Environment
Carbon footprint, waste reduction
All our businesses will be required to measure and report carbon emissions and waste volumes and to target one area for measurable improvement.

Industry
Enhance position as a business that supports the SME
Our businesses will take a pro-active stance to develop an approach that will be most meaningful in their local markets and which will support the Sage Brand.

We will report on progress in these areas next year.

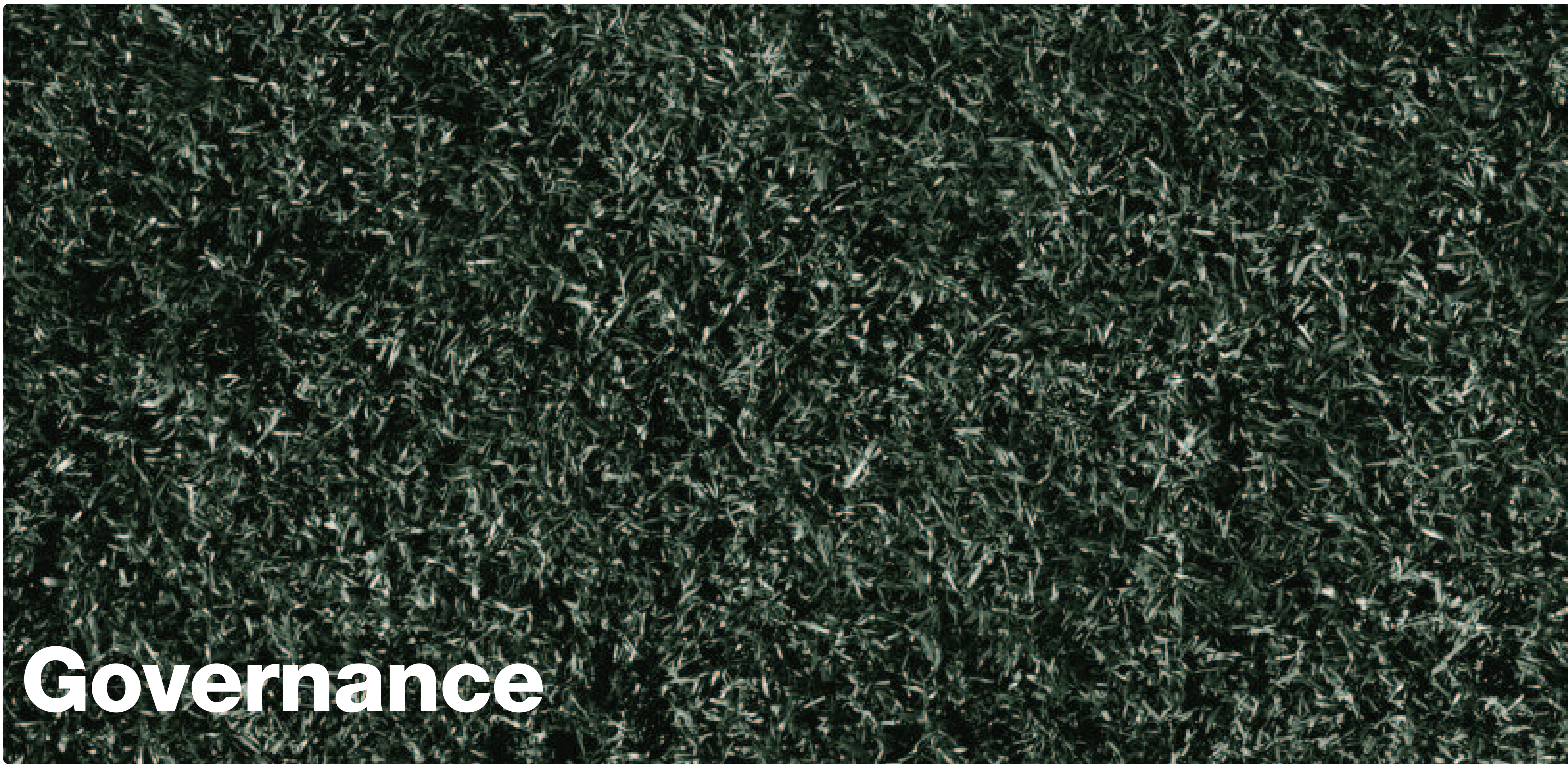
2 During 2007 Softline Pastel supplied 5,000 secondary schools throughout South Africa with free educational accounting software and educator training.

The Pastel Certified School Programme is designed to enhance and encourage the teaching of accounting to young people, equipping them with vital skills for adult life and helping them to find jobs when they leave school.

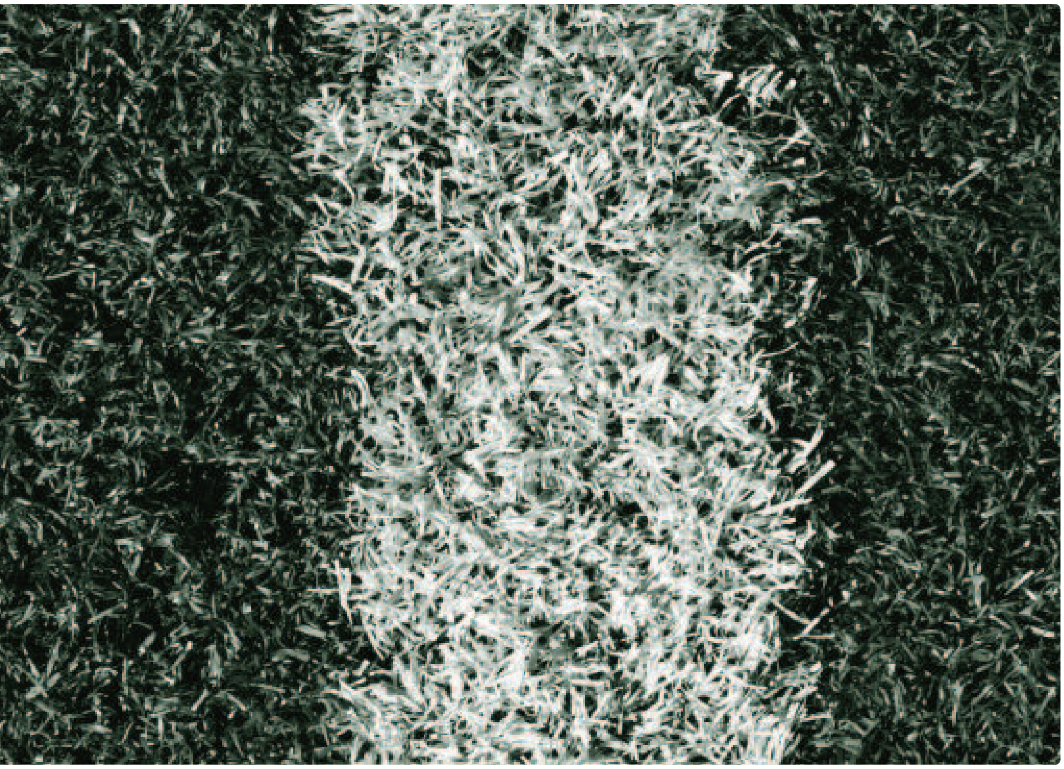
In South Africa there is a skills shortage in IT and this is exacerbated by challenges such as lack of funding in schools to buy equipment and a lack of IT education in the curriculum. In industry, there is a lack of qualified accountants and book-keepers with the skills to aid small and growing businesses with the necessary support to grow their businesses. So this becomes an economic as well as an educational issue.

The aim of the Softline Pastel project is to help enlarge the talent pool by equipping youngsters with computing and accounting skills relevant in modern industry and thus help build the South African economy in a very practical way.

3 For Sage Day 2007 employees in Spain got behind a cause to create a public library in Paraguay to provide children and adults with access to books for education and self development. Together they donated over 700 books to help create the new library.



Governance



Governance | Board of Directors and advisers

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1 Tony Hobson, 60
Chairman, 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 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, becoming acting Chairman in April 2007 and taking up the role permanently in May 2007.

2 Paul Walker, 50
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, 43
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. In May 2007, Paul was appointed to the Board of Hays plc as a non-executive director.

4 Paul Stobart, 50
CEO, UK & 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 & 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, 56
CEO, 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 to run its French business and was appointed to the Board in January 2000. As well as Mainland Europe, Guy is also responsible for our operations in Asia.

6 David Clayton, 50
Group Strategy and Mergers and Acquisitions 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 as a non-executive director before taking up his current executive role on 1 October 2007.

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7 Tamara Ingram, 47
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 Executive Vice President, Executive Managing Director of Grey Global, Chairman of Visit London and sits on 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 Chairman and Chief Executive Officer of Saatchi and Saatchi UK.

8 Tim Ingram, 60
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 of ANZ Bank (Europe) Ltd and was appointed to the Group Board in March 2002, becoming Senior Independent Director on 25 July 2007.

9 Ruth Markland, 54
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 in September 2006.

10 Ian Mason, 45
Independent non-executive director
Ian joined the Board on 1 November 2007. After working with Mckinsey & Co. and Boston Consulting Group, he joined Electrocomponents plc in 1995 as Director of Business Development becoming Group Chief Executive in July 2001. He holds an MBA from INSEAD.

11 Mark Rolfe, 49
Independent non-executive director
After qualifying as a chartered accountant with Coopers and Lybrand, Mark joined Gallaher Group plc in 1986, where he was Finance Director for seven years retiring in 2007. He is also a non-executive director of Hornby plc and joined the Board on 1 December 2007.

Advisers

Financial Advisers
Deutsche Bank
1 Great Winchester Street, London EC2N 2EQ

Corporate Brokers
Deutsche Bank
1 Great Winchester Street, London EC2N 2EQ

Regional Brokers
Brewin Dolphin Securities Limited
Commercial Union House
39 Pilgrim Street, Newcastle upon Tyne NE1 6RQ

Principal Bankers
Lloyds TSB Bank plc
Corporate Banking, 1st Floor
31/32 Park Row, Leeds LS1 5JT

Independent Chartered Accountants and Registered Auditors
PricewaterhouseCoopers LLP
89 Sandyford Road, Newcastle upon Tyne NE1 8HW

Registrars
Equiniti Limited
The Causeway, Worthing, West Sussex BN99 6DA

Solicitors
Allen & Overy LLP
One Bishops Square, London E1 6AO

Contact details

Registered Office
North Park, Newcastle upon Tyne NE13 9AA

The Sage Group plc
Registered number: 2231246
www.sage.com

Directors' report

For the year ended 30 September 2007

The directors present their report and the audited financial statements for the year ended 30 September 2007.

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 before taxation of £223.3m on revenue of £1,157.6m.

The Business review including key performance indicators can be found on pages 6 to 41 and is incorporated in this Directors' report by reference.

Disclaimer

The purpose of this Annual Report is to provide information to the members of the Company. This Annual Report has been prepared for, and only for, the members of the Company, as a body, and no other persons. The Company, its directors and employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. The Annual Report 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 results for the year, dividends paid and proposed and the amount transferred to reserves are set out on page 70. The Board proposes a final dividend of 5.73p per share (2006: 2.51p per share) taking the proposed full year dividend to 7.00p per share (2006: 3.59p per share).

Research and development

During the year, the Group invested £111.4m (2006: £94.8m) in research and development. This has resulted in the release of a number of new and updated products and features as referred to in the Business review on pages 6 to 41.

Charitable contributions and political donations

During the year, within the UK, charitable contributions totalling £135,000 were made, which included £77,000 to The Tyne and Wear Community Foundation, £17,000 to The Community Foundation for Greater Manchester, £17,000 to The Berkshire Community Foundation, and a total of £24,000 smaller contributions to numerous charities. The rest of the Group made charitable contributions totalling £85,000. 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 56 to 67. 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 of the Company and the former directors of the Company who held office during the year ended 30 September 2007, 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 38 and 39.

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 (2006: 40 days).

Substantial shareholdings

At 18 January 2008, the Company had been notified, in accordance with sections 792 to 820 of the Companies Act 2006, of the following interests in the ordinary share capital of the Company:

Name	Direct shares	%	Indirect shares	%	Total shares	%
Invesco plc	–	–	131,986,001	10.12	131,986,001	10.12
Baillie Gifford & Co	–	–	124,221,242	9.52	124,221,242	9.52
Aviva plc	77,707,985	5.96	32,171,744	2.47	109,879,729	8.43
Legal & General Investment Management Ltd	52,530,537	4.02	–	–	52,530,537	4.02

Future developments
The Group's future developments are described in the Business review on pages 6 to 41.

Additional information for shareholders
Following the implementation of the EU Takeover Directive into UK law, the following description provides the required information for shareholders where not already provided elsewhere in this report. This summary is based on the Company's current articles of association (the "Current Articles"), but please note that it is proposed that the Company will adopt new articles of association (the "New Articles") with effect from the conclusion of the Annual General Meeting on Thursday 28 February 2008, brief details of which are set out on page 50.

Share capital
The Company has a single class of share capital which is divided into ordinary shares of 1p each.

Rights and obligations attaching to shares
Voting In a general meeting of the Company, subject to the provisions of the Current Articles and to any special rights or restrictions as to voting attached to any class of shares in the Company (of which there are none):

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

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

Deadlines for voting rights Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the Annual General Meeting to be held on 28 February 2008 are set out in the Notice of meeting, as set out on pages 122 and 123.

Dividends and distributions Subject to the provisions of the Companies Act 1985 and the Companies Act 2006 (the "Companies Acts"), the Company may, by ordinary resolution, declare a dividend to be paid to the members, but no dividend shall exceed the amount recommended by the Board. The Board may pay interim dividends, and also any fixed rate dividend, whenever the financial position of the Company, in the opinion of the Board, justifies its payment. All dividends shall be apportioned and paid pro rata according to the amounts paid up on the shares.

Liquidation Under the Current Articles, if the Company is in liquidation, the liquidator may, with the authority of an extraordinary resolution of the Company and any other authority required by the Statutes (as defined in the Current Articles):

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

Transfer of shares
Subject to the Current Articles, any member may transfer all or any of his or her certificated shares by an instrument of transfer in any usual form or in any other form which the Board may approve. The Board may, in its absolute discretion and without giving any reason, decline to register any instrument of transfer of a certificated share which is not a fully paid share or on which the Company has a lien. The Board may also decline to register a transfer of a certificated share unless the instrument of transfer is: (i) left at the office, or at such other place as the Board may decide, for registration; and (ii) accompanied by the certificate for the shares to be transferred and such other evidence (if any) as the Board may reasonably require to prove the title of the intending transferor or his or her right to transfer the shares.

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

Repurchase of Shares
The Company obtained shareholder authority at the last Annual General Meeting (held on 6 March 2007) to buy back up to 129,428,000 ordinary shares, which remains outstanding until the conclusion of the next Annual General Meeting on 28 February 2008. The minimum price which must be paid for such shares is 1p and the maximum price payable is the higher of 5 per cent. 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 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).

Amendment of the Company's articles of association
Any amendments to the Company's articles of association may be made in accordance with the provisions of the Companies Act 1985 by way of special resolution.

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

At every Annual General Meeting of the Company, any director in office who (a) has been appointed by the Board since the previous Annual General Meeting or (b) at the start of business on the date which is 30 clear days prior to the date of the notice convening the Annual General Meeting had held office for more than 30 months since he or she was elected or last re-elected shall in either case retire from office (but shall be eligible for election or re-election by the shareholders).The Company may by extraordinary resolution (or by ordinary resolution of which special notice has been given) remove and the Board by unanimous decision may remove any director before the expiration of his term of office. The office of director shall be vacated if: (i) he or she resigns (ii) he or she is or may be suffering from a mental disorder; (iii) he or she is absent without permission of the Board from meetings of the Board for six consecutive months and the Board resolves that his or her office is vacated; (iv) he or she becomes bankrupt or compounds with his or her creditors generally; (v) he or she is prohibited by law from being a director; or (vi) he or she is removed from office pursuant to the Current Articles.

Governance | Directors' report

Powers of the directors
The business of the Company will be managed by the Board who may exercise all the powers of the Company, subject to the provisions of the Company's memorandum of association, the Current Articles, the Companies Acts and any ordinary resolution of the Company.

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

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

- Under a £200,000,000 bilateral credit facility agreement dated 18 January 2006 between, amongst others, the Company and Lloyds TSB Bank Plc (as facility agent), on a change of control, if the majority lenders so require and after having consulted with the Company in good faith for not less than 30 days following the change of control, the facility agent shall, by not less than 10 business days' notice to the Company, cancel the facility and declare all outstanding loans, together with accrued interest, and all other amounts accrued under the finance documents immediately due and payable; and
- Under a £650,000,000 multicurrency revolving credit facility agreement dated 4 August 2006 between, amongst others, the Company and Lloyds TSB Bank Plc (as facility agent), on a change of control, if the majority lenders so require and after having consulted with the Company in good faith for not less than 20 days following the change of control, the facility agent shall, by not less than 10 business days' notice to the Company, cancel the facility and declare all outstanding loans, together with the accrued interest, and all other amounts accrued under the finance documents immediately due and payable.

Under the terms of both credit facility agreements, a "change of control" occurs if any person or group of persons acting in concert gains control of the Company.

Annual General Meeting
Notice of the twentieth Annual General Meeting of The Sage Group plc to be held on Thursday 28 February 2008 is set out on pages 122 and 123. 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 26 February 2008. 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 Equiniti (ID 7RA01).

The Resolutions to be put at the Annual General Meeting are in the Notice of Annual General Meeting set out on pages 122 and 123.

Resolution 1 is to receive and consider the audited accounts for the year ended 30 September 2007 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 5.73p 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 7 March 2008 to holders of ordinary shares registered at the close of business on 8 February 2008, will bring the total dividend for the year to 7.00p per share. Last year the total dividend was 3.59p per share.

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

In accordance with the Company's articles of association, Mr A J Hobson, Ms T Ingram, Mr I Mason, Mr D H Clayton and Mr M E Rolfe will be retiring at the Annual General Meeting and, being eligible, will offer themselves for re-election.

Mr A J Hobson has a contract for services with the Company for a fixed period of three years from 24 May 2007, terminable within that period by twelve months' notice from the Company or from him.

Ms T Ingram has a contract for services with the Company for a fixed term of three years from 21 December 2007, terminable within that period by six months' notice from the Company and one month's notice from her.

Mr I Mason has a contract for services with the Company for a fixed term of three years from 1 November 2007, terminable within that period by six months' notice from the Company and one month's notice from him.

Mr D H Clayton has a service contract with the Company, terminable on twelve months' notice from the Company or from him.

Mr M E Rolfe has a contract for services with the Company for a fixed term of three years from 1 December 2007, terminable within that period by six months' notice from the Company and one month's notice from him.

Resolution 3 relates to the re-election of Mr A J Hobson. Mr Hobson joined the Board in June 2004 becoming Chairman in May 2007. He is also Chairman of Northern Foods plc and a non-executive director of HBOS plc (where he chairs the Audit Committee) and Glas Cymru. Following his appointment as a non-executive director, Mr Hobson chaired the Audit Committee of the Company although he will step down from this role in April 2008. Mr Hobson became Chairman of the Board after the resignation of Sir Julian Horn-Smith in April 2007. Sir Julian had joined the Board in March 2006 becoming Chairman in August 2006. Given the executive search undertaken by external search consultants at the time of the appointment of Sir Julian it was not felt appropriate to appoint such consultants prior to Mr Hobson's appointment.

Resolution 4 relates to the re-election of Ms T Ingram. Ms Ingram joined the Board in December 2004 as a non-executive director. She is responsible for WPP plc's Procter & Gamble business worldwide. She is also Executive Vice President, Executive Managing Director of Grey Global, Chairman of Visit London and sits on the Development Board for the Royal Court Theatre. Prior to Grey, Ms Ingram was President of the Henley Centre and marketing insights company Added Value. Previously, Ms Ingram worked at Saatchi and Saatchi for 15 years, rising to the role of Chairman and Chief Executive Officer of Saatchi and Saatchi UK.

Resolution 5 relates to the election of Mr I Mason. Mr Mason joined the Board on 1 November 2007 as a non-executive director following the appointment of an external search consultancy to identify potential non-executive directors. He has extensive knowledge of technology industries as Chief Executive of Electrocomponents plc, the listed distributor of components to development and maintenance engineers in all types of business around the world.

Resolution 6 relates to the election of Mr D H Clayton as a director of the Company. After a number of senior executive roles Mr Clayton 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 of Sage in June 2004 as a non-executive director, becoming senior independent non-executive director in September 2006. In July 2007 Mr Clayton stepped down from his non-executive role, rejoining the Board in October 2007 in the executive role of Group Strategy and Mergers and Acquisitions Director.

Resolution 7 relates to the election of Mr M E Rolfe. After a review undertaken by external search consultants, Mr Rolfe joined the Board as a non-executive director on 1 December 2007. A fellow of the Institute of Chartered Accountants, Mr Rolfe has recent and relevant financial experience having been finance director of Gallaher Group plc from 2000 to 2007 and brings to the Board significant financial experience in a large multi-national and expanding business.

Further biographical details of Messrs Hobson, Mason, Clayton and Rolfe and Ms Ingram are set out on pages 44 and 45.

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-election of Ms Ingram and of Mr Hobson and the election of Messrs Mason, Clayton and Rolfe. All the proposed appointees have been subject to a formal evaluation procedure in the last twelve months other than Mr Mason and Mr Rolfe who joined the Board in November 2007 and December 2007 respectively. Following that procedure the Chairman confirms the continuing commitment and contribution of Ms Ingram and Mr Clayton to their roles and recommends their re-election together with that of Messrs Mason and Rolfe. Mr T C W Ingram, the Senior Independent Director, also confirms the continuing commitment and contribution to his role of Mr A J Hobson.

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 56 to 67. 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 £4,347,333 (representing 33.3% of the nominal value of the Company's issued share capital on 18 January 2008, 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 £652,100 (representing 4.9% of the issued ordinary share capital of the Company on 18 January 2008, 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 130,416,015 shares which is equivalent to approximately 10% of the Company's issued share capital as at 30 September 2007;
- The authority will remain in force until the conclusion of the next Annual General Meeting of the Company but will terminate on 31 March 2009 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 2007 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 2008 (being the latest practicable date prior to the printing of this report) was 54,109,820. The proportion of issued share capital that they represented at that time was 4.1% 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 4.6%.

Resolution 13 will be proposed to adopt new articles of association (the "New Articles") with effect from the conclusion of the Annual General Meeting on 28 February 2008. The Companies Act 2006 received Royal Assent in November 2006. The Companies Act 2006 represents a major reform of UK companies' legislation and is being brought into force on a staged basis between January 2007 and October 2009. It is proposed that, at this year's Annual General Meeting, the Company updates its current articles of association (the "Current Articles") primarily to take account of changes in English company law brought about by certain provisions of the Companies Act 2006 in force on 1 October 2007.

The principal changes introduced in the New Articles are summarised below. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the Companies Act 2006 have not been noted below.

Articles which duplicate statutory provisions
Provisions in the Current Articles which replicate provisions contained in the Companies Act 2006 are in the main to be removed in the New Articles. This is in line with the approach advocated by the Government that statutory provisions should not be duplicated in a company's constitution. Certain examples of such provisions include provisions as to the form of resolutions and provisions regarding the period of notice required to convene general meetings. The main changes made to reflect this approach are detailed below.

- **Form of resolution** The Current Articles contain a provision that, where for any purpose an ordinary resolution is required, a special or extraordinary resolution is also effective and that, where an extraordinary resolution is required, a special resolution is also effective. This provision is being removed as the concept of extraordinary resolutions has not been retained under the Companies Act 2006.

- **Convening and notice of general meetings** It is proposed that the provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings be removed in the New Articles because the relevant matters are provided for in the Companies Act 2006. In particular a general meeting (other than an annual general meeting) to consider a special resolution can be convened on 14 days notice whereas previously 21 days notice was required. The New Articles also reflect the fact that the chairman of a general meeting no longer has a casting vote.

- **Quorum requirements** The Companies Act 2006 provides in general terms that the quorum for a general meeting be calculated by reference to the numbers of "qualifying persons" who are present at the meeting, which includes an individual who is a member of the Company, a person authorised to act as the representative of a corporation, and a person appointed as proxy of a member. As before, it is proposed that the quorum for a general meeting will be two but, in line with the Companies Act 2006, the New Articles make clear that there will be no double counting for qualifying persons who are representatives of the same corporation or proxies of the same member.

- **Votes of members** Under the Companies Act 2006 proxies are entitled to vote on a show of hands whereas under the Current Articles proxies are only entitled to vote on a poll. A proxy also has a statutory right under the Companies Act 2006 to speak at any general meeting. The time limits for the appointment or termination of a proxy appointment have been altered by the Companies Act 2006 so that the articles cannot provide that they should be received more than 48 hours before the meeting or in the case of a poll taken more than 48 hours after the meeting, more than 24 hours before the time for the taking of a poll, with weekends and bank holidays being permitted to be excluded for this purpose. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. Under the Companies Act 2006, multiple corporate representatives may be appointed. The New Articles reflect these new provisions.

- **Directors' indemnities** The Companies Act 2006 has in some areas widened the scope of the powers of a company to indemnify directors. In particular, a company can now indemnify a director of a company that is a trustee of an occupational pension scheme against liability incurred in connection with the company's activities as trustee of that scheme. This is reflected in the New Articles. The opportunity is also being taken to clarify that, subject to the Companies Act 2006, the Company may grant indemnities to directors of associated companies.

- **Liens on shares, calls on shares and forfeiture of shares** The Current Articles contain provisions dealing with liens on shares, calls on shares and the forfeiture of shares. These provisions have been removed in the New Articles as the Company does not have any partly paid shares and the directors do not envisage using their powers under such provisions.

Over the coming year, the Company (in conjunction with its legal advisers) intends to conduct a further review of the Articles, incorporating any further changes which are necessary or desirable following the full implementation of the Companies Act 2006. Any proposed amendments will be put to shareholders at future Annual General Meetings. Copies of the Current Articles and New Articles (and comparison documents showing all the proposed changes to the Current Articles) are available for inspection during normal business hours at the registered office of the Company and at the offices of its solicitors, Allen & Overy LLP (One Bishops Square, London E1 6AO) until 28 February 2008 or upon request from the Company Secretary. Copies will also be available at the Annual General Meeting from 9.00am until its conclusion.

By Order of the Board

M J Robinson
Secretary
18 January 2008

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 (2003) 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 C.3.1 relating to the composition of the Audit Committee of the Board.

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 resignation of Sir Julian Horn-Smith and the appointment of Mr A J Hobson to the role of acting Chairman of the Board on 27 April 2007, to the appointment to the Board of Mr M E Rolfe on 1 December 2007 this ratio was not maintained. There were a number of changes to the Board during the year which made compliance difficult to achieve for a short period. However, the Board took steps to mitigate this non-compliance by immediately appointing executive search consultants to identify new non-executive candidates. With the appointment of Mr Rolfe on 1 December 2007 the Company is again fully compliant with the rule.

Rule C.3.1 requires the Audit Committee of the Board to comprise all independent non-executive directors. From his appointment on 27 April 2007 to the role of acting Chairman of the Board, Mr A J Hobson, who was Chairman of the Audit Committee at that time, ceased to be independent for the purposes of that rule and the Company therefore ceased to comply. During this period the Company considered it appropriate for Mr Hobson to continue to chair the Committee whilst the search for a successor was undertaken. Mr M E Rolfe was appointed to the Board on 1 December 2007 and has joined its Audit Committee. It is the intention of the Board that Mr Rolfe, whose biography appears on page 45, will take over the role of chair of the Audit Committee on 1 April 2008 and that Mr Hobson will retire from the Committee at that time. The Company will at that time comply again with Rule C.3.1.

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 44 and 45. 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 55. 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 with a further three meetings of the Board called at short notice and held by telephone to consider acquisition opportunities and other Board issues. All directors in office at the time attended all of these Board meetings other than Ms T Ingram who was unable to attend meetings held on short notice on two occasions and each of Messrs Horn-Smith, Stobart, Hobson, Walker, Verni and Clayton and Ms Markland who were unable to attend meetings called on short notice on one occasion.

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. Mr I Mason and Mr M E Rolfe, who were appointed to the Board on 1 November 2007 and 1 December 2007 respectively, are currently undertaking such an induction 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 T C W Ingram 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 Chairman of the Board, Mr A J Hobson, and the other independent non-executive directors, Ms T Ingram, Ms R Markland, Mr I Mason (who joined the Committee on 1 November 2007) and Mr M E Rolfe (who joined the Committee on 1 December 2007). Mr D H Clayton ceased to be a member of the Committee on his ceasing to be a non-executive director on 25 July 2007. Under its terms of reference, the Committee meets at least twice a year. In the year under review, six meetings of the Committee were held on full notice with a further three held at short notice. All members in office at the time attended all the meetings other than Ms Ingram who was unable to attend one meeting, held on full notice, and each of Ms Ingram, Mr Hobson and Mr Clayton who were unable to attend meetings held on short notice on one occasion. The Chief Executive may, by invitation of the Committee, attend meetings (except when his own performance and remuneration are under review) but he is not 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 56 to 67, together with further details of the Remuneration Committee.

Audit Committee
The Audit Committee is chaired by Mr A J Hobson although it is the intention that he will retire from the Committee in April 2008 when Mr M E Rolfe will become its chair. Its other members are independent non-executive directors, Mr T C W Ingram, Ms R Markland, Mr I Mason (who joined the Committee on 1 November 2007) and Mr M E Rolfe (who joined the Committee on 1 December 2007). Mr Hobson and Mr Rolfe are both Fellows of the Institute of Chartered Accountants in England and Wales and are 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 pages 44 and 45. 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.

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 and independence;
- 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 with all members present on each occasion 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.

- **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 monitors 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. 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 82.

In the year to 30 September 2007 the audit fee was £1,524,000. 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 £1,519,000 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 re-appointed.

Nomination Committee

The Nomination Committee is chaired by the Chairman of the Board, Mr A J Hobson and consists of the Chairman and five independent non-executive directors, Mr T C W Ingram, Ms T Ingram, Ms R Markland, Mr I Mason (who joined the Committee on 1 November 2007) and Mr M E Rolfe (who joined the Committee on 1 December 2007). 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 once a year. Seven 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 other than on one occasion where Ms Ingram, Mr Hobson and Mr Clayton (who was then a member) were unable to attend.

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 welcome and Business review on pages 2 to 41 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 28 February 2008 can be found in the Notice of meeting on pages 122 and 123.

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, the Secretary and other members of the Executive Committee.

The Committee reviews all business activities and strategic plans to identify the nature and extent of the significant risks facing the Group including those risks arising from social, environmental and ethical issues and undertakes risk review audits. In identifying significant risks to which the Group is exposed, it reviews the results of any relevant internal audit reviews and agrees mitigating actions, when possible. 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 Committee 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 51 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

The directors are responsible for preparing the Annual report, the Remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. In preparing the Group financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board ("IASB"). The parent Company financial statements have been prepared in accordance with UK GAAP. The financial statements are required by law to 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 that the Group financial statements comply with IFRSs as adopted by the European Union and IFRSs issued by IASB;
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

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 and the directors' remuneration report comply with the Companies Act 1985 and, as regards the Group financial statements, article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 section 234ZA of the Companies Act 1985.

By Order of the Board

M J Robinson
Secretary
18 January 2008

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 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 of non-executive directors considered by the Board to be independent and the Chairman of the Board (who was independent on appointment to the Board). It 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 (who does not participate in discussions relating to his own remuneration), defining the remuneration packages of executive directors and the Chairman together with any compensation payments to them 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 A J Hobson, Ms T Ingram, Ms R Markland, Mr I Mason and Mr M E Rolfe.

All the members of the Committee have been members of the Committee throughout the year other than Mr I Mason who joined the Committee on 1 November 2007 and Mr M E Rolfe who joined the Committee on 1 December 2007. Mr D H Clayton retired from the Committee on retiring as a non-executive director on 25 July 2007.

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 Deloitte, New Bridge Street Consultants LLP ("NBSC") and Watson Wyatt Limited, all independent firms of remuneration consultants appointed after consultation with the Board. The terms of engagement of Deloitte, NBSC and Watson Wyatt are available on request from the Secretary. Deloitte, 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. The only other service provided by Deloitte is advice to the Group's North American business on a software implementation programme. 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 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 directly 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 September), benefits (including car allowance and non-contributory health insurance), an annual bonus (with a deferred element in certain cases), 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 2007 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 package 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. In the year ending 30 September 2008 salaries of executive directors have been increased by 5% from those disclosed in this report.

2.3 Policy on fees of non-executive directors

The fees of the non-executive directors are reviewed every two years. The current fees are in place for the two financial years ending on 30 September 2008. The basic fee for directors is £40,000. 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.

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 incentive 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 has recently made certain revisions to its policy on bonuses from that previously reported, after 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. In making this review, the Committee also took advice from Deloitte. The changes arising from this review in relation to bonus have been to introduce an element of individual strategic objectives into the calculation of bonus, to remove the cash multiplier element to bonus and to amend the requirement to defer bonus into shares so that it applies only to those directors who have not yet met the shareholding policy of the Board.

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. Bonus payable to executive directors for on-target performance is 75% of salary with maximum bonus potential of 125% of salary. In relation to executive directors with no specific divisional responsibility, budgeted Group EPS is the basis for determining 75% of the calculation of bonus whilst the remaining 25% is based on stretching individual strategic objectives. In the case of regional CEOs, 50% of bonus is based on the achievement of the budget for EBITA of the relevant operating division, 25% on the budgeted Group EPS with the remaining 25% based on the achievement of stretching individual strategic objectives approved by the Committee. For those targets that are financial in nature, a bonus of 11% of the maximum available under the relevant element is payable if 95% of budget is achieved, 53% of the maximum available if budget is achieved and full payout is made if 110% of budget is achieved. Between these points bonus is payable on a straight-line basis. The maximum payable in respect of achievement of individual strategic objectives is 18.75% of salary (within the overall bonus limit of 125% of salary). After the review, the Committee determined that the cash multiplier previously applied to the calculation of bonus was no longer an appropriate incentive and, therefore, this is no longer applied.

The individual strategic objectives are approved by the Remuneration Committee and are tailored to the individual's area of responsibility. At the end of each year the Remuneration Committee will assess the degree to which these have been met.

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 if the director has not yet achieved the target of a holding of shares equivalent of 150% of their annual salary referred to below. If this shareholding target has been achieved the bonus will be paid entirely in cash. These shares awarded in respect of bonus, (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.

Wherever used in this Remuneration report, EPS refers to earnings per share before amortisation or impairment of intangible assets, exceptional items, amounts written off investments and is on a foreign currency neutral basis. 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. The neutralised foreign currency basis has been selected as the Board considers this to be consistent with the presentation and assessment of results by shareholders.

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 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.

Having considered the EPS growth target in the course of the year, the Remuneration Committee believes that it 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 performance of the Group.

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 2008, it is proposed that grants of this level are made to the executive directors (previously 100%). The Remuneration Committee considers that this grant level is market competitive, taking account of the challenging performance criteria and the market in which the Company is operating and recognising the increased competition for senior executives.

The performance shares are subject only to a performance condition measuring the Group's total shareholder return ("TSR") against a comparator group of international software and computer services companies. TSR has been chosen as a performance condition to apply to the awards 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 2008 will comprise the following companies:

• Adobe Systems	• LogicaCMG
• ARM Holdings	• Micro Focus International
• Autonomy	• Microsoft
• Blackbaud	• Misys
• Cap Gemini	• MYOB
• Cegid	• Oracle
• Dassault Systemes	• Salesforce.com
• Exact	• SAP
• Intuit	• Software AG
• Lawson Software	

This comparator group is similar to those previously used in connection with awards, with the deletion of those companies which have ceased to be listed and their replacement with suitable alternatives.

The Committee will keep under review the comparator group to ensure that it remains appropriate.

Recognising the higher awards to be made in 2008, the Committee has reduced the proportion of awards vesting for median TSR performance to 25% of awards (previously 30%), whilst all those 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.

Grant policy under long-term incentive plans

The Committee believes that granting both options and performance shares provides a well balanced long-term incentive package. As noted above, for 2008 awards under the Plan will be 150% of salary, with option awards remaining at 100% of salary. Both awards are subject to challenging performance targets. The Remuneration Committee believes that this is a competitive grant policy for a company of Sage's size and complexity and, taking account of other elements of the package, provides a broadly market median total remuneration. 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, from 1 October 2007, the standard contribution rate is 25% of base salary (previously 15%) subject, where appropriate, to limits set by HMRC.
The increase to the pension contribution followed the review undertaken with the assistance of Deloitte which showed that the previous contribution rate of 15% was significantly less than that provided by comparable companies, which negatively impacted the competitiveness of the total remuneration package. Despite the higher pension contributions, the value of the total remuneration packages of the executive directors remain no higher than market levels. 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 but unexercised 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 six to 12 months (in the case of the Chairman of the Board). 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. Mr P S Harrison is a non-executive director of Hays plc having been appointed in May 2007. 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 £67,500 in the case of Mr P A Walker, £31,500 in the case of Mr P L Stobart and £16,631 in the case of Mr P S Harrison.

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. In the case of the Chairman prior approval of the Senior Independent Director is required on behalf of the Board.

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.

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. Sir Julian Horn-Smith ceased to be a member of the Board and was paid an amount equal to 12 months fees in lieu of notice of 12 months under the letter of appointment. 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:

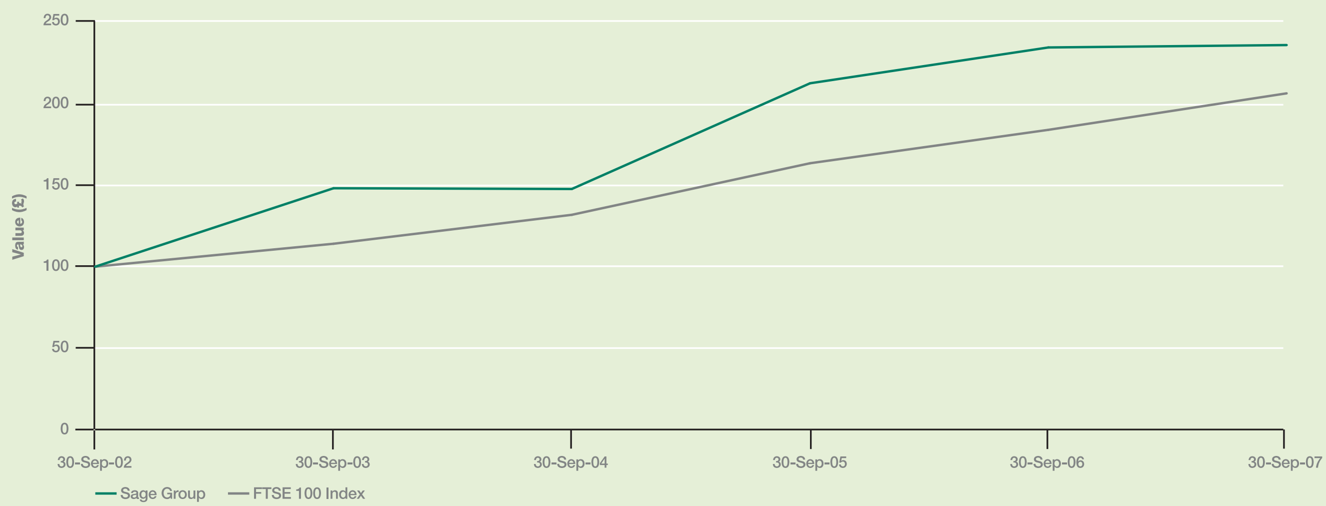
Director	Date of contract	Unexpired term of contract on 30 September 2007	Notice period under contract
Executive directors			
G S Berruyer	30 September 2004	12 months	12 months from the Company and/or 6 months from individual
P S Harrison	1 April 2000	Age 60 or 12 months	12 months from the Company and/or 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			
A J Hobson	24 May 2007	2 years 8 months	12 months from the Company and/or individual
T Ingram	21 December 2004	3 months	6 months from the Company and/or 1 month from individual
T C W Ingram	24 March 2006	6 months	6 months from the Company and/or 1 month from individual
R Markland	15 August 2006	2 years	6 months from the Company and/or 1 month from individual
The following directors ceased to be directors during the course of the financial year			
D H Clayton	6 September 2004	Nil (terminated by mutual agreement on 25 July 2007)	6 months from the Company and/or 1 month from individual
J M Horn-Smith	27 January 2006	Nil (terminated by mutual agreement on 26 April 2007)	12 months from the Company and/or individual

Notes:
- There are no other benefits in the contracts relevant to termination payment.
- D H Clayton ceased to be a non-executive director on 25 July 2007. He rejoined the Board as an executive director on 1 October 2007. His current service contract is subject to notice of 12 months from either the Company or from him.
- R Verni ceased to be a director on 11 October 2007.
- J M Horn-Smith ceased to be a director on 26 April 2007.

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



Source: Thomson Financial

This graph shows the value, by 30 September 2007 of £100 invested in The Sage Group plc on 30 September 2002 compared with the value of £100 invested in the FTSE 100 Index. The other points plotted are the values at intervening financial year-ends.

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.

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. The other elements of directors remuneration are referred to under the heading "General remuneration policy" above.

Director	Salary and fees '000	Bonus '000	Bonus deferred into shares[9] '000	Benefits in kind[7] '000	2007 Total '000	2006 Total '000	2007 Pension contributions[8] '000	2006 Pension contributions '000
Executive directors								
G S Berruyer	€595	€572	€42	€7	€1,216	€1,158	–	–
P S Harrison	£320	£314	£25	£17	£676	£653	£48	£45
P L Stobart	£402	£356	£18	£17	£793	£720	£60	£57
R Verni	$738	$195	–	–	$933	$1,437	$6	$6
P A Walker	£699	£685	£54	£21	£1,459	£1,409	£105	£98
Non-executive directors								
L C N Bury[1]	–	–	–	–	–	£26	–	–
D H Clayton[2]	£42	–	–	–	£42	£42	–	–
A J Hobson[3]	£127	–	–	–	£127	£48	–	–
J M Horn-Smith[4]	£454	–	–	–	£454	£59	–	–
T Ingram	£45	–	–	–	£45	£37	–	–
T C W Ingram	£59	–	–	–	£59	£46	–	–
M E W Jackson[5]	–	–	–	–	–	£139	–	£21
R Markland[6]	£52	–	–	–	£52	£2	–	–

Notes:

1 Retired 2 March 2006.
2 Retired 25 July 2007.
3 Appointed as Chairman 24 May 2007.
4 Appointed 3 March 2006 and ceased to be a member of the Board on 26 April 2007. Therefore, the figure above represents the fees paid to him whilst a director (£204,000) and the payment in lieu of notice due to him (£250,000).
5 Retired 1 August 2006.
6 Appointed 13 September 2006.
7 Benefits in kind include the provision of car allowance and insurance.
8 Retirement benefits were accruing to four directors (2006: five). All pension contributions accrued under money purchase schemes.
9 An element of bonus has been deferred by the Company as an award under the Sage Group Deferred Bonus Plan. Awards under that plan, which were made on 10 January 2008 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 award will lapse unless the Remuneration Committee recommends 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 2008.

- In the year under review significant achievements were made against strategic budgets which are reflected in the bonus paid. Group EPS increased by 13%.
- Apart from the payment in lieu of notice to J M Horn-Smith referred to in note 4 above 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 £5,001,000 (2006: £4,771,000).
- 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 £1,459,000 (2006: £4,688,000).
- In the table above exchange rates of $1.98/£1 and €1.48/£1 have been adopted.

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 ten year period. The limits and the Group's current position against those limits as at 18 January 2008 (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	5.9% used
10% of Group's share capital can be used for all share schemes	6.4% 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 as follows:

Director	Exercise price per share	Shares under option at 1 October 2006 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	**Shares under option at 30 September 2007 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
	270.00p	–	147,639	–	–	**147,639**	10 January 2010 – 10 January 2017
		1,457,452	**147,639**	**(473,880)**	**–**	**1,131,211**	
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
	270.00p	–	118,519	–	–	**118,519**	10 January 2010 – 10 January 2017
		720,708	**118,519**	**–**	**–**	**839,227**	
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
	270.00p	–	148,889	–	–	**148,889**	10 January 2010 – 10 January 2017
		1,458,668	**148,889**	**(610,000)**	**–**	**997,557**	
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
	270.00p	–	140,846	–	–	**140,846**	10 January 2010 – 10 January 2017
		1,171,037	**140,846**	**–**	**–**	**1,311,883**	

Executive share options (continued)

Director	Exercise price per share	Shares under option at 1 October 2006 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	Shares under option at 30 September 2007 number	Date exercisable
P A Walker	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
	270.00p	–	258,889	–	–	258,889	10 January 2010 – 10 January 2017
		1,755,190	258,889	–	–	2,014,079	
Total		6,563,055	814,782	(1,083,880)	–	6,293,957	

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 was as follows:
  – G S Berruyer – 4 January 2007 was 266.50p.
  – P L Stobart – 1 December 2006 was 260.50p.
- The market price of a share of the Company at 30 September 2007 was 249.25p and the lowest and highest market price during the year was 220.50p and 277.75p respectively.
- Total gains on the exercise of share options were £1,736,952 (2006: £3,307,183), including £1,736,952 (2006: £3,278,877) on executive share options.
- The table above does not show exercises of options after 30 September 2007 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 2006 number	Granted during the year number	Exercised during the year number	Lapsed during the year number	Shares under option at 30 September 2007 number	Date exercisable
P S Harrison	184.00p	5,081	–	–	–	5,081	1 August 2009 – 31 January 2010
P L Stobart	184.00p	5,081	–	–	–	5,081	1 August 2009 – 31 January 2010
Total		10,162	–	–	–	10,162	

Notes:
- These options are not subject to performance conditions since these do not apply to this type of all-employee share scheme.
- 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 five years. On 30 September 2006 13,195 units were held by Mr G S Berruyer at a price of €3.91 per share. On 30 September 2007 14,801.8 units were held at a price of €3.89 per share. Units are valued on a weekly basis.

5.3 Performance share plan (audited information)

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

Director	Awarded at 1 October 2006 number	Awarded during the year number	Vested during the year number	Lapsed during the year number	Awarded 30 September 2007 number	Vesting date
G S Berruyer	178,903	–	–	–	**178,903**	18 March 2008
	147,748	–	–	–	**147,748**	10 January 2009
	–	147,639	–	–	**147,639**	10 January 2010
	326,651	**147,639**	**–**	**–**	**474,290**	
P S Harrison	128,329	–	–	–	**128,329**	18 March 2008
	116,054	–	–	–	**116,054**	10 January 2009
	–	118,519	–	–	**118,519**	10 January 2010
	244,383	**118,519**	**–**	**–**	**362,902**	
P L Stobart	174,334	–	–	–	**174,334**	18 March 2008
	146,228	–	–	–	**146,228**	10 January 2009
	–	148,889	–	–	**148,889**	10 January 2010
	320,562	**148,889**	**–**	**–**	**469,451**	
R Verni	166,118	–	–	–	**166,118**	18 March 2008
	151,975	–	–	–	**151,975**	10 January 2009
	–	140,846	–	–	**140,846**	10 January 2010
	318,093	**140,846**	**–**	**–**	**458,939**	
P A Walker	302,663	–	–	–	**302,663**	18 March 2008
	253,771	–	–	–	**253,771**	10 January 2009
	–	258,889	–	–	**258,889**	10 January 2010
	556,434	**258,889**	**–**	**–**	**815,323**	
Total	**1,766,123**	**814,782**	**–**	**–**	**2,580,905**	

Notes:
- No variations were made in the terms of the awards in the year.
- The market price of a share on 10 January 2007, the date of the award, was 271.50p.
- 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.
- In respect of the awards vesting in 2008 and 2009 the comparator group for TSR comprised: Blackbaud, Business Objects, Cap Gemini, Cegid, Exact, Geac, Intuit, iSoft, Microsoft, Misys, MYOB, Northgate Information Solutions, Oracle, Salesforce.com, SAP and Systems Union. For those vesting in 2010 the group comprised: Blackbaud, Business Objects, Cap Gemini, Cegid, Exact, Intuit, iSoft, Lawson Software, LogicaCMG, Microsoft, Misys, MYOB, Northgate Information Solutions, Oracle, Salesforce.com and SAP.

5.4 Deferred shares (audited information)

The outstanding awards granted to directors of the Company under the Sage Group Deferred Bonus Plan are as follows.

Director	Shares at 30 September 2006 number	Shares awarded during the year number	**Shares at 30 September 2007 number**	Vesting date
G S Berruyer	11,736	–	**11,736**	10 January 2009
	–	10,815	**10,815**	10 January 2010
	11,736	**10,815**	**22,551**	
P S Harrison	8,418	–	**8,418**	10 January 2009
	–	10,187	**10,187**	10 January 2010
	8,418	**10,187**	**18,605**	
P L Stobart	3,524	–	**3,524**	10 January 2009
	–	3,878	**3,878**	10 January 2010
	3,524	**3,878**	**7,402**	
R Verni	17,693	–	**17,693**	10 January 2009
	–	10,715	**10,715**	10 January 2010
	17,693	**10,715**	**28,408**	
P A Walker	19,853	–	**19,853**	10 January 2009
	–	22,275	**22,275**	10 January 2010
	19,853	**22,275**	**42,128**	
Total	**61,224**	**57,870**	**119,094**	

Notes:
- Awards of shares 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.
- Awards are not subject to performance conditions.
- No variations were made in the terms of the awards in the year.
- The market price of a share on 10 January 2007, the date of the award, was 271.50p.

5.5 Interests in shares
The interests of each person who was a director of the Company as at 30 September 2007 (together with interests held by his or her connected persons) were:

Director	Ordinary shares at 30 September 2007 number	Ordinary shares at 30 September 2006 number
G S Berruyer	223,880	–
D H Clayton	31,000	25,000
P S Harrison	8,437	8,437
A J Hobson	24,126	20,000
T Ingram	10,438	–
T C W Ingram	26,714	23,114
R Markland	5,000	–
P L Stobart	23,477	23,477
R Verni	25,000	–
P A Walker	6,069,772	7,069,772
Total	6,447,844	7,169,800

Notes:
- The interests of D H Clayton are shares on his retirement as a director on 25 July 2007. He later rejoined the Board as an executive director on 1 October 2007.
- There have been no changes in the directors' holdings in the share capital of the Company between 30 September 2007 and 18 January 2008.

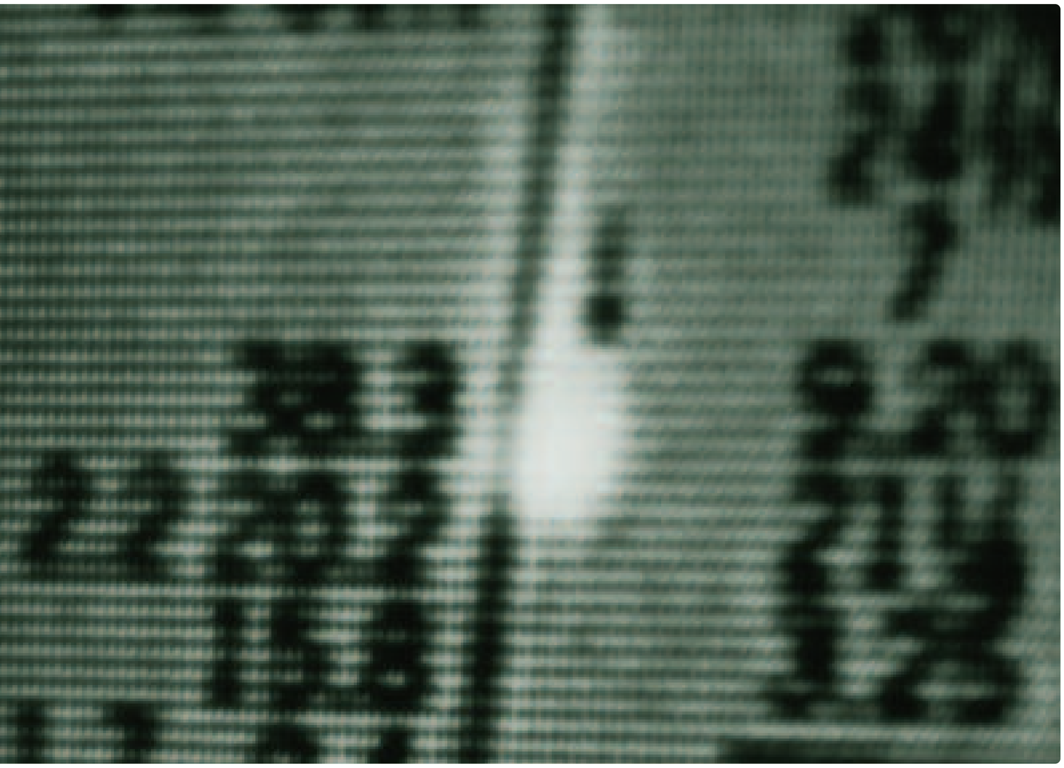
5.6 Significant awards to past directors
No significant awards were made to any person who was not a director at the time the award was made but who was previously a director.

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

T C W Ingram
Chairman of the Remuneration Committee

18 January 2008

Financial statements



Consolidated income statement

For the year ended 30 September 2007

	Note	2007 £m	2006 £m
Continuing operations			
Revenue	1	1,157.6	935.6
Cost of sales		(103.7)	(80.4)
Gross profit		1,053.9	855.2
Selling and administrative expenses		(798.7)	(619.4)
Operating profit	1,3	255.2	235.8
Finance income	2	3.6	3.5
Finance expenses	2	(35.5)	(18.1)
Net finance expenses	2	(31.9)	(14.6)
Profit before taxation		223.3	221.2
Taxation	4	(69.2)	(68.6)
Profit for the year	23	154.1	152.6
Attributable to:			
Equity shareholders	22,23	154.1	152.5
Minority interest	23,24	–	0.1
Profit for the year	23	154.1	152.6
EBITA*	1	283.2	249.3
Earnings per share (pence)			
– Basic	6	11.85p	11.81p
– Diluted	6	11.79p	11.73p

Consolidated statement of recognised income and expense

For the year ended 30 September 2007

	Note	2007 £m	2006 £m
Profit for the year	23	154.1	152.6
Net exchange adjustments offset in reserves	23	(51.6)	(30.8)
Equity movement of deferred tax	23	(3.3)	(1.2)
Actuarial loss on employment benefits	23	(1.2)	–
Net losses not recognised in income statement		(56.1)	(32.0)
Total recognised income for the year		98.0	120.6
Attributable to:			
Equity shareholders		98.0	120.5
Minority interest		–	0.1
Total recognised income for the year		98.0	120.6

* 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 2007

	Note	2007 £m	2006 £m
Non-current assets			
Goodwill	7	**1,572.1**	1,561.9
Other intangible assets	8	**195.5**	185.6
Property, plant and equipment	9	**130.5**	133.8
Deferred tax assets	17	**8.3**	26.3
		1,906.4	1,907.6
Current assets			
Inventories	10	**5.5**	5.6
Trade and other receivables	11	**230.3**	215.7
Cash and cash equivalents	12	**65.6**	82.0
		301.4	303.3
Total assets		**2,207.8**	2,210.9
Current liabilities			
Trade and other payables	13	**(210.2)**	(190.3)
Current tax liabilities	14	**(56.3)**	(63.5)
Financial liabilities			
– Borrowings	15	**(0.3)**	(1.0)
Deferred consideration		**(8.5)**	(21.5)
Deferred income		**(300.2)**	(282.1)
		(575.5)	(558.4)
Non-current liabilities			
Financial liabilities			
– Borrowings	15	**(562.0)**	(662.8)
Retirement benefit obligations	28	**(5.3)**	(2.1)
Deferred tax liabilities	17	**(14.2)**	(10.0)
		(581.5)	(674.9)
Total liabilities		**(1,157.0)**	(1,233.3)
Net assets		**1,050.8**	977.6
Equity			
Share capital	18	**13.0**	12.9
Share premium account	20	**478.2**	462.8
Other reserves	21	**(7.9)**	43.7
Retained earnings	22	**567.5**	458.1
Total parent shareholders' equity	23	**1,050.8**	977.5
Minority interest in equity	24	**–**	0.1
Total equity	23	**1,050.8**	977.6

The consolidated financial statements on pages 70 to 112 were approved by the Board of Directors on 18 January 2008 and are signed on their behalf by:

A J Hobson
Chairman

P A Walker
Director

Consolidated cash flow statement

For the year ended 30 September 2007

	Note	2007 £m	2006 £m
Cash flows from operating activities			
Cash generated from continuing operations	25	**317.1**	267.1
Interest received	2	**3.6**	3.5
Interest paid	2	**(34.4)**	(17.5)
Tax paid		**(66.1)**	(60.3)
Net cash generated from operating activities		**220.2**	192.8
Cash flows from investing activities			
Acquisitions of subsidiaries (net of cash acquired)	26(i)	**(96.2)**	(617.5)
Disposal of subsidiaries	26(k)	**0.9**	7.8
Purchase of intangible assets	8	**(15.9)**	(3.2)
Purchase of property, plant and equipment	9	**(22.1)**	(23.8)
Proceeds from sale of property, plant and equipment		**0.2**	2.9
Development expenditure		**–**	(0.1)
Net cash used in investing activities		**(133.1)**	(633.9)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital		**15.0**	11.7
Purchase of treasury shares	22	**–**	(13.3)
Finance lease principal payments	25	**(0.2)**	(0.3)
Issue costs on loans	25	**(0.2)**	(2.2)
Repayment of borrowings	25	**(189.0)**	(631.7)
New borrowings	25	**122.2**	1,131.1
Dividends paid to shareholders	5	**(49.0)**	(39.1)
Net cash (used)/generated in financing activities		**(101.2)**	456.2
Net (decrease)/increase in cash and cash equivalents (before exchange rate changes)		**(14.1)**	15.1
Effects of exchange rate changes	25	**(2.3)**	(2.2)
Net (decrease)/increase in cash and cash equivalents		**(16.4)**	12.9
Cash and cash equivalents at 1 October		**82.0**	69.1
Cash and cash equivalents at 30 September	12	**65.6**	82.0

Notes to the accounts – Group

For the year ended 30 September 2007

Group accounting policies

General information

The Sage Group plc ("the Company") and its subsidiaries (together "the Group") is one of the leading global suppliers of business management software and services to small and medium-sized enterprises. Operating in 20 countries worldwide in the UK & Ireland, Mainland Europe, North America, Southern Hemisphere and Asia.

The Company is a limited liability Company incorporated and domiciled in the UK. The address of its registered office is North Park, Newcastle upon Tyne, NE13 9AA.

The Company is listed on the London Stock Exchange.

The Group consolidated financial statements were authorised for issue by the Board of directors on 18 January 2008.

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.

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.

The financial statements are prepared on the historical cost convention as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

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

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, network services 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.

Group accounting policies (continued)

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:

- 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.

Where software is sold with after-sales service, the consideration is allocated between the different elements on fair value. The revenue allocated to each element is recognised as outlined above.

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

Intangible assets are recognised when acquired as part of business combinations where customer related contractual cashflows exist, and their fair value can therefore be measured reliably. Intangible assets purchased separately are measured at cost.

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 – 3 to 20 years
- Technology/In process R&D (IPR&D) – 3 to 7 years
- Customer relationships – 5 to 15 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.

Group accounting policies (continued)
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 parent 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.

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.

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

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

The current service cost and gains and losses on settlements and curtailments are included in selling and administrative expenses in the 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 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
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 sector: Accounting; industry-specific; HR and payroll; CRM and payment processing.

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.

Group accounting policies (continued)

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 were issued but not yet mandatory effective for the Group.

International Financial Reporting Standards ("IFRS")

- IFRS 7 "Financial Instruments: Disclosures"
- IFRS 8 "Operating Segments"

International Financial Reporting Interpretations Committee ("IFRIC") interpretations

- IFRIC 10 "Interim Financial Reporting and Impairment"
- IFRIC 11 "IFRS 2: Group and Treasury Share Transactions"
- IFRIC 12 "Service Concession Arrangements"
- IFRIC 13 "Customer Loyalty Programmes"
- IFRIC 14 "IAS19 – The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

Amendments to existing standards

- Amendment to IAS 1 "Presentation of Financial Statements – Capital Disclosures"
- Amendment to IAS 23 "Borrowing Costs"

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 12, IFRIC 13. IFRIC 14, IAS 1 (revised) and IAS23 (revised).

The directors anticipate that the future adoption of those standards, interpretations and amendments listed above 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. (note 7).

• 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 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 recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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 2007	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		224.1	349.1	508.1	76.3	1,157.6
Segment operating profit	3	80.8	71.2	83.4	19.8	255.2
Finance income	2					3.6
Finance expenses	2					(35.5)
Profit before taxation						223.3
Taxation	4					(69.2)
Profit for the year from continuing operations						154.1
The primary segment assets and liabilities were as follows:						
Segment assets		369.1	541.1	1,190.6	107.0	2,207.8
Segment liabilities		(147.0)	(215.7)	(196.4)	(36.6)	(595.7)
Segment net assets		222.1	325.4	994.2	70.4	1,612.1
Unallocated liabilities						
– Corporate borrowings						(561.3)
Total net assets						1,050.8
Other segmental information in respect of the primary segments was as follows:						
Capital expenditure – property, plant and equipment	9	6.4	3.7	7.9	4.1	22.1
Capital expenditure – intangible fixed assets	8	0.1	3.4	12.3	0.1	15.9
Depreciation	9	6.9	3.6	4.6	1.1	16.2
Amortisation of intangible assets	8	2.0	11.7	19.5	0.3	33.5
Other non-cash expenses – share-based payments	19	2.8	2.0	3.5	0.5	8.8

1 Segmental reporting (continued)

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	3	76.3	58.9	82.4	18.2	235.8
Finance income	2					3.5
Finance expenses	2					(18.1)
Profit before taxation						221.2
Taxation	4					(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

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)

	2007 £m	2006 £m
Operating profit	**255.2**	235.8
Amortisation of acquired intangible assets	**27.2**	13.6
Net amortisation/(capitalisation) of software development expenditure	**0.8**	(0.1)
EBITA*	**283.2**	249.3

* 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.

Secondary reporting format – business segment
The business segments identified are: Accounting; industry-specific; HR and payroll; CRM and payment processing. This presentation has been changed from the prior year which showed the following segments: Small business and Mid-market divisions, due to changes in the way the business reports.

	Revenue 2007 £m	Revenue 2006 £m	Segment assets 2007 £m	Segment assets 2006 £m	Capital expenditure 2007 £m	Capital expenditure 2006 £m
Continuing operations						
Accounting	**561.7**	552.9	**1,071.3**	1,306.5	**18.4**	16.0
Industry-specific	**342.5**	159.1	**653.2**	376.0	**11.2**	4.6
HR and payroll	**139.4**	130.0	**265.9**	307.2	**4.6**	3.7
CRM	**66.4**	66.5	**126.6**	157.2	**2.2**	1.9
Payment processing	**47.6**	27.1	**90.8**	64.0	**1.6**	0.8
	1,157.6	935.6	**2,207.8**	2,210.9	**38.0**	27.0

Analysis of revenue	Revenue 2007 £m	Revenue 2006 £m
Sale of goods	**343.7**	322.8
Rendering of services	**813.9**	612.8
	1,157.6	935.6

2 Net finance expenses

	2007 £m	2006 £m
Finance income – interest income on short-term deposits	**3.6**	3.5
Finance expenses:		
Finance costs on bank borrowings	**(34.4)**	(17.5)
Amortisation of issue costs	**(1.1)**	(0.6)
	(35.5)	(18.1)
Net finance expenses	**(31.9)**	(14.6)

3 Operating profit

The following items have been included in arriving at operating profit	Note	2007 £m	2006 £m
Staff costs	27	**511.5**	409.8
Inventories			
– Cost of inventories recognised as an expense (included in cost of sales)	10	**35.9**	13.6
Depreciation of property, plant and equipment			
– Owned assets	9	**16.1**	13.6
– Under finance leases	9	**0.1**	0.1
Amortisation of intangible assets (excluding amortisation of development expenditure)	8	**32.7**	15.4
Amortisation of development expenditure	8	**0.8**	0.8
Loss on disposal of property, plant and equipment		**(1.3)**	(0.8)
Loss on disposal of intangible assets		**(0.5)**	–
Profit on disposal of subsidiary		**–**	2.7
Other operating lease rentals payable			
– Plant and machinery		**3.4**	3.0
– Property		**17.6**	18.6
Repairs and maintenance expenditure on property, plant and equipment		**3.0**	2.8
Research and development expenditure		**111.4**	94.8

3 Operating profit (continued)

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:

	2007 £m	2006 £m
Audit services		
– Fees payable to Company auditor for the audit of parent Company and consolidated accounts	1.3	1.3
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	0.2	0.1
– Other services	0.2	0.3
– Tax services and compliance work	1.3	1.4
	3.0	3.1

The total audit fee for the Group, including the audit of overseas subsidiaries was £1.5m (2006: £1.4m). Other services include interim review costs and IFRS transition costs in the prior year 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 in the prior year.

The Board's policy in respect of the procurement of non-audit services for the Group's auditor is set out on page 53.

4 Taxation

Analysis of charge in the year	2007 £m	2006 £m
Current tax		
– Current year	60.3	65.4
– Adjustment in respect of prior year	(1.3)	2.4
	59.0	67.8
Deferred tax (note 17)	10.2	0.8
Taxation	69.2	68.6

Tax on items charged to equity

	2007 £m	2006 £m
Deferred tax charge on share options	3.3	1.2
Total tax on items charged to equity	3.3	1.2

The tax for the year is higher (2006: higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2007 £m	2006 £m
Profit on ordinary activities before taxation	223.3	221.2
Profit on ordinary activities multiplied by rate of corporation tax in the UK of 30% (2006: 30%)	67.0	66.4
Effects of:		
Adjustment in respect of prior period	(1.3)	2.4
Adjustment in respect of foreign tax rates	7.1	6.1
Expenses not deductible for tax purposes and other permanent differences	(4.2)	(4.5)
Other	0.6	(1.8)
Total taxation	69.2	68.6

5 Dividends

	2007 £m	2006 £m
Final dividend paid for the year ended 30 September 2006 of 2.51p per share	32.4	–
(2006: final dividend paid for the year ended 30 September 2005 of 1.95p per share)	–	25.1
Interim dividend paid for the year ended 30 September 2007 of 1.27p per share	16.6	–
(2006: interim dividend paid for the year ended 30 September 2006 of 1.08p per share)	–	14.0
	49.0	39.1

In addition, the directors are proposing a final dividend in respect of the financial year ended 30 September 2007 of 5.73p per share which will absorb an estimated £74.7m of shareholders' funds. It will be paid on 7 March 2008 to shareholders who are on the register of members on 8 February 2008. These financial statements do not reflect this dividend payable.

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 2007, 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:

	2007			2006		
	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	154.1	1,299.9	11.85	152.5	1,290.8	11.81
Effect of dilutive securities						
Options	–	7.1	(0.06)	–	8.9	(0.08)
Diluted EPS	154.1	1,307.0	11.79	152.5	1,299.7	11.73

6 Earnings per share (continued)

Adjusted EPS – Non GAAP measure

	2007			2006		
	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	154.1	1,299.9	11.85	152.5	1,290.8	11.81
Non EBITA items:						
Intangible asset amortisation and net development expenditure	28.0			13.5		
Taxation	(8.7)			(4.1)		
Net EBITA adjustments	19.3	–	1.49	9.4	–	0.73
EBITA adjusted basic EPS	173.4	1,299.9	13.34	161.9	1,290.8	12.54
Effect of dilutive securities						
Options	–	7.1	(0.06)	–	8.9	(0.08)
EBITA adjusted diluted EPS	173.4	1,307.0	13.28	161.9	1,299.7	12.46

7 Goodwill

	Note	2007 £m	2006 £m
Cost			
At 1 October		1,561.9	1,076.8
Additions	26(j)	90.3	529.2
Disposals	26(g)	(0.9)	(7.4)
Exchange adjustments		(79.2)	(36.7)
At 30 September		1,572.1	1,561.9
Aggregate impairment at 1 October and 30 September		–	–
Net book amount at 30 September		1,572.1	1,561.9

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.

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

	2007 £m	2006 £m
UK	**181.1**	152.6
France	**203.2**	161.2
Germany	**22.0**	20.4
Switzerland	**26.9**	22.5
Poland	**6.4**	6.2
Spain	**94.5**	91.6
North America	**969.4**	1,045.5
South Africa	**31.3**	25.1
Australia	**22.7**	25.0
Asia	**14.6**	11.8
	1,572.1	1,561.9

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% (2006: 6.4%) to 10.5% (2006: 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% (2006: 18%) to 45% (2006: 54%).
- 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% (2006: 1.0%) to 5.0% (2006: 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 2006	33.5	60.4	0.3	4.7	19.5	96.3	214.7
Additions	–	–	–	–	15.9	–	15.9
Acquisitions – through business combinations	1.0	13.0	–	–	1.8	14.8	30.6
Transfers	–	–	–	–	6.4	–	6.4
Disposals	–	–	–	–	(3.6)	–	(3.6)
Exchange adjustments	(0.5)	(0.5)	–	–	(1.8)	(5.9)	(8.7)
At 30 September 2007	34.0	72.9	0.3	4.7	38.2	105.2	255.3
Aggregate amortisation							
At 1 October 2006	2.0	6.9	0.1	2.3	10.9	6.9	29.1
Charge for the year	2.5	9.4	0.1	0.8	5.5	15.2	33.5
Acquisitions	–	–	–	–	1.8	–	1.8
Disposals	–	–	–	–	(3.1)	–	(3.1)
Exchange adjustments	–	(0.2)	(0.1)	0.1	(0.9)	(0.4)	(1.5)
At 30 September 2007	4.5	16.1	0.1	3.2	14.2	21.7	59.8
Net book amount at 30 September 2007	29.5	56.8	0.2	1.5	24.0	83.5	195.5

	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

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.

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 2006	92.2	115.6	38.3	246.1
Additions at cost	0.3	18.1	3.7	22.1
Acquisitions	1.2	0.7	0.8	2.7
Disposals	(1.0)	(10.1)	(2.9)	(14.0)
Transfers	–	(6.4)	–	(6.4)
Exchange adjustments	(0.9)	(2.5)	(0.5)	(3.9)
At 30 September 2007	91.8	115.4	39.4	246.6
Accumulated depreciation				
At 1 October 2006	4.9	80.8	26.6	112.3
Charge for the year	1.0	12.1	3.1	16.2
Acquisitions	0.5	0.6	0.6	1.7
Disposals	(0.4)	(9.7)	(2.4)	(12.5)
Exchange adjustments	(0.1)	(1.1)	(0.4)	(1.6)
At 30 September 2007	5.9	82.7	27.5	116.1
Net book amount at 30 September 2007	85.9	32.7	11.9	130.5

	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

Depreciation expense of £16.2m (2006: £13.7m) have been charged through selling and administrative expenses.

Lease rentals amounting to £3.4m (2006: £3.0m) and £17.6m (2006: £18.6m) relating to the lease of plant and machinery and property respectively are included in the income statement (note 3).

9 Property, plant and equipment (continued)

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

	2007 £m	2006 £m
Cost	0.6	0.6
Accumulated depreciation	(0.3)	(0.2)
Net book amount	0.3	0.4

Included in assets held under finance leases are plant and equipment with a net book amount of £0.3m (2006: £0.3m) and vehicles £nil (2006: £0.1m).

10 Inventories

	2007 £m	2006 £m
Materials	1.8	1.9
Finished goods	3.7	3.7
	5.5	5.6

The Group consumed £35.9m (2006: £13.6m) of inventories, included in cost of sales, 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:	2007 £m	2006 £m
Trade receivables	231.8	215.2
Less: provision for impairment of receivables	(31.1)	(30.1)
Trade receivables – net	200.7	185.1
Other receivables	15.5	19.2
Prepayments and accrued income	14.1	11.4
	230.3	215.7

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:	2007 £m	2006 £m
Cash at bank and in hand	64.3	81.4
Short-term bank deposits	1.3	0.6
	65.6	82.0

The effective interest rate on short-term deposits was 5.0% (2006: 3.9%) and these deposits have an average maturity of 44 days (2006: 41 days).

13 Trade and other payables – current

	2007 £m	2006 £m
Trade payables	105.0	95.1
Other tax and social security payable	45.2	38.2
Accruals	60.0	57.0
	210.2	190.3

14 Current tax liabilities

	2007 £m	2006 £m
Current tax liabilities	56.3	63.5

15 Financial liabilities – borrowings

Current	2007 £m	2006 £m
Bank loans due within one year of demand:		
Secured (a)	–	0.6
Unsecured	0.2	0.3
	0.2	0.9
Finance lease obligations	0.1	0.1
	0.3	1.0

Non-current	2007 £m	2006 £m
Bank loans:		
Secured (a)	0.6	1.7
Unsecured	561.3	660.9
	561.9	662.6
Finance lease obligations	0.1	0.2
	562.0	662.8

(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 £561.5m (2006: £661.2m) 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 13 January 2011.

In the table above, loans are stated net of unamortised issue costs of £1.0m (2006: £1.7m). The Group has incurred total issue costs of £7.3m (2006: £7.1m) 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 £314.2m (2006: £549.2m), Euro £235.9m (2006: £106.5m) and Swiss Franc £11.4m (2006: £5.5m) and bear interest at a rate of 0.45% (2006: 0.45%) 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 2007 was £314.2m (2006: £549.2m), the Euro borrowings £235.9m (2006: £106.3m) and Swiss Franc borrowings £11.4m (2006: £5.5m). The foreign exchange gain of £33.8m (2006: gain of £12.8m) 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.

16 Financial instruments (continued)

	Note	2007 Book value £m	2007 Fair value £m	2006 Book value £m	2006 Fair value £m
Long-term borrowings	15	(562.0)	(562.0)	(662.8)	(662.8)
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	(0.3)	(0.3)	(1.0)	(1.0)
Trade and other payables	13	(210.2)	(210.2)	(190.3)	(190.3)
Trade and other receivables	11	230.3	230.3	215.7	215.7
Short-term bank deposits	12	1.3	1.3	0.6	0.6
Cash at bank and in hand	12	64.3	64.3	81.4	81.4

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 2007 and 30 September 2006, 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:

	2007 Debt £m	2007 Finance leases £m	2007 Total £m	2006 Debt £m	2006 Finance leases £m	2006 Total £m
In more than one year but not more than two years	–	0.1	0.1	–	0.2	0.2
In more than two years but not more than five years	561.9	–	561.9	662.6	–	662.6
In more than five years	–	–	–	–	–	–
	561.9	0.1	562.0	662.6	0.2	662.8

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:

	2007 Total £m	2006 Total £m
Expiring within one year	–	–
Expiring between one and two years	–	–
Expiring in more than two years	287.7	187.3
	287.7	187.3

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.

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

	2007 Total £m	2006 Total £m
Not later than one year	0.1	0.1
Later than one year but not more than five years	0.1	0.2
More than five years	–	–
	0.2	0.3
Future finance charges on finance leases	–	–
Present value of finance lease liabilities	0.2	0.3

17 Deferred tax

Deferred tax has been calculated at 28% (2006: 30%) in respect of UK companies (being the prevailing corporation tax rate) and at the prevailing rates for the overseas subsidiaries.

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

	2007 £m	2006 £m
At 1 October	16.3	43.5
Acquisition of subsidiary	(8.5)	(23.1)
Transfer to current tax	–	(0.8)
Income statement credit	(10.2)	(0.8)
Exchange differences	(0.2)	(1.3)
Share options	(3.3)	(1.2)
At 30 September	(5.9)	16.3

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	Other £m	Total £m
At 1 October 2006	–	26.3	26.3
Income statement credit	(2.1)	(13.1)	(15.2)
Acquisition of subsidiary	–	(2.7)	(2.7)
Reclassification from/(to) deferred tax liability	8.7	(8.0)	0.7
Exchange differences	–	(0.2)	(0.2)
Share options	–	(0.6)	(0.6)
At 30 September 2007	6.6	1.7	8.3
Liabilities			
At 1 October 2006	(8.0)	(2.0)	(10.0)
Income statement charge	1.6	3.4	5.0
Deferred tax on intangible assets	(8.4)	–	(8.4)
Reclassification (from)/to deferred tax asset	(8.7)	8.0	(0.7)
Acquisition of subsidiary	–	(0.1)	(0.1)
At 30 September 2007	(23.5)	9.3	(14.2)
Net deferred tax (liability)/asset			
At 30 September 2007	(16.9)	11.0	(5.9)
At 30 September 2006	(8.0)	24.3	16.3

The deferred tax liability due after more than one year is £23.5m (2006: £10.0m).

18 Share capital

Authorised	2007 £m	2006 £m
1,860,000,000 (2006: 1,860,000,000) ordinary shares of 1p each	18.6	18.6

Issued and fully paid	2007 shares	2007 £m	2006 shares	2006 £m
At 1 October	1,294,280,944	12.9	1,285,318,582	12.8
Allotted under share option schemes	9,879,210	0.1	8,962,362	0.1
At 30 September	1,304,160,154	13.0	1,294,280,944	12.9

Potential issues of ordinary shares

Certain senior executives hold options to subscribe for shares in the Company at prices ranging from 50.86p 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	2007 number	2006 number
17 December 1997	81.10p	17 December 2000 – 17 December 2007	15,000	680,000
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
15 May 1998	140.00p	15 May 2001 – 15 May 2008	588,480	1,008,110
16 December 1998	136.00p	16 December 2001 – 16 December 2008	1,290,475	2,094,710
7 June 1999	204.50p	7 June 2002 – 7 June 2009	1,059,500	1,352,500
11 February 2000	275.50p – 562.91p	11 February 2000 – 6 January 2010	119,137	158,065
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	19,037
10 January 2001	301.00p	10 January 2004 – 10 January 2011	2,713,403	2,975,643
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	1,795,696	2,096,431
2 January 2002	228.50p	2 January 2005 – 2 January 2012	3,758,614	4,520,285
31 December 2002	134.00p	31 December 2005 – 31 December 2012	2,933,693	4,621,782
12 May 2003	147.00p	12 May 2006 – 12 May 2013	1,365,985	2,288,047
24 December 2003	171.00p	24 December 2006 – 24 December 2013	8,083,316	11,110,075
24 May 2004	172.00p	24 May 2007 – 24 May 2014	269,493	320,351
6 January 2005	198.00p	6 January 2008 – 6 January 2015	4,544,001	5,268,627
12 May 2005	206.00p	12 May 2008 – 12 May 2015	1,983,695	2,150,367
10 January 2006	258.50p	10 January 2009 – 10 January 2016	5,894,597	6,458,797
10 January 2007	270.00p	10 January 2010 – 10 January 2017	8,119,550	–
20 June 2007	248.00p	20 June 2010 – 20 June 2017	247,220	–
			45,563,279	48,593,674

Under the above scheme, 9,499,389 1p ordinary shares were issued during the year for aggregate proceeds of £14,478,090.

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	2007 number	2006 number
18 March 2005	18 March 2008	1,808,170	1,841,204
12 May 2005	12 May 2008	210,588	242,626
10 January 2006	10 January 2009	2,348,990	2,469,883
10 January 2007	10 January 2010	2,793,003	–
20 June 2007	20 June 2010	33,000	–
		7,193,751	4,553,713

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	2007 number	2006 number
1 March 2000	499.00p	1 March 2007 – 31 August 2007	–	1,840
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
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 March 2003	112.00p	1 March 2008 – 31 August 2008	132,064	146,729
1 March 2003	112.00p	1 March 2010 – 31 August 2010	14,579	14,579
1 March 2004	140.00p	1 March 2007 – 31 August 2007	–	335,654
1 March 2004	140.00p	1 March 2009 – 31 August 2009	104,954	126,312
1 March 2004	140.00p	1 March 2011 – 31 August 2011	34,744	37,140
1 March 2005	157.00p	1 March 2008 – 31 August 2008	331,306	365,531
1 March 2005	157.00p	1 March 2010 – 31 August 2010	121,915	128,230
1 March 2005	157.00p	1 March 2012 – 31 August 2012	19,422	19,422
1 August 2006	184.00p	1 August 2009 – 31 January 2010	930,309	1,069,966
1 August 2006	184.00p	1 August 2011 – 31 January 2012	241,173	258,043
1 August 2006	184.00p	1 August 2013 – 31 January 2014	35,308	46,830
1 August 2007	203.00p	1 August 2010 – 31 January 2011	671,566	–
1 August 2007	203.00p	1 August 2012 – 31 January 2013	168,521	–
1 August 2007	203.00p	1 August 2014 – 31 January 2015	35,319	–
			2,849,286	2,587,195

Under the above scheme, 379,821 1p ordinary shares were issued during the year for aggregate proceeds of £540,736.

The market price of the shares of the Company at 30 September 2007 was 249.25p and the highest and lowest prices during the year were 277.75p and 220.50p respectively.

19 Share-based payments

The total charge for the year relating to employee share-based payment plans was £8.8m (2006: £8.8m), all of which related to equity-settled share-based payment transactions. After deferred tax, the total charge was £6.1m (2006: £6.2m). A reconciliation of share movements for options granted after 7 November 2002 to which IFRS 2 is applicable is shown below.

19 Share-based payments (continued)

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	January 2007	June 2007
Share price at grant date	£1.33	£1.45	£1.75	£1.72	£1.90	£2.07	£2.53	£2.72	£2.49
Exercise price	£1.34	£1.47	£1.71	£1.72	£1.98	£2.06	£2.59	£2.70	£2.48
Number of employees	139	59	555	26	157	150	472	678	18
Shares under option	2,933,693	1,365,985	8,083,316	269,493	4,544,001	1,983,695	5,894,597	8,119,550	247,220
Vesting period (years)	3	3	3	3	3	3	3	3	3
Expected volatility	62%	63%	62%	57%	52%	48%	40%	30%	25%
Option life (years)	10	10	10	10	10	10	10	10	10
Expected life (years)	4	4	4	4	4	4	4	4	4
Risk free rate	4.1%	3.8%	4.5%	5.1%	4.4%	4.3%	4.1%	5.0%	5.7%
Expected dividends expressed as a dividend yield	0.3%	1.3%	0.9%	1.0%	1.6%	1.6%	1.6%	1.4%	3.0%
Possibility of ceasing employment before vesting	5%	5%	5%	5%	5%	5%	5%	5%	5%
Expectation of meeting performance criteria	100%	100%	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	£0.762	£0.539

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	2007 Weighted average exercise price £	Number '000s	2006 Weighted average exercise price £
Outstanding at 1 October	32,218	1.88	31,748	1.68
Granted	8,958	2.69	6,686	2.59
Forfeited	(2,093)	2.27	(2,053)	1.81
Exercised	(5,641)	1.59	(4,163)	1.50
Outstanding at 30 September	33,442	2.13	32,218	1.88
Exercisable at 30 September	12,580	1.62	9,692	1.51

Range of exercise prices	2007 Weighted average exercise price £	2007 Number of shares	2007 Weighted average remaining life years Expected	2007 Weighted average remaining life years Contractual	2006 Weighted average exercise price £	2006 Number of shares	2006 Weighted average remaining life years Expected	2006 Weighted average remaining life years Contractual
1.34 – 2.70	2.13	33,442	0.8	7.5	1.88	32,218	0.8	7.7

The weighted average share price during the period for options exercised over the year was 261.21p (2006: 259.10p).

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 2007 comprised the following companies:

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

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	January 2007	June 2007
Share price at grant date	£2.07	£2.07	£2.59	£2.72	£2.49
Exercise price	£0.00	£0.00	£0.00	£0.00	£0.00
Number of employees	20	5	89	102	2
Shares under award	1,808,170	210,588	2,348,990	2,793,003	33,000
Vesting period (years)	3	3	3	3	3
Expected volatility	44%	42%	32%	24%	22%
Award life (years)	3	3	3	3	3
Expected life (years)	3	3	3	3	3
Risk free rate	4.7%	4.3%	4.2%	5.1%	5.7%
Expected dividends expressed as a dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
Possibility of ceasing employment before vesting	0%	0%	0%	0%	0%
Expectation of meeting performance criteria	100%	100%	100%	100%	100%
Fair value per award	£1.385	£1.341	£1.401	£1.478	£1.041

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

	2007 Number '000s	2007 Weighted price average £	2006 Number '000s	2006 Weighted price average £
Outstanding at 1 October	4,554	–	2,142	–
Awarded	3,028	–	2,531	–
Forfeited	(388)	–	(119)	–
Exercised	–	–	–	–
Outstanding at 30 September	7,194	–	4,554	–
Exercisable at 30 September	–	–	–	–

Range of exercise prices	2007 Weighted average exercise price £	2007 Number of shares	2007 Weighted average remaining life years Expected	2007 Weighted average remaining life years Contractual	2006 Weighted average exercise price £	2006 Number of shares	2006 Weighted average remaining life years Expected	2006 Weighted average remaining life years Contractual
N/a	–	7,194	1.5	1.5	–	4,554	1.9	1.9

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 ten 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.

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 2004	March 2004	March 2004	March 2005	March 2005
Share price at grant date	£1.34	£1.34	£1.93	£1.93	£1.93	£2.06	£2.06
Exercise price	£1.12	£1.12	£1.40	£1.40	£1.40	£1.57	£1.57
Number of employees	25	2	–	40	10	173	34
Shares under option	132,064	14,579	–	104,954	34,744	331,306	121,915
Vesting period (years)	5	7	3	5	7	3	5
Expected volatility	60%	52%	58%	59%	54%	44%	55%
Option life (years)	5	7	3	5	7	3	5
Expected life (years)	5	7	3	5	7	3	5
Risk free rate	3.8%	4.0%	4.5%	4.6%	4.7%	4.7%	4.7%
Expected dividends expressed as a dividend yield	1.1%	1.1%	0.9%	0.9%	0.9%	1.6%	1.6%
Possibility of ceasing employment before vesting	5%	5%	5%	5%	5%	5%	5%
Fair value per option	£0.729	£0.746	£0.967	£1.135	£1.192	£0.847	£1.092

Grant date	March 2005	August 2006	August 2006	August 2006	August 2007	August 2007	August 2007
Share price at grant date	£2.06	£2.28	£2.28	£2.28	£2.28	£2.28	£2.28
Exercise price	£1.57	£1.84	£1.84	£1.84	£2.03	£2.03	£2.03
Number of employees	7	453	86	14	479	71	10
Shares under option	19,422	930,309	241,173	35,308	671,566	168,521	35,319
Vesting period (years)	7	3	5	7	3	5	7
Expected volatility	54%	26%	42%	51%	22%	34%	45%
Option life (years)	7	3	5	7	3	5	7
Expected life (years)	7	3	5	7	3	5	7
Risk free rate	4.7%	4.7%	4.7%	4.6%	5.4%	5.3%	5.2%
Expected dividends expressed as a dividend yield	1.6%	1.6%	1.6%	1.6%	3.0%	3.0%	3.0%
Possibility of ceasing employment before vesting	5%	5%	5%	5%	5%	5%	5%
Fair value per option	£1.176	£0.706	£1.028	£1.255	£0.503	£0.750	£0.965

19 Share-based payments (continued)

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:

	2007 Number '000s	2007 Weighted average price £	2006 Number '000s	2006 Weighted average price £
Outstanding at 1 October	2.552	1.65	2,316	1.30
Awarded	914	2.03	1,399	1.84
Forfeited	(90)	1.71	(84)	1.36
Surrendered	(180)	1.81	(122)	1.51
Exercised	(355)	1.40	(957)	1.12
Outstanding at 30 September	2,841	1.79	2,552	1.65
Exercisable at 30 September	–	–	4	1.12

Range of exercise prices	2007 Weighted average exercise price £	2007 Number of shares	2007 Weighted average remaining life years Expected	2007 Weighted average remaining life years Contractual	2006 Weighted average exercise price £	2006 Number of shares	2006 Weighted average remaining life years Expected	2006 Weighted average remaining life years Contractual
1.12 – 2.03	1.79	2,841	2.4	2.4	1.65	2,552	2.5	2.5

20 Share premium account

	£m
At 1 October 2005	451.0
Premium on shares issued during the year under share option schemes	11.8
At 1 October 2006	462.8
Premium on shares issued during the year under share option schemes	15.4
At 30 September 2007	**478.2**

21 Other reserves

	Translation reserve £m	Other reserve £m	Total other reserves £m
At 1 October 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
Exchange adjustments, net of tax	(51.6)	–	(51.6)
At 30 September 2007	(69.0)	61.1	(7.9)

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 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 and the translation reserve.

22 Retained earnings

	2007 £m	2006 £m
At 1 October	458.1	350.4
Profit for the year	154.1	152.5
Share-based payments	8.8	8.8
Dividends paid	(49.0)	(39.1)
Treasury shares	–	(13.3)
Actuarial loss on employment benefits	(1.2)	–
Equity movement of deferred tax	(3.3)	(1.2)
At 30 September	**567.5**	**458.1**

The actuarial loss of £1.2m (2006: £nil) is made up of net losses of £1.8m on post employment benefits (note 28) and a gain of £0.6m on other long-term employee benefits.

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 2007 was £11.8m (2006: £11.9m).

Cumulative goodwill relating to acquisitions made prior to 1998, which has been eliminated against reserves, amounts to £236.4m (2006: £245.8m).

23 Shareholders' funds and reconciliation of changes in shareholders' equity

	Share capital £m	Share premium £m	Retained earnings £m	Other reserves (note 21) £m	Equity funds £m	Minority interest £m	Total equity £m
At 1 October 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
Exchange adjustments	–	–	–	(51.6)	(51.6)	–	(51.6)
New shares issued	0.1	–	–	–	0.1	–	0.1
Purchase of minority interest	–	–	–	–	–	(0.1)	(0.1)
Net profit	–	–	154.1	–	154.1	–	154.1
Equity movement of deferred tax	–	–	(3.3)	–	(3.3)	–	(3.3)
Share options							
– proceeds from shares issued	–	15.4	–	–	15.4	–	15.4
– value of employee services	–	–	8.8	–	8.8	–	8.8
Actuarial loss on employment benefits	–	–	(1.2)	–	(1.2)	–	(1.2)
Dividends	–	–	(49.0)	–	(49.0)	–	(49.0)
At 30 September 2007	**13.0**	**478.2**	**567.5**	**(7.9)**	**1,050.8**	**–**	**1,050.8**

24 Minority interest

	2007 £m	2006 £m
At 1 October	0.1	0.2
Share of net profit of subsidiaries	–	0.1
Purchase of minority interest	(0.1)	(0.2)
At 30 September	–	0.1

25 Cash flows from operating activities
Reconciliation of profit for the year to cash generated from continuing operations

	2007 £m	2006 £m
Profit for the year	154.1	152.6
Adjustments for:		
Taxation	69.2	68.6
Finance income	(3.6)	(3.5)
Finance expenses	35.5	18.1
Amortisation of intangible assets	33.5	15.4
Depreciation of property, plant and equipment	16.2	13.7
Profit on sale of subsidiary	–	(2.7)
Loss on disposal of property, plant and equipment	1.3	0.8
Loss on disposal of intangible assets	0.5	–
Equity-settled share-based transactions	8.8	8.8
Exchange movements	(1.8)	(9.1)
Changes in working capital (excluding effects of acquisitions and disposals of subsidiaries)		
• (Increase)/decrease in inventories	(0.1)	0.6
• Increase in trade and other receivables	(9.9)	(15.4)
• Decrease in payables	(3.0)	(0.9)
• Increase in deferred income	16.4	20.1
Cash generated from continuing operations	317.1	267.1

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

	2007 £m	2006 £m
(Decrease)/increase in cash in the year (pre-exchange movements)	(14.1)	15.1
Cash outflow/(inflow) from decrease/(increase) in loans, finance leases and cash collected from customers	67.2	(496.9)
Change in net debt resulting from cash flows	53.1	(481.8)
Loans acquired with subsidiaries	(0.5)	(7.4)
Non-cash movements	0.3	(0.6)
Exchange movements	31.0	11.0
Movement in net debt in the year	83.9	(478.8)
Net debt at 1 October	(593.6)	(114.8)
Net debt at 30 September	(509.7)	(593.6)

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

	At 1 October 2006 £m	Cash flow £m	Acquisition £m	Other £m	Exchange movements £m	At 30 September 2007 £m
Net cash at bank and in hand	82.0	(14.1)	–	–	(2.3)	65.6
Loans due within one year	(0.9)	0.7	–	–	–	(0.2)
Finance leases due within one year	(0.1)	–	–	–	–	(0.1)
Loans due after more than one year	(661.7)	68.4	(0.5)	(1.1)	33.8	(561.1)
Finance leases due after more than one year	(0.2)	0.2	–	–	(0.1)	(0.1)
Cash collected from customers	(12.7)	(2.1)	–	–	1.0	(13.8)
Total	(593.6)	53.1	(0.5)	(1.1)	32.4	(509.7)

Included in cash above is £13.8m (2006: £12.7m) 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 Protx Group Limited

On 10 November 2006 the Group completed the acquisition of Protx Group Limited ("Protx") for a consideration of £21.0m (inclusive of £0.4m related costs). Total goodwill arising on the acquisition is £14.1m. 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 2007 the acquisition contributed £3.6m 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.

Protx acquisition	Carrying values pre-acquisition £m	**Fair value £m**
Intangible fixed assets	–	**8.9**
Property, plant and equipment	0.5	**0.5**
Receivables	0.5	**0.5**
Payables	(0.6)	**(0.6)**
Taxation		
– Deferred	–	**(2.7)**
Cash and cash equivalents	0.3	**0.3**
Net assets acquired	0.7	**6.9**
Goodwill		**14.1**
Consideration		**21.0**
Consideration satisfied by:		
Cash		**20.5**
Deferred consideration		**0.5**
		21.0

Goodwill represents the fair value of the assembled workforce at the time of acquisition and other potential future economic benefit that is anticipated will be derived from the integration of services offered by Protx with existing product and service offerings within our UK business.

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

	£m
Cash consideration	**20.5**
Cash acquired	**(0.3)**
	20.2

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

	£m
Technology	**2.4**
Customer relationships	**6.5**
	8.9

Further details of these are given in note 8.

b Acquisition of Pro-Concept SA
On 6 April 2007 the Group completed the acquisition of Pro-Concept SA ("Pro-Concept") for a consideration of £7.6m (inclusive of £0.1m related costs). Total goodwill arising on the acquisition is £5.5m. 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 voting shares were acquired. From the date of the acquisition to 30 September 2007 the acquisition contributed £4.0m 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.

Pro-Concept acquisition	Carrying values pre-acquisition £m	Provisional fair value £m
Intangible fixed assets	–	2.8
Property, plant and equipment	0.6	0.6
Receivables	2.0	2.0
Payables	(1.4)	(1.4)
Taxation		
– Current	(0.1)	(0.1)
– Deferred	–	(0.4)
Cash and cash equivalents	1.8	1.8
Loans	(0.5)	(0.5)
Retirement benefit obligations	–	(1.4)
Deferred income	(1.3)	(1.3)
Net assets acquired	1.1	2.1
Goodwill		5.5
Consideration		7.6
Consideration satisfied by:		
Cash		7.6
Deferred consideration		–
		7.6

The fair value adjustments contain some provisional amounts which will be finalised in the 2008 accounts.

The goodwill recognised represents potential synergies, workforce in place and anticipated future benefits from strengthening our market position and extending our geographical reach into new areas of Switzerland not currently served by our existing business.

The outflow of cash and cash equivalents on the acquisition of Pro-Concept is calculated as follows:

	£m
Cash consideration	7.6
Cash acquired	(1.8)
	5.8

The intangible assets acquired as part of the acquisition of Pro-Concept can be analysed as follows:

	£m
Brand	0.6
Technology	1.3
Customer relationships	0.9
	2.8

Further details of these are given in note 8.

26 Acquisitions and disposals (continued)

c Acquisition of Snowdrop Systems Limited

On 2 May 2007 the Group completed the acquisition of Snowdrop Systems Limited ("Snowdrop") for a consideration of £18.9m (inclusive of £0.3m related costs). Total goodwill arising on the acquisition is £14.6m. 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 2007 the acquisition contributed £3.0m 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.

Snowdrop acquisition	Carrying values pre-acquisition £m	Provisional fair value £m
Intangible fixed assets	–	**5.9**
Property, plant and equipment	0.3	**0.3**
Receivables	1.5	**1.5**
Payables	(1.1)	**(1.1)**
Taxation		
– Current	(0.3)	**(0.3)**
– Deferred	–	**(1.8)**
Cash and cash equivalents	1.8	**1.8**
Deferred income	(2.0)	**(2.0)**
Net assets acquired	0.2	**4.3**
Goodwill		**14.6**
Consideration		**18.9**
Consideration satisfied by:		
Cash		**18.7**
Deferred consideration		**0.2**
		18.9

The fair value adjustments contain some provisional amounts which will be finalised in the 2008 accounts.

The value of goodwill represents anticipated synergies expected to result from integration of operations with our existing UK business, enhancement of our complementary product portfolio in the HR and Payroll sector and the value of the acquired workforce.

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

	£m
Cash consideration	**18.7**
Cash acquired	**(1.8)**
	16.9

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

	£m
Brand	**3.5**
Technology	**0.4**
Customer relationships	**2.0**
	5.9

Further details of these are given in note 8.

d Acquisition of XRT SA
On 13 September 2007 the Group completed the acquisition of a majority interest in XRT SA ("XRT") for a consideration of £31.9m (inclusive of £1.1m related costs). Total goodwill arising on the acquisition is £26.8m. The fair values of net assets acquired are based on provisional assessments pending final determination of certain assets and liabilities.

In the purchase, approximately 70% of the voting shares were acquired. The Group is in the process of acquiring the remainder of the outstanding share capital. From the date of the acquisition to 30 September 2007 the acquisition contributed £1.2m 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.

XRT acquisition	Carrying values pre-acquisition £m	Provisional fair value £m
Intangible fixed assets	1.8	9.5
Property, plant and equipment	0.4	0.4
Receivables	3.3	3.3
Payables	(6.6)	(6.6)
Taxation		
– Current	(0.7)	(0.7)
– Deferred	0.2	(3.0)
Cash and cash equivalents	5.6	5.6
Deferred income	(3.4)	(3.4)
Net assets acquired	0.6	5.1
Goodwill		26.8
Consideration		31.9
Consideration satisfied by:		
Cash		31.9
Deferred consideration		–
		31.9

The fair value adjustments contain some provisional amounts which will be finalised in the 2008 accounts.

Goodwill recognised represents the value of the assembled workforce and prospective economic benefits available from synergies and growth opportunities offered by expanding our complementary specialised product offerings in the cash management sector to existing and future customers.

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

	£m
Cash consideration	31.9
Cash acquired	(5.6)
	26.3

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

	£m
Technology	5.4
Customer relationships	4.1
	9.5

Further details of these are given in note 8.

26 Acquisitions and disposals (continued)

e Other acquisitions made in the year

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

- Isonome Consulting (Pty) Ltd was acquired on 4 December 2006 for a cash consideration of £0.8m (including costs) and a deferred element of £0.2m. The fair value of assets acquired was £nil resulting in goodwill of £1.0m.
- Australian Flagship Pty Ltd was acquired on 4 December 2006 for a cash consideration of £1.6m (including costs). The fair value of assets acquired was (£0.1m) resulting in goodwill of £1.7m.
- Cogestib Iberica was acquired on 29 December 2006 for a cash consideration of £1.5m (including costs). The fair value of assets acquired was £0.3m resulting in goodwill of £1.2m.
- Xperts SA was acquired on 19 June 2007 for a cash consideration of £1.9m (including costs) and a deferred element of £0.2m. The fair value of assets acquired was £0.4m resulting in goodwill of £1.7m.
- Creative Software Pte Ltd was acquired on 31 July 2007 for a cash consideration of £4.0m (including costs). The fair value of assets acquired was £1.0m resulting in goodwill of £3.0m.
- KDP Informatique SA was acquired on 31 July 2007 for a cash consideration of £5.6m (including costs). The fair value of assets acquired was £1.3m resulting in goodwill of £4.3m.

In addition, the Group acquired the remainder of the minority interest in Baürer Schweiz for a total consideration of £0.9m (including costs). The fair value of assets acquired was £0.4m resulting in goodwill of £0.5m.

Other acquisitions	Carrying values pre-acquisition £m	Provisional fair value £m
Property, plant and equipment	0.1	**0.1**
Inventories	0.1	**0.1**
Receivables	2.1	**2.1**
Payables	(1.6)	**(1.6)**
Taxation		
– Current	(0.1)	**(0.1)**
Cash and cash equivalents	4.0	**4.0**
Deferred income	(1.3)	**(1.3)**
Net assets acquired	3.3	**3.3**
Goodwill		**13.4**
Consideration		**16.7**
Consideration satisfied by:		
Cash		**16.3**
Deferred consideration		**0.4**
		16.7

The fair value adjustments contain some provisional amounts which will be finalised in the 2008 accounts.

Goodwill represents a combination of the acquired workforce, potential synergies and other probable future economic benefits that it is anticipated will be derived from these acquisitions.

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

	£m
Cash consideration	**16.3**
Cash acquired	**(4.0)**
	12.3

f 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.

g Disposal of the hardware division of Logic Control SA

On 29 September 2007 the Group disposed of the hardware division of Logic Control SA for £0.9m in cash net of costs. The fair value of net assets disposed of was £0.9m resulting in no profit or loss on disposal.

	£m
Goodwill	0.9
Net assets at disposal	**0.9**
Profit on disposal	–
Total consideration	**0.9**
Consideration satisfied by:	
Cash	0.9
Deferred consideration	–
	0.9

h Other

During the year ended 30 September 2007 adjustments were made in respect of goodwill on prior year acquisitions of £15.9m, due to additional cash acquisition payments of £3.2m, reduction in deferred consideration of £0.3m and increase in net assets of £13.0m following the re-appraisal of the fair value of assets and liabilities.

i 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
Protx	26(a)	20.2
Pro-Concept	26(b)	5.8
Snowdrop	26(c)	16.9
XRT	26(d)	26.3
Other acquisitions	26(e)	12.3
Payments in relation to previous years' acquisitions	26(h)	3.2
Payment of deferred consideration		11.5
Net cash outflow in respect of acquisitions		**96.2**

26 Acquisitions and disposals (continued)

j Analysis of goodwill

The total additions to goodwill are calculated as follows:

	Note	£m
Protx	26(a)	14.1
Pro-Concept	26(b)	5.5
Snowdrop	26(c)	14.6
XRT	26(d)	26.8
Other acquisitions	26(e)	13.4
Adjustments in relation to previous years' acquisitions	26(h)	15.9
Net movement in goodwill on acquisitions	7	90.3

k 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
Hardware division of Logic Control SA	26(g)	0.9
Net cash inflow in respect of disposals		0.9

27 Employees and directors

Average monthly number of people employed	2007 number	2006 number
By territory		
UK & Ireland	2,200	2,031
Mainland Europe	4,703	4,001
North America	5,158	3,307
Rest of World	1,470	1,171
	13,531	10,510

Staff costs	Note	2007 £m	2006 £m
Wages and salaries		425.7	335.8
Social security costs		69.0	57.4
Share-based payments		8.8	8.8
Other pension costs	28	8.0	7.8
		511.5	409.8

Key management compensation	2007 £m	2006 £m
Salaries and short-term employee benefits	5.7	5.8
Post-employment benefits	0.2	0.3
Share-based payments	1.6	1.7
	7.5	7.8

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 couple of small schemes in Switzerland, one of which related to an acquisition in the year.

Pension costs for defined contribution schemes are as follows:

	Note	2007 £m	2006 £m
Defined contribution schemes	27	7.4	7.4

Defined benefit plan

The most recent actuarial valuations of the Swiss pension plans was performed by Expertisa AG (2006: Swisscanto). The principal assumptions made by the actuaries were:

	2007 %	2006 %
Rate of increase in pensionable salaries	2.00	2.00
Rate of increase in pensions in payment and deferred pensions	0.50	0.50
Mortality assumption	1.00	1.00
Discount rate	3.00	3.00
Inflation assumption	1.00	2.00
Expected return on plan assets	4.00	4.00

Pensions and other post-retirement obligations

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

	2007 £m	2006 £m
Present value of funded obligations	(17.9)	(11.7)
Fair value of plan assets	12.6	9.6
Net liability recognised in the balance sheet	(5.3)	(2.1)

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:

	2007 £m	2007 %	2006 £m	2006 %
Bonds	3.6	28.5	5.2	55.0
Equities	1.5	11.9	2.1	21.8
Property	0.6	4.8	1.0	10.6
Other	6.9	54.8	1.3	12.6
	12.6	100.0	9.6	100.0

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

Expected contributions to post employment benefit plans for the year ending 30 September 2008 are £1.1m.

28 Pension commitments (continued)

The amounts recognised in the income statement are as follows:

	Note	2007 £m	2006 £m
Interest cost		(0.5)	(0.3)
Expected return on plan assets		0.6	0.4
Current service cost		(0.7)	(0.5)
Total included within staff costs	27	(0.6)	(0.4)

The entire cost is included within selling and administrative expenses.

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

	2007 £m	2006 £m
Present value of obligation – 1 October	(11.7)	(11.2)
Exchange movement	0.3	0.2
Business combinations	(5.3)	–
Service cost	(0.7)	(0.5)
Plan participant contributions	(0.5)	(0.4)
Interest cost	(0.5)	(0.3)
Benefits paid	(5.3)	0.3
Actuarial gain on benefit obligation	5.8	0.2
Present value of obligation – 30 September	(17.9)	(11.7)

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

	2007 £m	2006 £m
Fair value of plan assets – 1 October	9.6	8.8
Exchange movement	(0.3)	(0.2)
Business combinations	3.9	–
Expected return on plan assets	0.6	0.4
Employer's contributions	0.5	0.6
Employee's contributions	0.6	0.4
Benefits paid	5.3	(0.3)
Actuarial loss on plan assets	(7.6)	(0.1)
Fair value of plan assets – 30 September	12.6	9.6

Analysis of the movement in the balance sheet liability

	2007 £m	2006 £m
At 1 October	(2.1)	(2.3)
Business combinations (note 26(b))	(1.4)	–
Total expense as recognised in the income statement	(0.6)	(0.4)
Contributions paid	0.6	0.6
Actuarial loss	(1.8)	–
At 30 September	(5.3)	(2.1)

The actual return on plan assets was £7.0m (2006: £0.3m).

History of experience gains and losses

	2007 £m	2006 £m	2005 £m
Present value of defined benefit obligation	(17.9)	(11.7)	(11.2)
Fair value of plan assets	12.6	9.6	8.8
Deficit	(5.3)	(2.1)	(2.4)
Experience adjustments on plan liabilities	(5.8)	(0.1)	(0.1)
Change in assumptions adjustment on plan assets	–	–	0.3
Experience adjustments on plan assets	7.6	0.1	(0.1)
Total actuarial loss	1.8	–	0.1

29 Operating lease commitments – minimum lease payments

Commitments under non-cancellable operating leases expiring:	2007 Property £m	2007 Vehicles plant and equipment £m	2006 Property £m	2006 Vehicles plant and equipment £m
Within one year	5.3	0.7	16.6	0.5
Later than one year and less than five years	40.2	4.0	73.3	2.7
After five years	105.3	–	125.1	0.1
	150.8	4.7	215.0	3.3

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

30 Contingent liabilities
The Group had no contingent liabilities at 30 September 2007 (2006: 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 29 October 2007 the Group announced that it had acquired 100% of KCS Global Holdings Limited in the UK, for an enterprise value of £20.0m. The book values of the net liabilities acquired are detailed below:

	Book value £m
Intangible assets	0.3
Property, plant and equipment	0.2
Receivables	1.0
Payables	(1.1)
Deferred income	(1.6)
Cash and cash equivalents	0.4
Loans	(6.9)
Net liabilities acquired	(7.7)

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

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
Sage Payment Solutions, Inc.	US
Sage Software Healthcare, Inc.	US
Sage Accpac Canada Inc.	Canada
Ciel SAS	France
Sage SAS	France
Adonix SAS	France
Elit Group SAS	France
XRT SA	France
Sage Software GmbH & Co KG	Germany
Sage Baürer GmbH	Germany
Sage Schweiz AG	Switzerland
Sage Simultan AG	Switzerland
Sage Pro-Concept S.A.	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
Sage Software Asia Pte Ltd	Singapore
UBS Corporation Bhd	Malaysia
Sage China Limited	China

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 2007 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 2007 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 also report to you whether in our opinion the information given in the Directors' report is consistent with the Group financial statements. The information given in the Directors' report includes that specific information presented in the Business review that is cross referred from the Business review of the Directors' report.

In addition we 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 director's 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 Combined Code (2003) 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 welcome, the Business review, the Directors' report, the Corporate governance statement and the non-audited information in the Remuneration report. 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 2007 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 2008

Company balance sheet

At 30 September 2007
Prepared using UK Generally Accepted Accounting Practice ("UK GAAP")

	Note	2007 £m	2006 £m
Fixed assets			
Investments	1	1,544.0	1,475.7
		1,544.0	1,475.7
Current assets			
Debtors	2	899.5	939.2
Cash at bank and in hand		–	1.4
		899.5	940.6
Creditors: amounts falling due within one year	3	(982.4)	(777.7)
Net current (liabilities)/assets		(82.9)	162.9
Total assets less current liabilities		1,461.1	1,638.6
Creditors: amounts falling due in more than one year	4	(561.3)	(660.9)
Net assets		899.8	977.7
Capital and reserves			
Called up equity share capital	5	13.0	12.9
Share premium	6	478.2	462.8
Treasury shares	6	(13.3)	(13.3)
Merger reserve	6	61.1	61.1
Profit and loss account	6	360.8	454.2
Equity shareholders' funds	7	899.8	977.7

The financial statements on pages 114 to 119 were approved by the Board of Directors on 18 January 2008 and are signed on their behalf by:

A J Hobson
Chairman

P A Walker
Director

Notes to the accounts – Company

For the year ended 30 September 2007

Parent Company accounting policies

a Basis of accounting

These financial statements have been prepared under the historical cost convention with the exception of share-based payments which are measured at fair value at the date of grant 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 £52.4m (2006: £16.0m loss). 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 Share-based payments

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

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

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

g Cash flow statement

The Company is a wholly-owned subsidiary of The Sage Group plc and is included in the consolidated financial statements of The Sage Group plc, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1.

1 Investments
Equity interests in subsidiary undertakings are as follows:

	£m
Cost	
At 1 October 2006	1,475.7
Additions in year	68.3
At 30 September 2007	1,544.0
Provision for diminution in value at 30 September 2006 and 2007	–
Net book value	
At 30 September 2007	1,544.0
At 30 September 2006	1,475.7

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 2007, 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.

2 Debtors

	2007 £m	2006 £m
Amounts owed by Group undertakings	893.2	933.4
Other debtors	1.1	1.3
Taxation recoverable	5.2	4.5
	899.5	939.2

3 Creditors: amounts falling due within one year

	2007 £m	2006 £m
Bank overdraft	1.3	–
Amounts owed to Group undertakings	980.2	777.0
Accruals	0.9	0.7
	982.4	777.7

4 Creditors: amounts falling due in more than one year

Loans **Amounts falling due:**	2007 £m	2006 £m
In more than two years but not more than five years	561.3	660.9
	561.3	660.9

5 Called up equity share capital

Authorised	2007 £m	2006 £m
1,860,000,000 (2006: 1,860,000,000) ordinary shares of 1p each	18.6	18.6

Issued and fully paid	2007 shares	2007 £m	2006 shares	2006 £m
At 1 October	1,294,280,944	12.9	1,285,318,582	12.8
Allotted under share option schemes	9,879,210	0.1	8,962,362	0.1
At 30 September	1,304,160,154	13.0	1,294,280,944	12.9

Potential issues of ordinary shares

Certain senior executives hold options to subscribe for shares in the Company at prices ranging from 50.86p 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	2007 number	2006 number
17 December 1997	81.10p	17 December 2000 – 17 December 2007	15,000	680,000
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
15 May 1998	140.00p	15 May 2001 – 15 May 2008	588,480	1,008,110
16 December 1998	136.00p	16 December 2001 – 16 December 2008	1,290,475	2,094,710
7 June 1999	204.50p	7 June 2002 – 7 June 2009	1,059,500	1,352,500
11 February 2000	275.50p – 562.91p	11 February 2000 – 6 January 2010	119,137	158,065
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	19,037
10 January 2001	301.00p	10 January 2004 – 10 January 2011	2,713,403	2,975,643
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	1,795,696	2,096,431
2 January 2002	228.50p	2 January 2005 – 2 January 2012	3,758,614	4,520,285
31 December 2002	134.00p	31 December 2005 – 31 December 2012	2,933,693	4,621,782
12 May 2003	147.00p	12 May 2006 – 12 May 2013	1,365,985	2,288,047
24 December 2003	171.00p	24 December 2006 – 24 December 2013	8,083,316	11,110,075
24 May 2004	172.00p	24 May 2007 – 24 May 2014	269,493	320,351
6 January 2005	198.00p	6 January 2008 – 6 January 2015	4,544,001	5,268,627
12 May 2005	206.00p	12 May 2008 – 12 May 2015	1,983,695	2,150,367
10 January 2006	258.50p	10 January 2009 – 10 January 2016	5,894,597	6,458,797
10 January 2007	270.00p	10 January 2010 – 10 January 2017	8,119,550	–
20 June 2007	248.00p	20 June 2010 – 20 June 2017	247,220	–
			45,563,279	48,593,674

Under the above scheme, 9,499,389 1p ordinary shares were issued during the year for aggregate proceeds of £14,478,090.

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	2007 number	2006 number
18 March 2005	18 March 2008	1,808,170	1,841,204
12 May 2005	12 May 2008	210,588	242,626
10 January 2006	10 January 2009	2,348,990	2,469,883
10 January 2007	10 January 2010	2,793,003	–
20 June 2007	20 June 2010	33,000	–
		7,193,751	4,553,713

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	2007 number	2006 number
1 March 2000	499.00p	1 March 2007 – 31 August 2007	–	1,840
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
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 March 2003	112.00p	1 March 2008 – 31 August 2008	132,064	146,729
1 March 2003	112.00p	1 March 2010 – 31 August 2010	14,579	14,579
1 March 2004	140.00p	1 March 2007 – 31 August 2007	–	335,654
1 March 2004	140.00p	1 March 2009 – 31 August 2009	104,954	126,312
1 March 2004	140.00p	1 March 2011 – 31 August 2011	34,744	37,140
1 March 2005	157.00p	1 March 2008 – 31 August 2008	331,306	365,531
1 March 2005	157.00p	1 March 2010 – 31 August 2010	121,915	128,230
1 March 2005	157.00p	1 March 2012 – 31 August 2012	19,422	19,422
1 August 2006	184.00p	1 August 2009 – 31 January 2010	930,309	1,069,966
1 August 2006	184.00p	1 August 2011 – 31 January 2012	241,173	258,043
1 August 2006	184.00p	1 August 2013 – 31 January 2014	35,308	46,830
1 August 2007	203.00p	1 August 2012 – 31 January 2013	168,521	–
1 August 2007	203.00p	1 August 2014 – 31 January 2015	35,319	–
			2,849,286	2,587,195

Under the above scheme, 379,821 1p ordinary shares were issued during the year for aggregate proceeds of £540,736.

The market price of the shares of the Company at 30 September 2007 was 249.25p and the highest and lowest prices during the year were 277.75p and 220.50p 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

	Share premium account £m	Treasury shares £m	Merger reserve £m	Profit and loss account £m	Total £m
At 1 October 2006	462.8	(13.3)	61.1	454.2	964.8
New shares issued	15.4	–	–	–	15.4
Retained loss for the year	–	–	–	(52.4)	(52.4)
Dividends	–	–	–	(49.0)	(49.0)
Equity-settled transactions	–	–	–	8.0	8.0
At 30 September 2007	478.2	(13.3)	61.1	360.8	886.8

7 Shareholders' funds and statement of changes in shareholders' equity

	Share capital £m	Reserves £m	Total £m
At 1 October 2006	12.9	964.8	977.7
New shares issued	0.1	15.4	15.5
Retained loss for the year	–	(52.4)	(52.4)
Dividends	–	(49.0)	(49.0)
Equity-settled transactions	–	8.0	8.0
At 30 September 2007	13.0	886.8	899.8

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 2007 was £11.8m (2006: £11.8m).

8 Operating lease commitments – minimum lease payments
The Company had no operating lease commitments during the year (2006: £nil).

9 Capital commitments and contingent liabilities
The Company had no capital commitments or contingent liabilities at 30 September 2007 (2006: 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 2007 which comprise 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 2007.

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 also report to you whether in our opinion the information given in the Directors' report is consistent with the parent Company financial statements. The information given in the Directors' report includes that specific information presented in the Business review that is cross referred from the Business review of the Directors' report.

In addition we 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 Chairman's welcome, the Business review, the Directors' report, the Corporate governance statement and the non-audited information in the Remuneration report. 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.

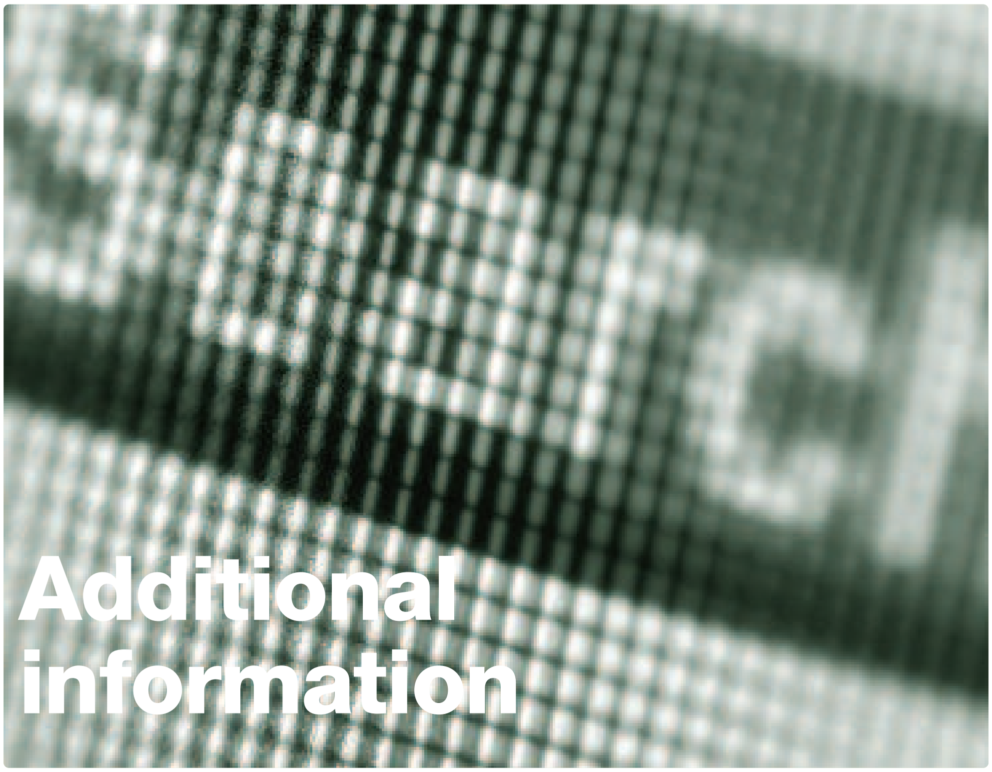
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent Company financial statements and the part of the Remuneration report to be audited are free 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 2007;
- 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 2008



Additional information

Notice of meeting

Notice is hereby given that the twentieth Annual General Meeting of The Sage Group plc will be held at North Park, Newcastle upon Tyne NE13 9AA at 10.00am on 28 February 2008 for the following purposes:

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

1 To receive and consider the audited accounts for the year ended 30 September 2007 together with the reports of the directors and the auditors.

2 To declare a final dividend recommended by the directors of 5.73p per ordinary share for the year ended 30 September 2007 to be paid on 7 March 2008 to members whose names appear on the register at the close of business on 8 February 2008.

3 To re-elect Mr A J Hobson as a director.

4 To re-elect Ms T Ingram as a director.

5 To elect Mr I Mason as a director.

6 To elect Mr D H Clayton as a director.

7 To elect Mr M E Rolfe as a director.

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 £4,347,333;
- 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 £652,100; 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 166 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 130,416,015 ordinary shares in the capital of the Company;
- This authority shall expire on 31 March 2009, 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 with effect from the conclusion of the Annual General Meeting, the articles of association produced to the meeting and initialled by the Chairman of the meeting for the purpose of identification be adopted as the articles of association of the Company in substitution for, and to the exclusion of, the existing articles of association.

By Order of the Board

M J Robinson
Secretary

Registered office:
North Park, Newcastle upon Tyne NE13 9AA
18 January 2008

Notes:
(i) A member entitled to attend and to speak and vote at the meeting may appoint one or more proxies to attend and to speak and vote instead of him/her. A proxy need not also be a member. You may appoint more than one proxy provided that each proxy is appointed to exercise rights attaching to different shares. If you wish your proxy to speak on your behalf at the Annual General Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.

(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, Equiniti, Aspect House, Spencer Road, Lancing, BN99 6DX, or received via the sharevote website, no later than 10.00am on 26 February 2008. 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. A Form of Proxy which may be used to make such appointment and give proxy instructions accompanies this notice. In relation to appointing a proxy through the CREST electronic proxy appointment service, please see note (xii) below.

(iii) If you do not have a Form of Proxy and believe you should have one, or if you require additional forms, please contact the Company's registrars, Equiniti, on 0870 600 3970.

(iv) In light of the current uncertainty regarding the application of certain provisions of the Companies Act 2006 in relation to corporate representatives, and in order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that:

- If a corporate shareholder has appointed the Chairman of the meeting as its corporate representative to vote on a poll in accordance with the directions of all the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and
- If more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative.

Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of appointment letter if the Chairman is being appointed as described above. These arrangements may, however, be amended (if necessary) in order to reflect any developments in best practice prior to the Annual General Meeting.

(v) 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 (public holidays excepted) and will be available at the Annual General Meeting (for at least 15 minutes prior to and during the meeting).

(vi) 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 26 February 2008 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 26 February 2008 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.

(vii) Copies of the existing articles of association and proposed new articles of association are available for inspection at the offices of the Company at North Park, Newcastle upon Tyne NE13 9AA and at the offices of Allen & Overy, One Bishop's Square, London E1 6AO during normal business hours on any weekday (public holidays excepted) from the date of this notice and at the place of the meeting from 9.45am until the close of the meeting.

(viii) 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.

(ix) Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated (the "Relevant Member"), have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the Relevant Member as to the exercise of voting rights. Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps, your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.

(x) The statement of the rights of shareholders in relation to the appointment of proxies in note (i) above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.

(xi) As at 17 January 2008 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 1,304,699,870 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 17 January 2008 are 1,304,699,870.

(xii) 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 Euroclear UK & Ireland Limited's ("EUI") 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 note (ii) above. 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 EUI 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/her 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.

(xiii) 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.

(xiv) Except as provided above, members who have general queries about the Annual General Meeting should use the following means of communication (no other methods of communication will be accepted): calling our shareholder helpline on 0870 600 3970; or writing to the Company's Registrars, Equiniti, Aspect House, Spencer Road, Lancing, BN99 6DA. You may not use any electronic address provided either in this Notice or any related documents (including the Chairman's welcome and Form of Proxy) to communicate with the Company for any purposes other than those expressly stated.

Shareholder information

Financial calendar

Annual General Meeting	28 February 2008
Dividend payments	
Final payable – year ended 30 September 2007	7 March 2008
Interim payable – period ending 31 March 2008	June 2008
Results announcements	
Interim results – period ending 31 March 2008	7 May 2008
Final results – year ending 30 September 2008	3 December 2008

Shareholder information online

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

To take advantage of this service for future communications, please go to www.shareview.co.uk 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

Equiniti Limited
The Causeway
Worthing
West Sussex
BN99 6DA

www.shareview.co.uk
Tel: 0870 600 3970
(from outside the UK: +44 (0)121 415 7047)
Fax: 0870 600 3981
(from outside the UK: +44 (0)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
Tel: +44 (0) 191 294 3000
Fax: +44 (0) 191 294 0002

The Sage Group plc
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